DISCLOSURE STATEMENT

FOR THE

SEPARATE SPECIAL MEETINGS OF STOCKHOLDERS

OF

CAPE FEAR FARM CREDIT, ACA

AND

AGCAROLINA FARM CREDIT, ACA

TO CONSIDER

THE MERGER OF CAPE FEAR FARM CREDIT, ACA

WITH AND INTO

AGCAROLINA FARM CREDIT, ACA (THE "MERGER PROPOSAL")

Cape Fear Farm Credit, ACA

- **Date of Special Meeting of Stockholders: November 15, 2022**
- **Matter to be considered: Merger Proposal and Preferred Stock Proposal**

AgCarolina Farm Credit, ACA

- **Date of Special Meeting of Stockholders: November 15, 2022**
- **Matter to be considered: Merger Proposal**

THE FARM CREDIT ADMINISTRATION HAS NEITHER APPROVED NOR PASSED UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION ACCOMPANYING THE NOTICE OF MEETING OR PRESENTED AT THE MEETING AND NO REPRESENTATION TO THE CONTRARY SHALL BE MADE OR RELIED UPON.

OCTOBER 2022

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GLOSSARY

As used in these materials, the terms set out below shall have the following respective meanings unless otherwise defined herein. This glossary is not intended to cover all defined terms used in these materials.

"Act" shall mean the Farm Credit Act of 1971, 12 U.S.C 2001 et seq., as amended.

"AgCarolina" shall mean AgCarolina Farm Credit, ACA. Unless the context requires otherwise, references to AgCarolina shall include its subsidiaries, AgCarolina FLCA and AgCarolina PCA.

"AgCarolina FLCA" shall mean AgCarolina Farm Credit, FLCA, a federal land bank association with direct lending authority and a wholly-owned subsidiary of AgCarolina.

"AgCarolina PCA" shall mean AgCarolina Farm Credit, PCA, a production credit association and a wholly-owned subsidiary of AgCarolina.

AgFirst" or "Bank" shall mean AgFirst, Farm Credit Bank (FCB).

"Agreement" or **"Plan of Merger"** shall mean the Agreement and Plan of Merger by and among the Associations set out at page 33.

"Association(s)" shall mean AgCarolina, Cape Fear, the Merged Association, and their respective subsidiaries, individually, or all collectively, as the context indicates.

"Board" shall mean the board of directors of AgCarolina, Cape Fear or the Merged Association, as the context indicates.

"Cape Fear" or "Cape Fear Farm Credit" shall mean Cape Fear Farm Credit, ACA. Unless the context requires otherwise, references to Cape Fear shall include its subsidiaries, Cape Fear FLCA and Cape Fear PCA.

"Cape Fear FLCA" shall mean Cape Fear Farm Credit, FLCA, a federal land bank association with direct lending authority and a wholly-owned subsidiary of Cape Fear.

"Cape Fear PCA" shall mean Cape Fear Farm Credit, PCA, a production credit association and a wholly-owned subsidiary of Cape Fear.

"Capitalization Bylaws" shall mean the bylaw provisions of the Merged Association respecting capitalization.

"Disclosure Statement" shall mean all materials contained herein and submitted to the stockholders and to FCA as part of the request for preliminary approval of the Merger.

"Effective Date" shall mean January 1, 2023, or such later date as set forth in the Agreement.

"FCA" shall mean Farm Credit Administration, the independent regulatory agency for both Associations.

"GAAP" shall mean Generally Accepted Accounting Principles.

“GFA” shall mean a General Financing Agreement between one or more of the Associations and AgFirst.

“Merged Association” shall mean the agricultural credit association resulting from the Merger, which shall be named AgCarolina Farm Credit, ACA.

“Merger” shall mean the merger of Cape Fear with and into AgCarolina pursuant to the Agreement and Plan of Merger by and among the Associations, which appears at Tab 7 hereof.

“Merger Proposal” shall mean the Merger and the adoption of the Capitalization Bylaws.

“Regulations” shall mean the regulations promulgated by FCA under the Act.

“Subsidiary Mergers” shall mean the merger of Cape Fear FLCA into AgCarolina FLCA and the merger of Cape Fear PCA into AgCarolina PCA, the legal survivors of which shall be AgCarolina Farm Credit, FLCA and AgCarolina Farm Credit, PCA, respectively.

Forward-Looking Statements

This Disclosure Statement and, in particular, the section entitled "Expected Advantages, Disadvantages and Other Impacts of Proposed Merger," includes "forward-looking statements." These are statements made by management using their best business judgment based upon facts known at the time of the statements or reasonable estimates about future results, events, and the like. All statements other than statements of historical facts included herein are "forward-looking statements."

Although the Associations believe that the expectations reflected in such forward-looking statements are reasonable, they can give no assurance that such expectations will prove to be correct. Forward-looking statements include statements which are predictive in nature, which depend upon or refer to future events or conditions and which include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions. These statements are not guarantees of future performance and the Associations make no commitment to update or disclose any revisions to forward-looking statements, or any facts, events or circumstances after the date hereof that may bear upon forward-looking statements. Because such statements involve risks and uncertainties, actual actions and strategies and the timing and expected results thereof may differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, those disclosed in the Associations' Annual Reports.

Forward-looking statements involve risk, uncertainty, and their ultimate validity is affected by a number of factors, both specific and general. Specific risk factors may be noted along with the statement itself. However, other more general risks and uncertainties which are inherent in any forward-looking statement include, but are not necessarily limited to, changes in:

- Demand for the Associations' loan products
- Interest rates
- Competition
- Successful integration of the Associations' operations
- Ability to manage growth
- Government regulation
- General economic conditions
- Agricultural land values in, and the agricultural economy of, North Carolina.

This listing of factors is not intended to include all potential risk factors. The Associations make no commitment to update these factors or to revise any forward-looking statements for events or circumstances occurring after the statement is issued.

STATEMENT OF THE BOARD OF DIRECTORS
CAPE FEAR FARM CREDIT, ACA

October 21, 2022

Dear Members,

For generations, Cape Fear Farm Credit and its predecessor Associations have taken great pride in serving as the lender of choice for all of agriculture and the rural communities throughout our 12-county territory in southeastern North Carolina. We have built an incredible team of people who have provided local services to help our members succeed and grow, and we have served as a strong and dependable source of agricultural financing throughout the years.

However, rapid change is taking shape in the agriculture and financial services industries. Maintaining our forward-looking strategy has become essential for remaining competitive and keeping pace with the evolving landscape. As part of these efforts, your Board and management team continuously look for opportunities to enhance customer service and deliver the financial products you need. Today, we have the unique opportunity to advance our strategy forward – to expand our footprint while staying local by merging with AgCarolina Farm Credit. Together with my fellow Board members, we believe this merged entity would help us better meet the local needs of our members.

Within this disclosure, we are sharing all the details you will need to make an informed decision on the proposed Merger transaction. In the subsequent pages of this disclosure, you will find a summary of the advantages and disadvantages of a combined Association along with a range of other key considerations, including pro forma financials, new bylaws, and a capitalization plan. These materials are the result of months of conversations and robust due diligence to explore enhanced resiliency, cost synergies, improved operational capacity, enhanced growth and profitability, and increased patronage potential.

Our review of these findings was careful and deliberate. However, we quickly realized that a Merged Association would better position us for long-term success on several fronts. While both Associations are financially strong independently, a merged entity would begin with over $3 billion in gross loan volume, serving more than 6,000 borrowing relationships as the largest ag lending cooperative operating solely in North Carolina with a local presence throughout the territory. This Merger of equals would allow us to:

- **Create a more resilient Association by combining capital and offering a more diverse loan portfolio,** which allows us to be better positioned to manage through difficult agricultural cycles and provide support to our diverse members, including young, beginning, and small (YBS) farmers.

- **Deliver greater member value** through increased patronage potential, a more diversified loan portfolio, a broader base of regulatory capital, enhanced member educational opportunities, and greater annual earnings.

- **Bring access to a larger team of talent** with no local branch staffing changes or closures. With a combined team that would result in very little redundancy and minimal job reductions, members would continue to enjoy local relationships with the same trusted, local teams they've become accustomed to seeing while utilizing specialized talent to increase the Association's offerings.

- **Accelerate our growth objectives,** combining the separate geographic territories and complementary service segments in a landscape that will likely require greater financial investment to support the evolving needs of our members.

If the proposed Merger is approved by eligible stockholders, we would operate as AgCarolina Farm Credit, ACA – a name that we believe best reflects the mission of the two Associations: to serve North Carolina agricultural production and rural residents. We would serve members in 46 contiguous counties in eastern North Carolina with 20 branch locations and headquarters centrally located in Greenville.

Evan Kleinhans, current President and CEO of Cape Fear Farm Credit, will lead the new Association. AgCarolina's President and CEO, Dave Corum, who previously announced his plans to retire, will stay on through November of 2022 to support the transition.

As outlined in this disclosure statement, the Merged Association will continue to ensure effective and efficient regional Board representation across the combined Association's territory so that the Board's composition reflects the marketplace. Initially, the Board will be made up of 24 positions – 12 directors from each Association. Nineteen of those positions are stockholder-elected Directors. Over time, the size of the Board will reduce to 10 stockholder-elected Directors from 10 nominating regions and at least two outside directors, and will continue to work to represent the diverse requirements of members.

Following the Merger, the Board will build upon an existing three-year young, beginning, and small outreach plan to interact with members and the community. We will continue to utilize local advisory committees to stay abreast of concerns and receive grass-root input as to how we can better serve our communities and local agriculture. Special efforts will be devoted to enhancing programs for young, beginning and small farmers as well as other under-served customer segments, including educational opportunities, cost-share reimbursement programs, and value-added services.

As you prepare to vote on the proposed Merger, we encourage you to thoroughly review the enclosed materials, which outline several key considerations to know and understand. Voting will be held in person at the special meeting and by mail. The in-person voting session for eligible stockholders will be held on November 15, 2022. This meeting will be located at the Sampson County Agri-Exposition Center – Heritage Hall Room at 414 Warsaw Road, Clinton, N.C., and will begin at 9:00 a.m. The results of the stockholder vote will be announced the following day.

In the meantime, if you have any questions, please don't hesitate to reach out to your local Cape Fear Farm Credit team member, a director, Evan Kleinhans, or me. I appreciate your involvement during this exciting time and look forward to continuing to serve your financial needs.

Sincerely,

Nash Johnson

Nash Johnson
Board Chairman
Cape Fear Farm Credit

STATEMENT OF THE BOARD OF DIRECTORS
AGCAROLINA FARM CREDIT, ACA

October 21, 2022

Dear Members,

For over a century, AgCarolina Farm Credit and its predecessor Associations have enjoyed a rich history of financing rural North Carolina's agricultural and rural living sectors. With 12 branch offices located throughout the eastern portion of the state, we proudly provide farmers, agribusinesses, and rural residents with an opportunity for success, delivering low-cost financing and exceptional service with more than $1.4 billion in loans to over 3,000 members.

As we look to the future, there is no doubt that growth will play a critical role in our ongoing success. The agriculture sector is undergoing profound change with advances in technology, the influence of dynamic global markets and several other key trends that will set the stage going forward. In this ever-changing landscape, the Board and management team continuously look for new opportunities to enhance our services and capabilities while remaining focused on meeting your local loan needs.

We believe the proposed Merger with Cape Fear Farm Credit will help us achieve that scale quickly – growing big, while staying local. Together, we would operate as AgCarolina Farm Credit, offering members a single, stronger, more diversified organization that is better positioned for the future as we blend our separate geographic territories, complementary service segments and talented workforce.

For years, both AgCarolina Farm Credit and Cape Fear Farm Credit have worked side-by-side as industry peers, building successful, financially strong Associations who share a common member-focused culture and similar operating models. Our goal in Merging is to build upon those foundations to provide larger operational capacity and a capital base with greater flexibility to absorb increasing expenses and more resources to execute on future objectives.

The due diligence performed earlier this year further underscores this point, and the findings are highlighted throughout the pages of this disclosure packet. We hope you take the time to carefully review these materials to better understand the opportunities a combined Association could bring to you.

In addition to accelerating our growth objectives, this Merger of equals would allow us to offer members a more diversified loan portfolio. Regulatory capital would increase as well as our earnings generation potential.

In today's rising cost environment, a Merged Association would give us the benefit of cost synergies with greater efficiencies, better economies of scale, and operational savings. Synergies would also be achieved in operational capacity, leveraging our similar strategies, processes, systems, and organizational structures in a combined Association. New opportunities for employees managing multiple disciplines would be available as well to help these leaders specialize and build out their competencies while remaining committed to our branch employees who provide local support to our members.

Together, we would be better positioned to increase patronage potential and drive more loan volume growth and revenue to enhance profitability. Our footprint would include 20 branch locations across 46 adjoining counties in eastern North Carolina with headquarters centrally located in Greenville. There would be no branch staffing changes and no branch closures, giving you the ability to continue to work with the same trusted loan officer.

AgCarolina Farm Credit President and CEO Dave Corum, who previously announced his plans to retire, would stay on through November of 2022 to ensure a smooth transition. Evan Kleinhans, current President and CEO of Cape Fear Farm Credit, would lead the new Association. Evan will report to a Board of Directors that includes elected Directors drawn equitably from across the combined Association's territory to ensure the Board's composition reflects the marketplace. Initially, the Board will be made up of 24 positions – 12 directors from each Association. Nineteen of those positions are stockholder-elected Directors. Over time, the size of the Board will reduce to 10 stockholder-elected Directors from 10 nominating regions and at least two outside directors. The Directors will continue to work to represent the diverse requirements of members.

Following the Merger, the Board will further enhance its young, beginning, and small farmer plan, which focuses on value-added seminars and lending programs specific to this customer segment. Local advisory boards will continue to meet to ensure we stay abreast of concerns and receive grass-root input as to how we can better serve our communities and local agriculture.

In evaluating the proposed Merger, we ask that you carefully review this disclosure statement. Pay particular attention to the section outlining the potential advantages and disadvantages.

Voting will be held in person at the special meeting and by mail. The in-person voting session for eligible stockholders will be held on November 15, 2022. This meeting will be located at AgCarolina Farm Credit's Greenville Office at 636 Rock Spring Rd, Greenville, NC, and will begin at 2:00 p.m. The results of the stockholder vote will be announced the following day.

If you have any questions, please don't hesitate to reach out to your local AgCarolina Farm Credit loan officer, a director, Dave Corum, or me. We appreciate your ongoing loyalty, and thank you for your participation in this important process.

Sincerely,

B. Derek Potter
Board Chairman
AgCarolina Farm Credit

EXPECTED ADVANTAGES, DISADVANTAGES AND OTHER MATERIAL IMPACTS OF THE PROPOSED MERGER

This section provides an overview of the expected impacts of the Merger to each Association's stockholders, including the expected advantages of the Merger, potential disadvantages and risks of the Merger, and other material impacts stockholders should understand in order to cast an informed vote on the Merger. This discussion does not purport to provide a complete analysis of all of the expected impacts of the Merger but is intended to furnish information to enable stockholders to make an informed decision on whether to approve the Merger. There can be no assurance that any expected advantage or disadvantage described below will be realized in whole or part.

Each Association's Board of Directors believes that the expected advantages of the Merger substantially outweigh the disadvantages. On this basis, each Association's Board of Directors recommends that its Voting Stockholders vote to approve the Merger.

This section is divided into three parts. Part I addresses the potential advantages, disadvantages and other impacts of the Merger to Cape Fear and its stockholders. Part II addresses the potential advantages, disadvantages and other impacts of the Merger to AgCarolina and its stockholders. Part III addresses specific Merger-related issues impacting one or both Associations, including impacts of the COVID-19 pandemic as well as transaction costs, impact on capital position, and governance.

Unless the context otherwise requires, all references to "we", "us" or "our" refer to both Cape Fear and AgCarolina in these opening paragraphs and in Part III, Cape Fear in Part I, and AgCarolina in Part II. A side-by-side comparison of the two Associations is set forth below:

March 31, 2022 Figures	Cape Fear	AgCarolina
Chartered Territory	In the State of North Carolina, the Counties of Bladen, Brunswick, Columbus, Cumberland, Duplin, Harnett, Hoke, New Hanover, Pender, Robeson, Sampson, and Scotland.	In the State of North Carolina, the Counties of Beaufort, Bertie, Camden, Carteret, Chowan, Craven, Currituck, Dare, Edgecombe, Franklin, Gates, Granville, Greene, Halifax, Hertford, Hyde, Johnston, Jones, Lenoir, Martin, Nash, Northampton, Onslow, Pamlico, Pasquotank, Perquimans, Pitt, Tyrrell, Vance, Wake, Warren, Washington, Wayne, and Wilson.
Loan Volume in chartered territory	$1,073,620,269	$1,233,385,777
Total Loan Volume	$1,073,663,006	$1,233,405,652
Total Regulatory Capital	$229,876,109	$268,420,507
Number of Voting Stockholders	2,394	3,422
Total Number of employees	92	124

March 31, 2022 Figures	Cape Fear	AgCarolina
Office locations	10 offices HQ - Fayetteville, NC o Burgaw o Clinton o Dunn o Elizabethtown o Kenansville o Kenansville (Commercial / Capital Markets) o Lumberton o Raeford o Whiteville	13 offices HQ / Branch - Raleigh, NC o Ahoskie o Elizabeth City o Greenville o Halifax o LaGrange o Louisburg o New Bern o Raleigh East (Agribusiness / Capital Markets) o Rocky Mount o Smithfield o Swan Quarter o Williamston

I. CAPE FEAR FARM CREDIT

Potential Advantages and Opportunities of the Merger

We believe that the following benefits may be gained through a Merger with AgCarolina Farm Credit:

1. **A More Competitive Position in the Marketplace.** As the needs and expectations of our membership continue to evolve, we must do the same in order to continue to add value within our marketplace and fulfill our mission. A Merger would allow Cape Fear Farm Credit to leverage the strengths and abilities of both Associations in a way that better positions the organization to compete in the market and serve all of its members as desired. Additionally, merging with AgCarolina Farm Credit would allow us to go to market in a cohesive manner throughout the eastern half of North Carolina, eliminating any confusion that exists among industry partners and prospective members, further strengthening the Farm Credit brand.

2. **Improved Operational Capacity and Customer Experience.** The Merger would provide improved operational capacity to win in all markets. Cape Fear Farm Credit has a healthy organizational culture, similar to AgCarolina Farm Credit, with shared visions for the future. The Merged Association should have more combined resources, which should create an opportunity to allow people managing multiple disciplines to narrow their span of control, adding more depth to their capabilities. Combining lending resources should accelerate growth and enhance efficiency in addition to gaining back-office synergy to achieve better economies of scale. The Merged Association would also have more resources to put toward improving the customer experience, including more depth and breadth both in our back-office staff and in field staff. The Merged Association should have greater opportunities for investing in capabilities to support the advancement of initiatives and innovations that would be limited or impossible as individual Associations. This would put the Merged Association in a better position to enhance processes and

systems to deliver an improved customer experience and better manage field lending resources to ensure that we meet the needs of members in a timely manner.

3. **Risk Diversification.** The merged entity should immediately possess a larger and more diverse asset base with greater amounts of capital, which would create an opportunity to better mitigate certain loan risks, support our membership through the volatile cycles that agriculture faces, and meet the evolving credit needs of our members. The Merger should result in additional loan portfolio diversification to help balance our existing concentrations in the swine and poultry industries. Cape Fear Farm Credit would gain exposure to the field crops, forestry, tobacco, cotton, and sweet potato industries. This increased diversification would allow us to build a stronger safeguard to protect our Association and membership from the fluctuations reflected in the market. See page 17 for a table showing how the Merger would reduce our risk concentrations in both commodities and customer types.

4. **Greater Financial Strength.** The Merger should provide a greater base to absorb future costs in a rising cost environment. One of the benefits of consolidating into a larger entity is that it would provide greater scale, making the same incremental costs less impactful in terms of cost efficiency. The Merger should also drive more loan volume growth and revenue to enhance profitability. As a combined organization, we anticipate capturing additional loan growth opportunities that would not be possible as stand-alone Associations. Such growth should lead to higher overall net income and enhanced profitability.

5. **Enhanced Patronage Potential.** The above benefits, if realized, would improve our risk-bearing capacity, allowing us to operate at a lower, although still safe and sound, capital level. If the Board is able to establish a lower capital target, a smaller portion of net income will need to be retained to meet the target, allowing for more net income to be available for patronage distributions.

Potential Disadvantages and Risk Factors of the Merger

We have identified and considered the following potential disadvantages and risk factors of the proposed Merger with AgCarolina Farm Credit:

1. **Dilution of Members' Voice in Association Affairs.** By combining with a slightly larger Association, we would give up a degree of independence and local control. The headquarters would no longer be located within the legacy Cape Fear Farm Credit territory. In addition, a reduction in Board seats would dilute stockholder representation by increasing the number of stockholders per director position, both from our territory and across the Merged Association's chartered territory. Please see pages 11-12 for a full description of the governance plan.

2. **Adjustment of Credit Quality.** As market conditions over the last 24 months have been volatile, ag loan portfolios tend to be cyclical based on the inherent commodities. Though both Associations serve agriculture in North Carolina, our respective portfolio composition differs, which should be considered. Cape Fear Farm Credit's credit quality is currently slightly stronger than that of AgCarolina Farm Credit's although the difference has narrowed recently as AgCarolina has come out of a period of stress in the row crop sector.

3. **Temporary Reallocation of Staff Time and Effort.** For several months after the Merger becomes official, administrative staff at Cape Fear Farm Credit and AgCarolina Farm Credit would be required to devote significant time and effort to integrating operations within the merged entity. These activities would be critical and may take precedence over other projects or plans that may be scheduled. A smooth and seamless Merger of the two Associations would require strategic planning and the focused attention of the newly formed Executive Leadership Team.

4. **Name Change.** The name change from Cape Fear Farm Credit to AgCarolina Farm Credit has the potential to create member confusion, necessitating investments in a strong communication and brand integration plan following the Merger.

5. **Merger Costs.** As described further below, the total cost of the approval and implementation of the Merger would be approximately $2.7 million. We expect that the Merged Association would recover these costs through savings and cost efficiencies gained from integrating the Associations' operations and eliminating duplicative functions within approximately one year following the Merger. While management has carefully considered the risks associated with Merger integration, it is possible that higher costs will be incurred than projected.

II. AGCAROLINA STOCKHOLDERS

Potential Advantages and Opportunities of the Merger

We believe that the following benefits may be gained through a Merger with Cape Fear Farm Credit:

1. **Cost Synergies.** In a rising cost environment, the Merger should create a greater base to absorb future costs while providing great scalability. The merged entity is projected to have an improved operating expense to average assets ratio than the individually managed Associations.

2. **Enhanced Profitability.** The Merger increases our lending/hold limits, which should drive additional loan volume growth and revenue to enhance profitability, potentially leading to higher overall net income.

3. **Alignment and Stronger Workforce.** For years, we have worked closely with Cape Fear Farm Credit on several annual initiatives. Merging should strengthen any legislative efforts, educational programs and events and sponsorships. This is not only due to the geography of our Associations' territories, but it is also a result of our shared values and priorities. Like us, Cape Fear Farm Credit is a mission-driven Association, and the purpose and vision they have established closely aligns with ours. We are heading in the same direction and share similar business goals, while being guided by our mission of providing our memberships with access to consistent and reliable credit. In addition to this alignment, a Merger should also create a stronger workforce, allowing for specialization in certain positions and creating more opportunity for collaboration within the Farm Credit System and our community partners. Both Associations have been diligent about focusing on building skilled and professional talent. Combining the two Associations should result in a more effective leadership team and front-line workforce.

4. **Loan Portfolio Diversification.** The Merger should assist in achieving greater risk bearing capacity to enhance resiliency. The Merger would diversify the overall portfolio across a larger geography and additional commodities, benefitting the risk profile of the merged entity.

AgCarolina will gain exposure to the poultry and swine industries, while reducing our concentration to the field crops, forestry, tobacco, cotton, and sweet potato industries. Reduced overall industry concentrations would help the merged entity better weather challenges, including commodity price cycles, in individual commodity segments. See page 17 for a table showing how the Merger would reduce our risk concentrations in both commodities and customer types.

5. **Stronger Patronage Potential.** Overall, a Merger should improve our risk-bearing capacity, giving us the ability to operate at lower (although safe and sound) capital levels. This may increase net income available for patronage distributions, as the merged entity would need to retain a smaller percentage of net income to meet its capital targets.

Potential Disadvantages and Risk Factors of the Merger

We have identified and considered the following potential disadvantages and risk factors of the proposed Merger with Cape Fear Farm Credit:

1. **Impact to Business Growth**. Similar to Cape Fear Farm Credit, AgCarolina Farm Credit has seen continued growth over the past few years. While we believe that growth potential is an underlying benefit of the Merger, there is a risk that Merger integration or culture change could result in a loss of operational momentum and delay achievement of important goals and objectives, at least in the near term, compared to historical levels.

2. **Operational Challenges.** The Merger could result in challenges due to the inability to fully or quickly align and reconcile varying practices within the Merged Association. Additional operational challenges may arise if there is an inability to realize desired cost synergies due to additional complexity of a larger organization, adversely impacting cost efficiency. Moreover, the integration process could cause staff stress, and an elevated turnover rate could inhibit our ability to execute.

3. **Merger Costs.** As disclosed within this packet, the total cost of the approval and implementation of the Merger would be approximately $2.7 million. We expect the Merged Association to recover these costs through savings and cost efficiencies gained from integrating the Associations' operations and eliminating duplicative functions within approximately one year following the Merger. While management has carefully considered the risks associated with Merger integration, it is possible that higher costs could be incurred than projected, which could erode cost benefits.

4. **System and Process Integration Risk**. Despite many similarities between the Associations, including very similar Information Technology systems and infrastructure, the integration of the two Associations could be challenging. There are many IT systems to consolidate and processes to standardize. Meanwhile, the roles of certain employees will change. There is risk in the execution of any Merger integration process. While management expects little to no disruption for members, it is possible that there could be more disruption than anticipated.

5. **Dilution of Members' Voice in Association Affairs.** By combining with another Association, the membership and territory footprint will increase. Although there will be no local branch closures or branch staffing changes as a part of this Merger, a larger territory may make it more difficult for the Merged Association to stay attuned to changing customer needs. In addition, a reduction in Board seats would dilute stockholder representation by increasing the number of stockholders per director position, both from our territory and across the Merged Association's chartered territory.

III. OTHER MATERIAL IMPACTS OF MERGER

Impact of COVID-19

The COVID-19 pandemic has heightened many risks for Cape Fear and AgCarolina, including credit risk, liquidity risk, market risk, and operational risk. Actions by government authorities to reduce the spread of the disease shut down entire sectors of the global economy in 2020 and continuing into 2021, forced millions of people out of work, and precipitated a contraction in economic output. In the United States, the Federal Reserve deployed a full range of emergency monetary stimulus tools to ensure the financial system continued to function. Congress has also passed aggressive fiscal stimulus measures which have, to a degree, reduced the impact of the economic contraction but certain agriculture portfolio stress remains for the Associations.

With essentially all agricultural commodities experiencing varying degrees of stress, a number of customers have suffered financial or operational disruptions. While the impact on credit quality thus far has been limited and government payments have mitigated some of the financial impact, there remains continued uncertainty and potential for impaired financial performance which could have a modest to moderate impact to credit quality over the short-term. Given the Federal Reserve's actions with short term interest rates early in the pandemic, however, many stockholders from each Association have taken advantage of historically low rates which has provided some support to overall agriculture operations. In addition, the historically low-rate environment has sustained the demand for credit in both Association portfolios. Thus, growth expectations remain largely unchanged. Although both Associations maintained core operations throughout the pandemic, operational risk remains as a result of uncertainty with lingering impacts of the pandemic and the return to a normal work environment. To mitigate the operational risk, since the onset of the pandemic, each Association has demonstrated capability in implementing operational strategies and technology to sustain business continuity.

Impact of Merger on Capital Position

While the Merger increases the overall amount of capital within the Merged Association, it has the effect of averaging the various capital ratios that measure capital strength in relation to risk-adjusted assets. As a result, the Merger is expected to be slightly dilutive to AgCarolina's capital ratios and slightly accretive to Cape Fear's capital ratios as of March 31, 2022.

$ dollars in (000's)	AgCarolina	Cape Fear	Combined
Common Equity Tier 1 Capital	$254,429	$220,216	$474,645
Total Regulatory Capital	$267,918	$228,747	$496,665
Common Equity Tier 1 capital ratio (1)	20.14%	19.45%	19.81%
Total capital ratio (2)	21.21%	20.20%	20.73%
Allowance for loan loss as percentage of outstanding principal and interest due.	1.08%	0.81%	0.95%

$ dollars in (000's)	AgCarolina	Cape Fear	Combined
Adversely classified loan and lease assets to total capital (3)	1.92%	1.12%	1.55%

(1) Generally computed as stock plus surplus divided by risk-adjusted assets*.
(2) Generally computed as Common Equity Tier 1 capital plus the allowance for loan loss up to 125% of risk-adjusted assets*.
(3) Generally computed as the sum of all adversely classified loans and leases divided by total capital.
* These ratios utilize values based on rolling three-month daily averages.

As with prior mergers between System entities, the exchange of capital stock in the Merger will occur at par value. We consider this fair and equitable because each Association comes into the Merger with a strong capital position in relation to the risk associated with each Association's respective loan portfolios. As previously mentioned, a more diverse portfolio supported by a larger capital base should assist in managing risk while pursuing loan growth opportunities, operating efficiencies, and economies of scale. While these benefits may provide enhanced earnings, they do not change the value of a borrower's stock investment. This is because the Associations' cooperative structure precludes paying dividends on stock and retiring stock for more than par value. The same restrictions will apply to the common stock of the Merged Association.

Stockholders as a whole are expected to benefit from the Merger given their capacity as customer-owners. Specifically, to the extent the Merger generates additional cash flow, the Merged Association will have increased capacity to provide competitively priced loan products and additional services to stockholders and will remain well positioned to offer reliable and meaningful borrower patronage. Benefits to the stockholders such as these underpin management's recommendation and the Board of Directors' ultimate decision to pursue the Merger.

Governance

The Boards of Directors of both AgCarolina and Cape Fear have developed a governance plan for the Merged Association that ensures continuity and equitability of representation for both sets of stockholders. See pages 38-40 for the terms of the governance plan as set forth in the Agreement. At present, the Cape Fear Board is composed of nine stockholder-elected directors and three appointed outside directors, while the AgCarolina Board is composed of 10 stockholder-elected directors and two appointed outside directors. Upon the Merger, all sitting elected and appointed directors will join the Merged Association's Board (the "Initial Board"). Over the next seven years, the number of stockholder-elected director positions will be reduced from 19 to 10. This will occur through a combination of combining and terminating selected seats as their existing terms expire. After these positions are closed, the Merged Association's Board will be composed of 10 stockholder-elected directors.

Under the Bylaws of the Merged Association, each stockholder-elected Board seat will be assigned to a geographic nominating region ("Nominating Region"). In order to stand for election to a particular Board seat, the candidate must reside in the Nominating Region corresponding to that seat. These Nominating Regions are set forth below:

Region Designation	Nominating Region	Legacy Affiliation	# of directors
1	Harnett, Wake	Blended	1
2	Bladen, Cumberland, Hoke and Scotland	Cape Fear	1
3	Sampson	Cape Fear	1
4	Brunswick, Columbus, Robeson, New Hanover	Cape Fear	1
5	Franklin, Granville, Halifax, Northampton, Vance, Warren	AgCarolina	1
6	Bertie, Camden, Currituck, Chowan, Dare, Gates, Hertford, Hyde, Pasquotank, Perquimans, Tyrrell, Washington	AgCarolina	1
7	Edgecombe, Martin, Nash, Wilson	AgCarolina	1
8	Duplin, Jones, Lenoir	Blended	1
9	Greene, Johnston, Wayne	AgCarolina	1
10	Beaufort, Carteret, Craven, Onslow, Pamlico, Pender, Pitt	Blended	1
			10

Three of the Regions are wholly within Cape Fear's chartered territory, four of the Regions are wholly within AgCarolina's chartered territory, and three Regions include counties from both chartered territories.

The AgCarolina and Cape Fear Boards are confident these Nominating Regions are drawn in such a way to ensure both diverse geographic, market, and commodity representation on the Board and overall equitable representation to the stockholders of both Associations. It should be noted, however, that the Board of Merged Association will retain discretion to adjust the boundaries and numbers of directors assigned to chartered territories to reflect changes in membership and compliance with FCA Regulations. However, the Board may not alter the Regions and/or number of position assigned to the Regions during the Governance Transition Period without a two-thirds vote of the full Board.

The Initial Board will include five appointed outside directors. An outside director is an individual who is not a voting stockholder, officer, director or employee of a System institution. As the terms of the appointed outside directors expire, the Board will determine whether to fill the seat with an eligible individual, who may be the incumbent, or close the seat. Under FCA Regulations, the Board must include no fewer than two appointed outside directors at all times.

The term of a director position is four years. It is the intention for the Merged Association to conduct annual director elections in the fall of each year, consistent with AgCarolina's existing election cycle. Please see pages 38-40 for the full terms of the governance plan as set forth in the Agreement.

Communication and Outreach Plan

Throughout the merger process, the Association employees have been engaged and in touch with our members, industry partners, and key stakeholders to ensure we are aligned with our community and quickly recognize any issues that might arise. A detailed communication strategy for internal and external stakeholders was created and is being followed throughout this process to ensure a consistent message is being shared with all parties involved. The goal of the communication plan involves ensuring a smooth transition while keeping all parties informed throughout the process.

Communication methods include print, email, website and public announcements. This communication plan will be followed into 2023 after the effective potential Merger date. During this communication process, both Associations communicate at all levels of the organization, with our stockholders, and throughout our communities. Both Cape Fear and AgCarolina are following our plan in sync, but we are allowing for flexibility should a need arise that warrants more or less frequent communication with a particular stakeholder group. The Associations are stressing the importance of staying in touch with our members and will proactively seek out ways to continue to engage with members, prospects, and community partners.

Diversity and Inclusion

The Boards of Directors of Cape Fear and AgCarolina are committed to diversity, equity, and inclusion. The directors of both cooperatives believe in the benefits that achieving diversity brings to a high performing organization and recognize that diversity supports making better business decisions to solve complex problems in a changing world.

The Associations work closely on various outreach efforts during the year and will continue to look for opportunities to support the local communities post-Merger, including expanding a diverse membership. With additional resources, the Merged Association will strategically seek to expand upon the diverse membership the Association represents. Targeted expansion in diversity includes, but not limited to, operation type, age, gender, race and commodities grown. The Merged Association will have increased personnel to further devote to its 3-year YBS Plan. Our diversity outreach efforts will allow the team to further explore increased opportunities for partnerships throughout eastern North Carolina with the ultimate goal of providing support for diverse groups and welcoming new members to experience the cooperative business model. This expanded diversity will be accomplished through loan programs and value-added opportunities such as a Women in Agriculture conference, Young, Beginning and Small farmer learning opportunities and being involved and sponsoring a diverse range of agriculture and community groups. With the aging population of farmers, it is increasingly more important to reach children at an early age. Working with students of all ages will continue to be a priority of the Merged Association, and with additional staff, we will have a greater reach throughout the new footprint to offer classroom reading programs and teaching our Personal Finance Workshop in local high schools and colleges, including Historically Black Colleges and Universities (HBCUs). Building strong partnerships among a range of diverse local and statewide organizations, will allow the Merged Association additional opportunities to build relationships with prospective and current members.

Climate Risk

<u>Climate Risk Assessment</u>. Agricultural production is, and always has been, vulnerable to weather events and climate change. Significant climate risk facing agriculture in central and eastern North Carolina include drought, hail and wind storms, hurricanes, flooding, frost and wildfires. Our farmers and ranchers mitigate

these risks by adoption of new technologies, agronomic practices, crop insurance, diversification, government programs and financial strategies to ensure their resiliency and competitiveness.

The Merged Association plans to mitigate its risk to weather events and climate change by improved commodity/industry diversification, geographical diversification, strong capital levels, and risk mitigation credit practices such as conservative underwriting standards, crop insurance requirements, loan guarantees, collateral insurance requirements and experienced staff. The merged entity will have excellent commodity/industry diversification with only two industries representing more than ten percent of the total loan portfolio (chickens and swine). The largest crop concentration would be tobacco at approximately 8.5% and all crops would represent approximately 40% of the total loan portfolio. The merged entity would have approximately $63 million in loans guaranteed by USDA and approximately $34 million in loans guaranteed by Farmer Mac.

Significant weather events are a part of North Carolina agriculture with hurricanes being the biggest impacting event. North Carolina is the third leading state for hurricanes (fifty-five since 1851). The most recent hurricane to cause serious damage to North Carolina was Hurricane Florence in 2018 which caused $22 billion in damages, of which $1.2 billion were agriculture losses.

AgCarolina and Cape Fear Farm Credit have experience dealing with significant weather events from business continuity and recovery plans to ensure maintenance of operations and loan servicing plans to provide members relief and support to allow recovery from natural disasters. Both Associations have a long history providing loan servicing relief to our members which allows them to restructure debt, keep their farming operation going and recover from the financial impact of weather events. The two Associations collaborate with local North Carolina Department of Agriculture and U.S. Department of Agriculture officials on risk mitigation and disaster relief programs. Management and the Boards of the two Association monitor potential risk to weather related events through various risk management reports and have a history of being proactive in developing initiatives to work with our members during times of adversity while maintaining the financial strength of the cooperative. To illustrate the resiliency of AgCarolina and Cape Fear Farm Credit's loan portfolio to major weather event, credit quality rated acceptable and OAEM after Hurricane Florence was 93% and 97.6%, respectively.

Climate Initiatives. America's farmers and ranchers are the land's original stewards and continue to lead the way in implementing climate-smart agriculture practices. Many farmers in eastern North Carolina, as well as other parts of the United States, have been early adopters of climate smart agriculture. AgCarolina and Cape Fear take pride in supporting our member's implementation of environmentally sustainable practices and financing resilient agriculture, supporting our rural communities as they prepare for and adapt to climate change and reducing our own environmental impact by changes in our operating practices.

Our support to promote resilient agriculture includes: (1) providing financing for precision agricultural equipment to implement reduced tillage, conserve ground moisture, increase yields and reduce the use of fertilizers, chemicals and fuel; (2) supporting educational and networking events that improve farmer's business management practices; (3) supporting cooperative extension's work with area farmers and ranchers, (4) providing grants to support agricultural research such as NC State's Plant Sciences Research Facility; and (5) providing grant financing for local farmer's markets.

Our support of rural communities includes programs to encourage employees to volunteer time to support local initiatives, employee volunteerism and direct financial support for disaster relief efforts, community grants which support environmental improvements, waste recycling, community improvements and emergency response capabilities.

In addition to our on-going support of farmers and ranchers as well as rural communities in North Carolina, AgCarolina and Cape Fear Farm Credit are taking steps to reduce climate impact in our daily operations. In recent years, we have implemented work from home initiatives for employees and significantly increased the use of virtual meetings all of which reduce the use of fossil fuels. In our newest buildings we have implemented energy saving features such as high efficiency lighting with motion sensors, tankless water heaters and energy efficient insulation. We also support recycling at our offices.

In the face of challenges like climate change, our mission to support rural communities and agriculture with reliable, consistent credit and financial services is more critical than ever. The merged entity will continue to provide assistance to members to implement new environmental and sustainable efforts on their operations and provide educational opportunities in the area of best management practices to ensure we foster an environment that shows our support of being good stewards of the land.

Regardless of what may lie ahead, we are committed to standing with North Carolina's farmers and ranchers, in good times and bad, as we work together towards a sustainable future for agriculture.

Merger Costs and Potential Cost Savings

The Associations estimate that the cost incurred in connection with the Merger will be approximately $2.7 million, of which $100 thousand to $400 thousand is severance/retention benefits. Merger costs include severance, legal, stockholder meeting expenses, accounting, audit fees, and other administrative costs. Many of these costs have been incurred prior to the merger date and cannot be recovered. We do not anticipate incurring any material cost for contract terminations. A breakdown of the projected Merger costs is set forth below:

- Severance and retention benefits: $100 thousand to $400 thousand*
- AgFirst technology conversion costs: $1.2 million
- Accounting, audit and legal: $470 thousand
- Stockholder meeting expenses: $206 thousand
- Compliance with FCA Merger Conditions**: $200 thousand
- Other: $350 thousand

** See Employee Retention Plan section at page 21 for additional detail.*
*** Described below (excludes annual costs of integrated audit merger condition).*

The Associations have agreed to pay for their individually incurred expenses and any jointly beneficial costs will be shared with AgCarolina bearing 50% and Cape Fear bearing 50%.

Although the merger is not predicated on cost reductions and there are no established plans for a scaled reduction in work force, the Merger should reduce annual operating costs. We estimate that the Merger should generate the following cost efficiencies over the first year following the effective date of the Merger (in comparison to operating as two stand-alone Associations):

1. Salaries and benefits: $1.8 million
2. Audit, review, accounting and purchased services: $233 thousand
3. Other Miscellaneous consolidated savings: $315 thousand

Over time, there should be additional opportunities to achieve cost synergies. For example, savings may be achieved as job vacancies caused by normal attrition are filled by the staff depth that the Merger will provide, thus eliminating the need to hire and train new employees. Marketing resources can also be used more efficiently by eliminating duplication of advertising in geographical trade areas that are common to both institutions.

Cost savings should allow us to recover one-time Merger expenses within approximately one year following the Merger.

Risk Management Function

The Merger is anticipated to bolster our risk management function. Following the Merger our plan is establish a Risk Department structured and staffed to reflect the increased size and complexity of the merged institution. Currently, risk roles in both Associations are shared with other duties. In the Merged Association, a dedicated Risk Department will be led by a Director of Risk Management, who will oversee Enterprise Risk Management strategy and execution within risk parameters established by the Board of Directors. The department will also have a dedicated Risk Analyst, a position that should substantially increase our capacity to identify, track, analyze and monitor risks within these established parameters. The Merged Association will also be creating an Enterprise Risk Management committee that will be chaired by the Director of Risk Management and will be afforded a cross-functional committee membership and resources to elevate the ERM program of the Merged Association. The Director of Risk Management will have access to the Board, CEO and Senior Leadership Team to have visibility and garner support to lead transformational change in the Merged Association. The risk department will also play an important role in building a more robust second line of defense for the Merged Association that supports management to help ensure risk and controls are effectively managed. This unit will manage compliance functions and help build and/or monitor the first line-of-defense controls.

Preferred Stock

The Merger will not change AgCarolina's preferred stock program or the rights of the holders of AgCarolina preferred stock. (See discussion at page 23). However, the continuation of AgCarolina's preferred stock program following the Merger is conditioned on the holders of each class of Cape Fear stock and participation certificates voting to approve AgCarolina's authorization to issue preferred stock. This vote will occur in conjunction with the Merger vote. If the voting stockholders of both Associations approve the Merger, but one or more classes of Cape Fear common stock or participation certificates do not approve the preferred stock authorization, then AgCarolina will be required to terminate its preferred stock program and redeem all of the outstanding preferred stock prior to the Merger. In this respect, the Merger is not conditioned on a favorable vote on the preferred stock authorization. Thus, a risk exists that the preferred stock program will be terminated as part of the Merger vote. A redemption of all outstanding preferred stock will not reduce AgCarolina's total regulatory capital as such stock does not qualify as regulatory capital. As such, the redemption of the preferred stock would not materially impair AgCarolina's overall capital strength or financial position.

Commodity and Loan Portfolio Diversification

As shown in the Table below, the Merged Association's loan volume will be spread more evenly across a broader array of commodities and borrower types than either Association on a stand-alone basis.

Loan Portfolio - March 31, 2022						
($ in thousands)	**AgCarolina**		**Cape Fear**		**Combined**	
Cattle	$37,113	3.01%	$18,832	1.76%	$55,945	2.42%
Corn	114,924	9.32%	35,379	3.30%	150,303	6.51%
Cotton	86,725	7.03%	10,559	0.98%	97,284	4.22%
Dairy	5,433	0.44%	14,748	1.38%	20,181	0.87%
Field Crops	281,011	22.78%	66,903	6.23%	347,914	15.08%
Forestry	153,955	12.48%	67,802	6.32%	221,757	9.61%
Grain	123,147	9.98%	15,003	1.40%	138,150	5.99%
Nursery/Greenhouse	15,651	1.27%	15,293	1.42%	30,944	1.34%
Other	62,195	5.04%	29,181	2.72%	91,376	3.96%
Other Real Estate	114,037	9.25%	57,907	5.39%	171,944	7.45%
Poultry	99,259	8.05%	364,017	33.90%	463,276	20.08%
Processing	18,704	1.52%	20,233	1.88%	38,937	1.69%
Rural Home Loan	38,599	3.13%	7,560	0.70%	46,159	2.00%
Swine	67,885	5.50%	282,969	26.36%	350,854	15.21%
Tobacco	6,863	0.56%	4,133	0.38%	10,996	0.48%
Tree Fruits and Nuts	7,514	0.61%	57,231	5.33%	64,745	2.81%
Utilities	391	0.03%	5,913	0.55%	6,304	0.28%
Total	$1,233,406	100.00%	$1,073,663	100.00%	$2,307,069	100.00%

FCA Conditions of Merger

In connection with granting preliminary approval of the Merger, FCA imposed three conditions on the Merged Association ("FCA Merger Conditions"). The text of these conditions is contained at Exhibit G of the Agreement, and a brief description of each FCA Merger Condition is set forth below. The Associations have agreed to comply with the FCA Merger Conditions.

Condition I – Deemed prior approval requirements of distributions.

In general, FCA Regulations impose a requirement on System associations to obtain FCA approval before making a capital distribution, including a patronage distribution. FCA Regulations contain a safe harbor under which a proposed capital distribution is deemed to receive FCA prior approval provided certain requirements are satisfied, including the requirement that a specific category of regulatory capital (common equity tier 1 capital or "CETI") at quarter-end be not less than the dollar amount of the association's CET1 on the same quarter-end in the previous calendar year. The FCA Regulations do not provide guidance on how the safe harbor rule applies when a distribution is made by an association within one year after it underwent a merger. Condition I provides that the Merged Association must use the pro-forma combined dollar amount of CET1 of the two predecessor associations in the same quarter of the previous calendar year, inclusive of fair-market value adjustments required to reflect the merger under GAAP, as applicable, as the dollar amount of CET1 capital in the previous calendar year.

Condition II – Reporting on the advantages, strategies, initiatives, and benefits of the merger

Under Condition II, within sixty (60) calendar days of the effective date of the Merger, the Merged Association's board must approve a plan to measure, monitor, and report on the association's success in achieving the expected advantages, strategies, initiatives, and benefits of merger (e.g., improved operating efficiency; maintaining branch office locations; Young, Beginning, and Small farmers and ranchers and producers or harvesters of aquatic products program; etc.) identified in the merger proposal and accompanying information. Within seven calendar days after approving the plan, the Merged Association must provide a copy of the plan to the FCA's Office of Examination. The plan may be incorporated, as a separate and distinct section, into the operational and strategic business plan.

Management must report, in writing, at least quarterly to the continuing association's board on the progress toward achieving the expected advantages, strategies, initiatives, and benefits in implementing the merger. Reporting must continue through at least calendar year-end 2026.

Condition III – Integrated Audit – Internal Controls over Financial Reporting (ICFR)

Although not required by FCA Regulations, certain System institution obtain a so-called "integrated audit" from their external auditor. An integrated audit entails the external auditor issuing an opinion for a given fiscal year on the effectiveness of the association's internal controls over financial reporting (ICFR), in addition to the normal attestation on the association's financial statements for such fiscal year.

Under Condition III, within six (6) months after the effective date of the merger, the Merged Association's board must adopt a written plan to require the Merged Association's external auditor to issue an attestation report, which must express an opinion on the effectiveness of ICFR and send a copy of the adopted plan to FCA's Office of Examination. The plan must include milestone dates to obtain an annual attestation report beginning with fiscal year 2026 and include the report in the continuing association's 2026 annual report to shareholders and in each annual report thereafter. This condition will expire when, in the opinion of the external auditor, the continuing association maintains, in all material respects, effective ICFR for three (3) consecutive years.

The annual incremental costs of obtaining an integrated audit are expected to range from $350-$450 thousand. It is anticipated that the Merged Association will seek relief from Condition III, which may involve a less costly approach for establishing to FCA's satisfaction the reliability and integrity of the Merged Association's internal control function. There can be no assurance that the FCA will grant such a request.

Young, Beginning and Small Farmer Loan Program

AgCarolina and Cape Fear are both committed to serving the Young, Beginning and Small (YBS) agricultural producers within their chartered lending territories. This subset of farmers and agriculturists is the next generation of operators who will be producing food and fiber for a growing world. It remains paramount that the Merged Association continue to strive to reach the YBS producers in the combined territory, and maintain efforts to expand within this growing market. The Associations intend for the Merged Association to maintain policies tailored to the specific credit needs of YBS farmers and ranchers throughout the combined territory, as required by the Farm Credit Act.

Both Associations have existing programs in place that help support YBS farmers and ranchers, and they are committed to taking a strategic approach to community outreach, YBS-specific marketing efforts, and member support. The Associations intend for the Merged Association to continue and expand upon these efforts ranging from YBS advisory committees and educational outreach to specialized loan programs to meet the needs of YBS operators and funding opportunities for the next generation of farmers and ranchers. In order to continue to facilitate and expand on the existing YBS programs, the Merged Association will take full advantage of a stronger capital position, additional personnel, and increased earnings in order to more effectively serve the needs of this expanding and diverse market segment. For a perspective of the current YBS outreach efforts of both Associations, please refer to each Association's 2021 Annual Report (included herein and available on the respective association's website) for a description of the YBS programs and the specialized services offered to YBS producers.

In 2021, Cape Fear launched year one of its three-year YBS plan. Part of the year one plan included Grow your F.A.R.M. - an Ag Ed Reimbursement Program. Cape Fear continued its Special YBS New Borrower Program designed to reduce the origination fee to $100 for a new YBS customers to reinforce our mission to encourage the entry into agriculture. Cape Fear also continued its Emerging Entrepreneurs' Conference focusing on YBS participants with topics including farm management, strategic planning, etc.

AgCarolina continued its FarmStart program, Beginning Farmer Down Payment Loan Program, YBS Agricultural Leadership Institute and Ag Biz Planner workshop. Because of the success of these programs, they will be continued following the Merger.

On a joint basis, AgCarolina and Cape Fear also plan to host a YBS Conference in 2022, dedicated to focusing on YBS resources, networking, educational materials, and marketing efforts to this vital segment of agriculture.

In addition to these programs, AgCarolina and Cape Fear work closely on AgBiz Planner, an e-learning course focused on helping young, beginning, small, minority or veteran farmers develop a business plan and learn to be successful business owners. AgCarolina and Cape Fear work closely on many statewide efforts to promote YBS partnerships. Both Associations also have dedicated committees, made-up of cross-functional teams of staff that meet regularly to help the Associations enhance their outreach efforts to this segment and ensure they remain in tune with the needs of this audience.

The following tables set forth, for each Association, the percentage of YBS loans as a percentage of the number of loans in the Association's portfolio, while the USDA column represents the percentage of farmers and ranchers classified as YBS in the Association's territory as of the 2017 USDA Agricultural Census, which is the most current data. Due to FCA regulatory definitions, a farmer/rancher may be included in multiple categories, as they would be included in each category in which the definition was met.

AgCarolina	USDA*	2021	2020	2019
Young	4.54%	16.51%	15.04%	14.73%
Beginning	18.14%	24.16%	21.44%	20.09%
Small	77.13%	36.14%	34.75%	33.75%

Cape Fear	USDA*	2021	2020	2019
Young	8.60%	16.37%	14.62%	15.01%
Beginning	27.90%	22.83%	20.50%	20.20%
Small	75.90%	35.95%	36.35%	38.59%

**Note that several differences exist in definitions between USDA statistics and our data due to our use of FCA definitions. Young farmers are defined as 34 years old and younger by the USDA, while FCA definitions include farmers 35 years old and younger. Beginning farmers are defined by FCA as those with 10 years or less farming experience; however, the USDA identifies beginning farmers as on their current farm less than 10 years. This may include both beginning farmers and experienced farmers who have recently changed farmsteads. Our percentages are based on the number of loans in our portfolio, while the USDA percentages are based on the number of farmers and ranchers. While these definition differences do exist, the information will be utilized as it is the best comparative information available.*

EMPLOYEE RETENTION PLAN

In anticipation of the Merger, the Boards of the Association approved the Cape Fear Farm Credit, ACA and AgCarolina Farm Credit, ACA Retention (the "Retention Plan"). The purpose of the Retention Plan is to provide operational stability and continuity during the Merger evaluation process, to treat fairly employees whose employment will terminate in connection with the Merger, and to retain employees who are essential to the operations of the two Associations and the integration efforts leading to and following the Merger.

Under the Retention Plan, eligible employees whose positions have been eliminated within a specified "Covered Period" prior to and following the Merger will be eligible to receive severance benefits, assuming they stay employed through a date set by the Plan Administrator. Severance benefits are also available to eligible employees who decide to cease working as a result of a change in job location or reduction in base pay during the "Covered Period." Eligible employees generally include employees who are classified by the employing Association as full-time and or regular part-time and work a minimum of 20 hours per week on a regular and continual basis and are employed in good standing on April 11, 2022. To receive the severance benefits, an employee is required to enter into an agreement that contains restrictive covenants and a general release of all claims and causes of action against the Association, the Merged Association, and certain related parties. AgCarolina's retiring CEO (Mr. David Corum) is not eligible for benefits under the Retention Plan.

The level of severance is based on the impacted employee's job level and years of service. For employees at lower pay grades, severance is calculated as 39 weeks of base salary plus one additional week of base salary for each year of service with total payments not to exceed 65 weeks (15 months) of base salary. For higher paid employees, severance is calculated as 52 weeks of base salary plus one week of additional base salary for each year of service with total payments not to exceed 78 weeks (18 months) of base salary.

The combination of the two Associations' management teams and staffs is expected to result in 11 to 14 positions that will be eliminated, of which two are expected to be senior management level positions. These senior management positions are the AgCarolina CEO, who is expected to retire later this year, and the AgCarolina CFO, who resigned earlier this year. Neither of these individuals will receive severance benefits under the Retention Plan. The chief credit officer and chief operating officer positions were split into two separate positions resulting in no senior officer departures in these positions. We anticipate very few employee departures following the Merger. In this regard, in anticipation of the Merger, both Associations have left certain budgeted job positions vacant in cases where the vacancy will be addressed through the combined workforce. The total benefit liability for the severance benefits under the Retention Plan is expected to be approximately $100 thousand to $400 thousand.

The terms and conditions set forth in the Retention Plan are consistent with standards within the Farm Credit System and limitations established under the Internal Revenue Code.

Apart from the Retention Plan, the Merged Association will not be subject to any agreement or offer letter related to future employment of any existing or prospective employee or any agreement or plan that would provide severance or retention benefits to any employee or group of employees affected by the Merger. In addition, other than as provided in the Retention Plan, no senior officer of AgCarolina or Cape Fear has an agreement or an arrangement with his or her Association relating to employment or termination of employment that would result in a financial benefit related to the Merger. In particular, neither Mr. Kleinhans nor Mr. Corum has an agreement that provides any special salary or bonus payments related to the Merger. Senior officers will continue to participate in the Board-approved incentive plan that measures achievement of certain business goals.

Additional information on senior officer compensation paid by each Association can be found in the enclosed Annual Report of each Association.

PREFERRED STOCK PROPOSAL
TO BE VOTED UPON BY CAPE FEAR'S
VOTING AND NON-VOTING STOCKHOLDERS
AND PARTICIPATION CERTIFICATE HOLDERS

In conjunction with the vote on the merger of Cape Fear and AgCarolina, Cape Fear's voting and non-voting stockholders will be asked to vote to authorize AgCarolina, as the continuing Association, to issue Class A Preferred Stock. AgCarolina already possesses the authority to issue Class A Preferred Stock. It will lose this authority, however, if the Merger is approved and each class of Cape Fear stockholders does not affirmatively vote to continue this authorization.

Cape Fear's Board recommends that its stockholders approve AgCarolina's Capitalization Bylaw provisions authorizing the Class A Preferred Stock (the "Preferred Stock Proposal") so as to enable the Merged Association to continue to have the authority to issue Class A Preferred Stock. To this end, concurrent with the vote on the Merger, the Preferred Stock Proposal will be submitted for stockholder approval at the special stockholders' meeting held on November 15, 2022.

The Preferred Stock Proposal requires the affirmative vote of a majority of shares voting of each of Cape Fear's three classes of outstanding stock and participation certificates, voting as a class, whether or not such classes are otherwise authorized to vote. As of the record date for the special meeting, Cape Fear had one class of voting common stock (Class C Common Stock) and class of participation certificates (Class C Participation Certificates). With respect to the Class C Common Stock, the Merger Proposal and Preferred Stock Proposal are presented as separate proposals. Thus, a holder of Class C Common Stock may vote for the Merger Proposal and against the Preferred Stock Proposal. Class C Participation Certificates vote only on the Preferred Stock Proposal. Each class votes separately.

In tabulating votes on the Preferred Stock Proposal, each share/certificates constitutes one vote. Thus, each stockholder may cast a number of votes equal to the number of shares owned by the shareholder on the record date. By contrast, votes on the Merger Proposal are tabulated on a one-member, one-vote basis.

Importantly, holders of non-voting stock / participation certificates do not have a vote on the Merger. Thus, for these stockholders, a vote against the Preferred Stock Proposal does not constitute a vote against the Merger.

Assuming the Merger is approved but one or more classes of stock do not approve the Preferred Stock Proposal, then AgCarolina shall cease to have authority to issue Class A Preferred Stock as of the Effective Date. In this event, AgCarolina will retire all outstanding shares of Class A Preferred Stock at or prior to the Merger (unless FCA grants approval to allow these shares to remain outstanding). Based on the balance outstanding at March 31, 2022, the total amount that would be paid in retirement of the preferred would be approximately $42.2 million. This retirement would not change AgCarolina's total regulatory capital and would have no material adverse financial impact on the Merged Association.

The table below provides a summary of the provisions of the Capitalization Bylaws setting forth the rights and attributes of Class A Preferred Stock. The full text of these provisions and the Capitalization Bylaws appear beginning at page 86.

Bylaw Section	*Description*
720.6	The Association may issue up to 20 million shares of Class A Preferred Stock with a par value of $5 per share, or such lower limitation imposed by FCA in connection with FCA's action approving the disclosure statement furnished to prospective purchasers of Class A Preferred Stock, including any amendments thereto ("Class A Stock Disclosure Statement") or otherwise. Class A Preferred Stock may only be issued to, and may only be held by, holders of Class C Common Stock or Class C Participation Certificates. Class A Preferred Stock possesses only those voting rights set forth in Section 790 hereof. Class A Preferred Stock possesses such other rights as specifically provided for herein and in the Class A Stock Disclosure Statement. The Association may issue fractional shares of Class A Preferred Stock.
730 - Transfer	Class A Preferred Stock is transferable only to another holder of Class A Preferred Stock under procedures established by the Board, and then only after the transferor and transferee provide joint written notice to the Association in a form prescribed by the Association's Board.
750.4 - Retirement	At the sole discretion of the Board, shares of Class A Preferred Stock shall be retired at book value not to exceed par value, subject to the terms and conditions set forth in the Class A Stock Disclosure Statement. Notwithstanding the foregoing, no shares of Class A Preferred Stock may be retired if the retirement would result in failure of the Association to meet minimum capital adequacy standards established under Regulations or would otherwise violate any Regulation.
770 – Distribution on Liquidation	In the event of the liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed in the following order of priority: (a) First, to the holders of Class A Preferred Stock, pro rata, until an amount equal to the aggregate par value of all such shares then issued and outstanding, plus declared but unpaid dividends, has been distributed to such holders; and then to the holders of other classes of equity outstanding.
830.5	Upon approval of the Board, any retirement of allocated surplus may be paid in cash, Class A Preferred Stock, or other forms of available equities, or applied against any of the holder's debt or other financial obligation to the Association, PCA or FLCA. In no event shall such retirement reduce the Association's regulatory capital below the minimum required by the Regulations. Retirements of less than the full amount of allocations issued in the same series (or class thereof) shall be on a pro rata basis. Any part of an allocated surplus distribution in stock to one Patron that is less than the par amount of one share may be held by the Association and included with subsequent distributions. If allocated surplus is retired for Class A Preferred Stock, the Patron shall be furnished a copy of the Class A Stock Disclosure Statement that is furnished to purchasers of Class A Preferred Stock.
840.2 - Application of Earnings Losses	Any net earnings determined pursuant to Section 840.1 shall be applied in the following order of priority: First, to the restoration of the amount of the impairment, if any, of Class A Preferred Stock issued and outstanding, if any, until such stock is no longer impaired; and then to the restoration of the amount of impairment, if any, of other classes of stock and allocated surplus.

840.3 - Application of Earnings Losses	Any net losses determined pursuant to Section 840.1, to the extent they exceed unallocated surplus, shall, except as may be otherwise provided in the Act, be treated as impairing allocated surplus, common stock, participation certificates and Class D Preferred Stock until fully impaired and then as impairing Class A Preferred Stock.
850.2 – Dividends on Class A Preferred Stock	Dividends on each share of outstanding Class A Preferred Stock shall accrue on a daily basis at an annual rate (the "Dividend Rate") on the $5 par value of the share (or such lower fractional amount) beginning on the date such share was issued ("Accrued Dividend"). The Dividend Rate shall be set, and adjusted from time to time, by the Board pursuant to the terms of the Class A Stock Disclosure Statement, provided, however, the Dividend Rate shall not exceed eight percent (8%) per annum. Dividends shall accrue whether or not they have been declared and whether or not there are profits, surplus or other funds of the Association legally available for the payment of dividends. Accrued Dividends shall cumulate until declared and paid. Subject to the Act and the Regulations thereunder, and provided that at the time of declaration thereof no class of common stock shall be impaired, Accrued Dividends on Class A Preferred Stock may be declared in the Board's sole discretion in the order accrued. Declared dividends will be paid to holders of record on the date specified by the declaration. The obligation of the Association to pay dividends on Class A Preferred Stock may be indefinitely deferred as long as no dividend is paid to holders of common stock and participation certificates have been paid. When declared, dividends on Class A Preferred Stock may be paid in cash or additional shares of Class A Preferred Stock as the Board so determines. Notwithstanding the foregoing, dividends may not be paid on Class A Preferred Stock if the action would result in failure of the Association to meet minimum capital adequacy standards established under Regulations or would otherwise violate any Regulation.

SUMMARY OF TAX MATTERS

Tax Treatment of Merger

The Associations intend to treat the Merger as a tax-free reorganization under Section 368 of the Internal Revenue Code ("Code"). As a consequence, a stockholder of Cape Fear whose shares of stock in Cape Fear are converted into shares of stock in the Merged Association (AgCarolina Farm Credit, ACA) should recognize no gain or loss upon the conversion for U.S. federal income tax purposes.

As required by Section 5.1(g) of the Agreement, each party will obtain an opinion from legal counsel that the Merger should qualify as a tax-free reorganization under Code Section 368. Such opinion will also provide that the Subsidiary Mergers should also qualify as tax-free reorganizations under Code Section 368. This opinion will be based on representation letters provided by the Associations and on customary factual assumptions. Such opinion is not binding on the Internal Revenue Service or any court. Neither Association has sought nor obtained rulings from the Internal Revenue Service or any state taxing authority on the tax consequences of the Merger. Thus, there can be no assurance that the Internal Revenue Service or a state taxing authority will not challenge the tax-free nature of the Merger.

The Merger will not change the U.S. federal income tax classification or taxable status of any surviving party thereto. AgCarolina Farm Credit, FLCA, the name of the entity resulting from the merger of Cape Fear Farm Credit, FLCA with and into AgCarolina Farm Credit, FLCA, will remain exempt from U.S. federal income taxes.

THE U.S. FEDERAL INCOME TAX DISCUSSION SET FORTH HEREIN IS INCLUDED FOR GENERAL INFORMATION ONLY. YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES TO YOU OF THE MERGER IN LIGHT OF YOUR PARTICULAR CIRCUMSTANCES, INCLUDING THE APPLICABILITY AND EFFECT OF U.S. FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

SUMMARY OF PROVISIONS OF THE AGREEMENT AND PLAN OF MERGER

This section summarizes the significant provisions of the Agreement and Plan of Merger.

Merger Transaction	Pursuant to Section 7.8 of the Farm Credit Act of 1971, as amended, on the Effective Date (as defined below), Cape Fear will merge with and into AgCarolina, with AgCarolina surviving and Cape Fear ceasing to exist. Also on the Effective Date, immediately following the Merger, the production credit association and federal land credit association subsidiaries of Cape Fear will merge with and into the corresponding subsidiaries of AgCarolina, whereupon the Cape Fear subsidiaries will cease to exist.
Conversion of Equities	Pursuant to the Merger, all capital stock and allocated surplus of Cape Fear will be cancelled, and each holder thereof will receive capital stock and allocated surplus, respectively, in the Merged Association with an equal par value. Specifically, each share of outstanding voting common stock, non-voting common stock and participation certificate in Cape Fear will be converted into one share of voting common stock, non-voting common stock and participation certificate in the Merged Association, respectively, with an equal par value. In addition, all allocated surplus in Cape Fear will be converted into an equal amount of allocated surplus in the Merged Association. Any "protected stock" within the meaning of Section 4.9A of the Farm Credit Act converted in the Merger will remain protected stock.
Name of Merged Association	The legal name of the Merged Association will be AgCarolina Farm Credit, ACA. The legal name of the Merged Association's subsidiaries will be AgCarolina Farm Credit, FLCA and AgCarolina Farm Credit, PCA.
Headquarters and Branch Offices	The headquarters of the Merged Association will be located in Greenville, NC. There is no intention of closing any existing branch or administrative office in the near or intermediate term as a result of the proposed merger.
Chartered Territory	FCA will grant the Merged Association an amended charter authorizing it to conduct business in the following counties in the State of North Carolina, the Counties of Beaufort, Bertie, Bladen, Brunswick, Camden, Carteret, Chowan, Columbus, Craven, Cumberland, Currituck, Dare, Duplin, Edgecombe, Franklin, Gates, Granville, Greene, Halifax, Harnett, Hertford, Hoke, Hyde, Johnston, Jones, Lenoir, Martin, Nash, New Hanover, Northampton, Onslow, Pamlico, Pasquotank, Pender, Perquimans, Pitt, Robeson, Sampson, Scotland, Tyrrell, Vance, Wake, Warren, Washington, Wayne, and Wilson.

Effective Date	The Merger shall take effect on January 1, 2023 (assuming FCA grants timely final approval and no petition for reconsideration of the Merger vote is filed – see *Necessary Approvals of Merger* below) or such later date as provided in the Agreement.
Capitalization Requirement & Plan	The Capitalization Bylaws provide the Board of Directors of the Merged Association with the authority to set the stock purchase requirement for borrowers at no less than two percent (2%) of the borrower's aggregate loan balance or $1,000, whichever is less, and no greater than ten percent (10%) of the borrower's outstanding loan balance. Presently, each Association requires a stock purchase requirement equal to the lesser of two percent (2%) of the member's aggregate note amount or $1,000. Each Association requires this amount at the "member" level such that a new stock purchase is not required for each additional time the member takes out a new loan. It is expected that the Merged Association will continue this stock purchase requirement in the future. See Capitalization Plan at page 108.
Patronage	Commencing on the Effective Date, the Merged Association will have a patronage program. Such program will not differentiate between Cape Fear's and AgCarolina's borrowers commencing on the Effective Date.
Initial Board	The Merged Association's Board of Directors as of the Effective Date (the "Initial Board") shall be composed of all current AgCarolina and Cape Fear directors. The names of the directors on the Initial Board and their respective initial terms are set forth in Section 2.9(a) of the Agreement. Of the 24-member Initial Board, 19 directors shall be stockholder-elected directors and five shall be appointed outside directors. In the event that prior to the Effective Date, any of the persons named to the Initial Board or their replacements are replaced as directors of AgCarolina or Cape Fear, as the case may be, the person replacing such director shall become a member of the Initial Board in lieu of the person replaced.
Board Restructuring	Pursuant to the Agreement, over a seven-year period, the number of stockholder-elected directors on the Board of Directors of the Merged Association shall be reduced from 19 to 10. Section 2.9(b) of the Agreement specifies the positions that will be closed. Each of the ten continuing stockholder-elected director positions will be assigned to a nomination region, as defined Section 2.9(b) of the Agreement. Candidates for each stockholder-elected director position must be selected from the Nominating Region corresponding to such seat. A map showing the boundaries of the seven Nominating Regions appears at page 128. Regions may be updated from time to time to assure equitable representation.

All stockholder-elected directors and appointed outside directors shall serve staggered four-year terms. All voting stockholders will vote in the election of each director position. Stockholders will not be eligible to cumulate their votes.

Any future changes in the composition of the Board, including changes to the number of elected and appointed outside directors, and the assignment of director positions to specific regions for nomination purposes, will be made at the sole discretion of the Board subject to the Bylaws and consistent with the objective of ensuring equitable representation from all sections of the Chartered Territory and as nearly as possible from all types of agricultural practices within the Chartered Territory. However, the Board may not alter the Regions and/or number of position assigned to the Regions during the Governance Transition Period without a two-thirds vote.

At the first Board meeting following the Effective Date, the initial Board Chair shall be appointed by the Board from among the AgCarolina directors and the initial Board Vice-Chair shall be appointed by the Board from among the Cape Fear directors. In addition, the Board will appoint directors to the following four standing committees of the Board: Audit, Risk, Compensation and Governance.

Nominating Committee

The initial Nominating Committee of the Merged Association shall consist of the members of each Association's nominating committee as of the Effective Date who shall serve until the 2023 director election. Thereafter, the Nominating Committee shall be elected annually consisting of 1 voting stockholders from each Nominating Regions plus 2 at-large seats.

Management

Upon the Effective Date, Evan J. Kleinhans will become CEO of the Merged Association. Mr. Kleinhans will identify the Merged Association's senior leadership positions prior to the Effective Date. The senior leadership positions shall include the following: Chief Operating Officer; Chief Financial Officer; Chief Credit Officer; Chief Administrative Officer; and Chief Lending Officer, which positions shall largely be filled from each Association's current management teams. All officers and employees of the Merged Association will be at-will employees serving at the pleasure of the Board.

Severance and Retention Plans

The Merged Association shall be subject to the Cape Fear Farm Credit, ACA and AgCarolina Farm Credit, ACA Retention Plan adopted by the Boards of Directors of both Cape Fear and AgCarolina (the "Retention Plan") described at page 21. Apart from the Retention Plan, the Merged Association will not be subject to any agreement or offer letter related to future employment of any existing or prospective employee or any agreement or plan that would provide severance or retention benefits to any employee or group of employees affected by the Merger. In addition, other than as provided in the Retention Plan, no senior officer of AgCarolina or Cape Fear has an agreement or an arrangement with his or her Association relating to employment or termination of employment that would result in a financial benefit related to the Merger. Senior officers will continue to participate in the Board-approved incentive plan that measures achievement of certain business goals.

Compensation and Benefit Plans

The Associations utilize common health, retirement and welfare plans. The Merger will not result in any material change to such plans. Differences between the Associations' compensation and other employee benefit plans will be reconciled by the Merged Association's Board following the Merger. All employee plans are subject to change in accordance with their terms and at the discretion of the Board.

Necessary Approvals of Merger

In order for the Merger to proceed, the following conditions must be fulfilled: (i) the affirmative vote of a majority of each Association's voting stockholders present and voting, either in person or by written proxy, at a meeting of members at which a quorum is present; and (ii) the receipt of final approval by FCA. If such conditions have not been fulfilled, the Merger will not be consummated, and the separate existence of AgCarolina and Cape Fear will continue.

Reconsideration Rights

Assuming each Association's voting stockholders vote to approve the Merger, both Association's stockholders have the right to petition for another vote, in accordance with the following procedures: Within 30 days after the stockholder vote, Cape Fear and AgCarolina shall notify its respective stockholders of the results of the vote. Following the date such notification is mailed, and if the votes are in favor of the Merger, then the voting stockholders of each Association shall have 35 days in which to file with the FCA a petition to require each Association's stockholders to meet to reconsider the Merger. The petition must be signed by 15% of the voting stockholders of either Association. Voting stockholders that intend to file a reconsideration petition have a right to obtain from the Association of which they are a voting stockholder the voting record date list used by that Association for the Merger vote. Following FCA's approval of the petition, a special stockholders' meeting shall be called by each Association, respectively, to permit its voting stockholders to vote on the reconsideration. If a majority of the voting stockholders of either Association voting then vote against the Merger, the Merger is not approved. In the event the Merger is approved upon the reconsideration vote, the effective date of the

Merger is automatically postponed to not less than 60 days after the mailing of the notification of the results of the first vote, or 15 days after the date of the reconsideration vote, whichever is later.

Preferred Stock

AgCarolina's continued authority to issue preferred stock will be conditioned on each class of capital stock, including each class of non-voting stock, of Cape Fear separately approving bylaw provisions authorizing the issuance of preferred stock ("Preferred Stock Proposal"). If the Merger is approved, but any class of Cape Fear stock or participation certificates does not vote in favor of the Preferred Stock Proposal, then the Merger will proceed and, on or prior to the Effective Date, any outstanding preferred stock of AgCarolina will be retired at par value, whereupon the preferred stock program will be terminated (unless FCA grants approval to allow these shares to remain outstanding).

Conditions of Approval

FCA has imposed certain "Conditions of Approval" on both AgCarolina and Cape Fear in connection with the transactions in which they formed the FLCA and PCA subsidiaries. Following the Merger, AgCarolina will remain subject to the same Conditions of Approval as in effect prior to the Merger. The text of the Conditions of Approval is found in Exhibit E to the Agreement. Any other conditions imposed by FCA on either Association related to participation by such Association in any particular loan or investment program shall remain in effect and carry over and apply to the Merged Association.

Conditions of Merger

FCA has imposed certain "Conditions of Merger" on the Merged Association. These Conditions of Merger are binding on the Merger Association. The text of the Conditions of Merger is found in Exhibit G to the Agreement.

Accounting Treatment of Merger

The Merger will be accounted for as a business combination governed by Accounting Standards Codification (ASC) 805 Business Combinations. AgCarolina will be treated as the acquirer. Upon the Effective Date, AgCarolina will recognize the assets and liabilities acquired from Cape Fear as a result of the Merger at their acquisition-date fair values. If an acquired asset or liability has a fair value different from its then-book value, the asset will be written up or down, as the case may be, and a corresponding adjustment will be made to capital. Pages 140-146 contain pro forma financial statements showing the fair value and other merger-related adjustments that would be recorded had the Merger taken place on December 31, 2021 and March 31, 2022.

Termination of Agreement	The Agreement may be terminated by either Association at any time before the Effective Date upon a determination concurred with by FCA that: (i) the information disclosed to stockholders contained material errors or omissions; (ii) material misrepresentations were made to stockholders regarding the impact of the Merger; (iii) fraudulent activities were used to obtain approval of voting stockholders; or (iv) an event occurred between the time of the voting stockholders' vote approving the Merger and the Effective Date that would have a significant adverse impact on the viability of the Merged Association.

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER ("Agreement"), is made this 4th day of October, 2022, by and among AgCarolina Farm Credit, ACA, ("AgCarolina"), AgCarolina Farm Credit FLCA ("AgCarolina, FLCA"), AgCarolina Farm Credit, PCA ("AgCarolina PCA"), each of which has its headquarters in Raleigh, NC, and Cape Fear Farm Credit, ACA ("Cape Fear"), Cape Fear Farm Credit, FLCA ("Cape Fear FLCA") and Cape Fear Farm Credit, PCA ("Cape Fear PCA"), each of which has its headquarters in Fayetteville, NC, and all of which are federally chartered instrumentalities of the United States under the Farm Credit Act of 1971, as amended ("Act") (AgCarolina and Cape Fear shall be referred to collectively as the "Associations" and individually as the "Association").

PREAMBLE

WHEREAS, Section 7.8 of the Act provides for the merger of like and unlike associations if the plan of Merger is approved by the Farm Credit Administration ("FCA") Board, the boards of directors of the consolidating associations, a majority of the Voting Stockholders of each Association and their supervising Farm Credit Bank;

WHEREAS, several months ago, the Associations began exploring whether a combination of their operations would benefit their respective stockholders;

WHEREAS, the Associations' Boards of Directors ("Boards") believe that a merger would confer significant benefits on the Associations' respective stockholders;

WHEREAS, the Boards have approved this Agreement;

WHEREAS, AgFirst, FCB ("AgFirst") has granted approval to the merger of the Associations as required by FCA; and

WHEREAS, the FCA has granted preliminary approval of the merger of the Associations;

NOW, THEREFORE, AgCarolina, AgCarolina FLCA, AgCarolina PCA, Cape Fear, Cape Fear FLCA, and Cape Fear PCA agree as follows:

ARTICLE I. MERGER

Section 1.1. ACA Merger. Subject to the terms and conditions of this Agreement, Cape Fear shall merge with and into AgCarolina and the outstanding equities of Cape Fear shall be converted into like equities of the surviving association, whereupon the name of the surviving association shall become AgCarolina Farm Credit, ACA (hereinafter sometimes referred to as the "Merged Association" or "AgCarolina") (the "Merger"). The conversion of equities shall be as described in Section 1.3. Subject to the reconsideration vote procedures in Exhibit F, the Merger shall be effective on January 1, 2023, or such other date as may be agreed by the Associations and approved by the FCA, but shall not be less than 35 days after stockholder notification of the results of the vote, or 15 days after the date of the submission to the FCA of all required documentation for FCA's consideration of final approval, whichever occurs later ("Effective Date"). All transactions contemplated as part of the Merger shall be deemed to take effect at the commencement of business on the Effective Date.

Section 1.2. Succession of Rights and Obligations.

(a) On the Effective Date, subject to the provisions of the Act, Farm Credit Administration regulations (the "Regulations"), the Bylaws and the express terms and conditions of this Agreement and pursuant to the transactions described in Section 1.3, the separate existence of Cape Fear shall cease and AgCarolina will survive.

(b) The Merged Association's name shall be AgCarolina Farm Credit, ACA.

(c) On the Effective Date, subject to the provisions of the Act, Regulations, the Bylaws and the express terms and conditions of this Agreement and pursuant to the transactions described in Section 1.3, all of the properties, rights, privileges, powers, franchises, immunities and purposes (collectively, "Rights") of Cape Fear shall vest in the Merged Association, and all of the debts, liabilities, obligations, restrictions and duties (collectively "Obligations") of Cape Fear shall become Obligations of the Merged Association, all without further act or deed. The Merged Association shall remain subject to any pre-existing legal obligation to distribute patronage dividends to its patrons and hereby expressly assumes any such legal obligation to which Cape Fear is subject. Subject to Section 4.3, nothing herein shall diminish the rights of the respective patrons of AgCarolina and Cape Fear to receive and share in patronage dividends with respect to 2021 earnings.

(d) The Merged Association shall be and remain an agricultural credit association possessing within the Chartered Territory (as defined in Section 2.8 below) all authorities granted to an agricultural credit association under the Act and Regulations.

(e) To the extent permitted by applicable law, and subject to modification or termination by the Board in accordance with the terms thereof, thrift, pension, compensation and other benefit plans applicable to employees of AgCarolina and Cape Fear shall not be terminated on the Effective Date, but shall continue thereafter as plans of the Merged Association. The parties hereto may, to the extent they deem necessary and proper, enter into succession agreements relating to such plans.

Section 1.3. Conversion of Equity.

(a) As of March 31, 2022, Cape Fear Farm Credit had 491,329 shares of Class C Common Stock outstanding, 78 shares of Class B Common Stock and 26,735 shares of Class C Participation Certificates outstanding, together with unallocated surplus (including other comprehensive income) of $230,483,933. The book value of each share of common stock and participation certificate of Cape Fear Farm Credit as of March 31, 2022, determined in accordance with generally accepted accounting principles ("GAAP"), was $444.83, which is more than the par or face value of $5.00.

(b) As of March 31, 2022, AgCarolina Farm Credit had 742,346 shares of Class C Common Stock outstanding, 75,682 shares of Class C Participation Certificates outstanding, and 8,441,471shares of Class A Preferred Stock outstanding, together with unallocated surplus (including other comprehensive income) of $263,015,481. The book value of each share of common stock and participation certificate of AgCarolina Farm Credit as of March 31, 2022, determined in accordance with GAAP, was $321.52, which is more than the par or face value of $5.00.

(c) If the proposed Merger occurred on March 31, 2022, the book value of each share of stock and participation certificate of the resulting entity, determined in accordance with GAAP, would have been $369.34, which is more than the par value of $5.00. Book values are provided herein for illustrative purposes only and bear no relationship to the actual value of such stock upon liquidation.

(d) On the Effective Date, AgCarolina and Cape Fear shall complete Exhibit A indicating the capital stock and surplus of each of them as of the Effective Date. The completed Exhibit A shall become a part of the Agreement.

(e) On the Effective Date, each share of Class C Common Stock, Class B Common Stock and Class C Participation Certificate in Cape Fear shall be converted into one share of Class C Common Stock, Class B Common Stock and Class C Participation Certificate, respectively, in the Merged Association.

(f) On the Effective Date, each allocated surplus account in Cape Fear (if any) shall be converted into an allocated surplus account of equal amount in the Merged Association.

(g) With respect to each change and conversion of equity referred to in subsections (e) - (f) of this Section 1.3, (i) such conversion shall occur without further action by AgCarolina, Cape Fear, or the holder of such equity; (ii) no fractional shares (or cash in lieu thereof) shall be issued; (iii) each equity in the Merged Association shall have the same par value or face value as the equity for which it was exchanged ($5 per share or unit); (iv) each share of AgCarolina common stock issued pursuant to the Merger shall be protected stock within the meaning of Section 4.9A of the Act to the extent issued in exchange for a share of common stock in Cape Fear that is protected stock under such section; and (v) each equity in the Merged Association shall be subject to the Merged Association's new Capitalization Bylaws (as defined below).

(h) The Merger will be accounted for as a business combination governed by Accounting Standards Codification 805. Upon the Effective Date, AgCarolina will recognize the assets and liabilities acquired pursuant to the Merger at their acquisition-date fair values.

(i) This Agreement constitutes a plan of reorganization within the meaning of Treasury Regulations §1.368(c).

Section 1.4. Subsidiary Mergers.

(a) Subject to the terms and conditions of this Agreement and immediately after the Merger, Cape Fear FLCA shall be merged with and into AgCarolina FLCA, whereupon the outstanding capital stock of Cape Fear FLCA shall be converted into the same number of shares of capital stock of AgCarolina FLCA, effective as of the Effective Date (the "FLCA Merger"). Pursuant to the FLCA Merger, the separate existence of Cape Fear FLCA shall cease, and all Rights of Cape Fear FLCA shall vest in, and all Obligations of Cape Fear FLCA shall become obligations of, AgCarolina FLCA, all without further act or deed.

(b) Subject to the terms and conditions of this Agreement and immediately after the Merger, Cape Fear PCA shall be merged with and into AgCarolina PCA, whereupon the outstanding capital stock of Cape Fear PCA shall be converted into the same number of shares of capital stock of AgCarolina PCA, effective as of the Effective Date (the "PCA Merger"). Pursuant to the PCA Merger, the separate existence of Cape Fear PCA shall cease, and all Rights of Cape

Fear PCA shall vest in, and all Obligations of Cape Fear PCA shall become obligations of, AgCarolina PCA, all without further act or deed.

(c) AgCarolina FLCA shall remain a federal land credit association possessing within the Chartered Territory all authorities granted to a federal land credit association with direct lending authority under the Act and Regulations.

(d) AgCarolina PCA shall remain a production credit association possessing within the Chartered Territory all authorities granted to a production credit association under the Act and Regulations.

Section 1.5 Stockholder Vote on Merger. The Associations hereby agree that upon the preliminary approval of the plan of Merger by FCA, the Associations shall schedule a vote of their respective stockholders and provide all required and approved disclosure material to such Stockholder. Such vote may be held at a special meeting of the stockholders. Upon the affirmative vote of a majority of the Voting Stockholders of each Association present and voting, either in person or by written proxy, at a meeting of stockholders at which a quorum is present, the Merger shall be approved. In the event the Voting Stockholders of either Association fail to timely approve the Merger, the FCA fails to grant its final approval of the Merger, or upon the failure of any condition included in Section 5.1 of this Agreement, this Agreement shall be nullified. The approval of the majority of the Voting Stockholders of each Association present and voting, either in person or by written proxy, at a meeting of stockholders at which a quorum is present shall be a condition precedent to the implementation of the Merger.

Section 1.6. Stockholder Vote on Preferred Stock Authorization. Simultaneous with the vote on the Merger, Cape Fear hereby agrees to hold separate votes of each class of outstanding stock, including each class of non-voting stock and participation certificates, to approve the Bylaw provisions authorizing the issuance of AgCarolina's Class A Preferred Stock.

ARTICLE II. THE MERGED GROUP

Section 2.1. Amended Charters. The Associations shall request FCA to issue amended charters for the Merged Association, AgCarolina FLCA, and AgCarolina PCA, substantially in the form set forth in Exhibit B. Such charters shall take effect on the Effective Date. Each such charter shall include the authority to conduct business in the Chartered Territory as set forth in Section 2.8 below. Under such amended charters, the names of the Merged Association, AgCarolina FLCA and AgCarolina PCA shall remain AgCarolina Farm Credit, ACA, AgCarolina Farm Credit, FLCA and AgCarolina Farm Credit, PCA.

Section 2.2. Lending Program. Within the Chartered Territory, the Merged Association shall possess all lending, participation and similar authorities as conferred on an agricultural credit association under the Act and Regulations; AgCarolina FLCA shall possess all lending, participation and similar authorities as conferred on a federal land credit association with direct lending authority under the Act and Regulations; and AgCarolina PCA shall possess all lending, participation and similar authorities as conferred on a production credit association under the Act and Regulations. On the Effective Date, AgCarolina FLCA shall provide long-term mortgage loans and financially related services to all eligible borrowers located in the Chartered Territory; and AgCarolina PCA shall provide short and intermediate term credit and financially related services to eligible borrowers located in the Chartered Territory.

Section 2.3. Bylaws. On the Effective Date, the Bylaws in the form set forth in Exhibit C shall become the Bylaws of the Merged Association ("Bylaws"), until amended in the manner provided by law and such Bylaws. The Board of the Merged Association at its first meeting after the Effective Date shall adopt the Bylaws effective as of the Effective Date, including the Bylaws respecting capitalization ("Capitalization Bylaws") approved by the Voting Stockholders of each Association. Notwithstanding anything to the contrary, in the event that the Regulations necessitate modification of Bylaws, the Board of the Merged Association shall incorporate such modifications into the Bylaws to be approved at its first meeting after the Effective Date, provided that material modifications to Articles VIII and IX concerning capitalization must be approved by the Voting Stockholders.

Section 2.4. Capitalization Bylaws. The capital structure of the Merged Association shall be as set forth in Articles VII and VIII of its Bylaws. The approval of the Merger by the Voting Stockholders of AgCarolina and Cape Fear is also a vote approving the Capitalization Bylaws of the Merged Association. In the event the Merger is not approved by the Voting Stockholders of AgCarolina or Cape Fear, then AgCarolina and Cape Fear will continue to operate under their respective capitalization bylaws.

Section 2.5. Subsidiary Bylaws. Notwithstanding anything to the contrary, in the event that the Regulations necessitate modification of the Bylaws of AgCarolina Farm Credit, FLCA or AgCarolina Farm Credit, PCA, the Board of such Association shall incorporate such modifications into its Bylaws to be approved at its first meeting, provided that material modifications concerning capitalization must be approved by the Voting Stockholders. The capitalization bylaws of AgCarolina Farm Credit, FLCA and AgCarolina Farm Credit, PCA will be identical in all material respects to the existing capitalization bylaws of each Association's respective subsidiary.

Section 2.6. Capitalization Plan. The Merged Association's capital adequacy plan ("Merged Capital Adequacy Plan") shall be supported by the Merged Association's Capitalization Bylaws and shall comply with applicable Regulations and initially shall be substantially in the form of Exhibit D. The Merged Association's Board shall adopt the Merged Capital Adequacy Plan at its first meeting after the Effective Date. However, within the constraints of the Capitalization Bylaws, the Merged Capital Adequacy Plan may be amended at any time by the Merged Association Board, including at the organizational meeting. The Merged Capital Adequacy Plan includes the following elements:

(a) The Associations' combined capital and surplus at all times shall satisfy capital adequacy standards as imposed from time to time under the Act and Regulations.

(b) Each borrower shall be required to maintain an investment in Merged Association stock as equal to the lesser of two percent (2%) of the borrower's note amount or $1,000, whichever is less, which requirement shall be applied at the "member" level.

(c) At the discretion of the Board, investments in excess of the required minimum may be retired provided all regulatory capital standards are satisfied.

Section 2.7. Name and Headquarters. The chartered names of the Associations surviving the Merger and the Subsidiary Mergers shall be AgCarolina Farm Credit, ACA, AgCarolina Farm Credit, FLCA and AgCarolina Farm Credit, PCA. The headquarters of the Merged Association shall be located in Greenville, NC.

Section 2.8. Territory Served. The Merged Association's chartered territory shall be as follows: In the State of North Carolina, the Counties of Beaufort, Bertie, Bladen, Brunswick, Camden, Carteret, Chowan, Columbus, Craven, Cumberland, Currituck, Dare, Duplin, Edgecombe, Franklin, Gates, Granville, Greene, Halifax, Harnett, Hertford, Hoke, Hyde, Johnston, Jones, Lenoir, Martin, Nash, New Hanover, Northampton, Onslow, Pamlico, Pasquotank, Pender, Perquimans, Pitt, Robeson, Sampson, Scotland, Tyrrell, Vance, Wake, Warren, Washington, Wayne, and Wilson.

Section 2.9. Board.

(a) Board of Merged Association. On the Effective Date, the Board of Directors of the Merged Association will consist of the following 19 stockholder-elected directors and five appointed outside directors, each of whom currently serves on the board of either AgCarolina or Cape Fear (the "Initial Board").

New Nominating Region	New Seat	Incumbent	Current term
1	1	Jackie Thompson, Sr	2020-2023
2	2A	Dean Hilton	2019-2023
2	2B	Paul Maguire	2022-2026
2	2C	Michael Inman	2022-2026
2	2D	Ruby Bullard	2022-2026
3	3A	Nash Johnson	2021-2025
3	3B	Jennifer Daniels	2021-2025
4	4A	Bo Stone	2019-2023
4	4B	Adrian Locklear	2020-2024
5	5	Ellis Taylor	2019-2022
6	6A	Stuart Pierce	2021-2024
6	6B	Bundy Lane	2020-2023
7	7A	Paul Drake	2019-2022
7	7B	Robert Turner, Jr.	2019-2022
8	8A	Morris Murphy	2020-2024
8	8B	Rodney Smith	2021-2024
9	9A	Audie Murphy	2022-2025
9	9B	Mark Wellons	2021-2024
10	10	Derek Potter	2022-2025
Outside	O1	Bonnie Hancock	2022-2025
Outside	O2	Blake Brown	2020-2023
Outside	O3	Tony Grant	2019-2023
Outside	O4	F.A. (Andy) Lowrey	2021-2024
Outside	O5	Gary Rouse	2021-2025

The terms of the directors named to the Initial Board shall terminate upon the expirations of their existing terms of office as set forth in the table above. In the event that prior to the Effective Date, any of the persons above or their replacements is replaced as a director of AgCarolina or Cape Fear, as the case may be, the person replacing such director shall become a member of the Initial Board in lieu of the person replaced.

(b) Board Restructuring; Continuing Board. The Associations have agreed on the following "Board Restructuring Plan" to reduce the number of stockholder-elected Board seats from 19 to 10 over the next seven years:

(i) At the 2023 annual meeting, Seats 2A and 4A will close, and a new at-large seat shall be opened for one full four-year term ("At-Large 1 Seat").

(ii) At the 2024 annual meeting, seats 8A and 8B shall be collapsed and seat 6A shall close.

(iii) At the 2025 annual meeting, seats 3A and 3B shall be collapsed, seat 9A shall close, and a new at-large seat shall be opened for one full four-year term ("At-Large 2 Seat").

(iv) At the 2026 annual meeting, seats 2B, 2C and 2D shall be collapsed into a single seat, and seats 7A and 7B shall be collapsed.

(v) At the 2027 annual meeting, At-Large Seat 1 shall be closed.

(vi) At the 2029 annual meeting, At-Large Seat 2 shall be closed.

After the implementation of the Board Restructuring Plan, the Board of the Merged Association shall be composed of 10 stockholder-elected director positions and at least two and no more than five appointed outside director positions. All stockholder-elected directors and appointed outside directors shall serve staggered four-year terms. Any future changes in the composition of the Board, including changes to the number of elected and appointed outside directors, and the assignment of director positions to specific regions for nomination purposes, will be made at the sole discretion of the Board subject to the Bylaws and consistent with the objective of ensuring equitable representation from all sections of the Chartered Territory and as nearly as possible from all types of agricultural practices within the Chartered Territory. Notwithstanding the foregoing, any change to the Governance Transition Plan shall require a two-thirds vote of the entire Board of the Merged Association.

The applicable provisions of the Bylaws, to the extent consistent with the applicable provisions of the Act and Regulations and with the express terms of this Agreement, shall govern the qualifications, manner of nomination and election, terms, filling of vacancies and related matters respecting the positions of the Board. All director positions will be elected with each Voting Stockholder entitled to one vote for each Director position, which votes may not be cumulated.

(c) Nomination Regions. Stockholder-elected directors shall be nominated on a regional basis. In order to stand for election to a particular seat, a candidate must reside in the "Nominating Region" corresponding to such seat. For At-Large Seat 1 and At-Large Seat 2, the Nominating Region shall be the Merged Association's entire chartered territory. A Voting Stockholder is considered as residing in the Nominating Region that includes the headquarters or principal address of his or her farming operation is located in that region. A Voting Stockholder who does not reside or conduct a farming operation in the Merged Association's Chartered Territory is assigned to the Nominating Region that includes the office that services his or her loan. The Table in Section 2.9(a) shows the assignment of each seat to a particular Nominating Region.

The boundaries of the Nominating Regions and number of positions assigned to each Nominating Region are set forth in the table below:

Region Designation	**Nominating Region**	**Legacy Affiliation**	**# of directors**
1	Harnett, Wake	Blended	1
2	Bladen, Cumberland, Hoke and Scotland	Cape Fear	1
3	Sampson	Cape Fear	1
4	Brunswick, Columbus, Robeson, New Hanover	Cape Fear	1
5	Franklin, Granville, Halifax, Northampton, Vance, Warren	AgCarolina	1
6	Bertie, Camden, Currituck, Chowan, Dare, Gates, Hertford, Hyde, Pasquotank, Perquimans, Tyrrell, Washington	AgCarolina	1
7	Edgecombe, Martin, Nash, Wilson	AgCarolina	1
8	Duplin, Jones, Lenoir	Blended	1
9	Greene, Johnston, Wayne	AgCarolina	1
10	Beaufort, Carteret, Craven, Onslow, Pamlico, Pender, Pitt	Blended	1
			10

(e) Appointed Outside Directors. At all times the Board shall include at least two (2) but not more than five (5) appointed director positions filled by persons who, at the time such person becomes, and while serving as, a Director of the Merged Association, shall not be a director (other than a director of the Subsidiaries), officer, employee, agent or stockholder of any System institution ("Appointed Outside Director"). The terms and basis for removal of the Appointed Outside Director shall be the same as for directors elected by the Voting Stockholders. The manner of nomination, election and related matters respecting such appointed directors shall be determined from time to time by the Board, subject to the Bylaws and applicable regulations. Such directors may be removed by the Voting Stockholders or the Board in accordance with the Bylaws.

(f) Financial Expert. The Board shall have at least one director who is a financial expert recognized as having education or experience in: accounting, internal accounting controls, or preparing or reviewing financial statements for financial institutions or large corporations consistent with the breadth and complexity of accounting and financial reporting issues that can reasonably be expected to be raised by the institution's financial statements. Such director shall be appointed at the first meeting of the Board following the Effective Date and shall serve on the Board's audit committee.

(g) Boards of the Subsidiaries. Each member of the Merged Association Board shall also serve on the Boards of Directors of the Subsidiaries and shall remain on such Boards for so long as he or she is a member in good standing of the Board of Merged Association.

(h) Board Leadership/Committees. At the first Board meeting following the Effective Date, the Board shall appoint an initial Board Chair from among the AgCarolina directors and an initial Board Vice-Chair from among the Cape Fear directors. In addition, the Board will establish and appoint directors to the following four standing committees of the Board: Audit, Risk, Compensation and Governance.

Section 2.10. Nominating Committee. The Merged Association's initial Nominating Committee shall consist of the following Voting Stockholders, each of whom currently sits on the Nominating Committee of either AgCarolina or Cape Fear as of the Effective Date:

From Cape Fear	From AgCarolina*
Member	**Member**
Channing R. Gooden	
George W. Mote Jr.	
Alan J. Parker	
Krystal M. Tyndall	
Michael W. Herndon	
Lacy L. Cummings	
Mark W. Daughtry	
Randy A. Joyner	

**Individuals elected at the annual meeting held in September will be on the Nominating Committee of the Merged Association.*

In the event that prior to the Effective Date, any of the persons designated above or their replacements are replaced as members of the Nominating Committee of AgCarolina or Cape Fear, as the case may be, the person replacing such member shall become a member of the Nominating Committee in lieu of the person replaced. The initial Nominating Committee will serve until the first annual meeting of the stockholders of Merged Association. Thereafter, a new Nominating Committee shall be elected consisting of 12 members, of which one shall be selected from each Nominating Region, plus two at-large seats. The committee so elected shall serve a one-year term expiring at the next annual meeting or until its successors have been elected and qualified.

Section 2.11. Initial Officers. Subject to the Act and Regulations, the initial Chief Executive Officer of the Merged Association shall be Evan J. Kleinhans. Mr. Kleinhans will identify the Merged Association's senior leadership positions prior to the Effective Date. The senior leadership positions shall include the following: Chief Operating Officer; Chief Financial Officer; Chief Credit Officer; Chief Administrative Officer; and Chief Lending Officer, which positions shall largely be filled from each Association's current management teams. All officers and employees of the Merged Association will be at-will employees serving at the pleasure of the Board.

Section 2.12. Further Assurances. The Associations agree that from and after the Effective Date, the Chief Executive Officer of the Merged Association is authorized to execute, attest and deliver any document or instrument, to testify, produce documents or business records in, or appear or cause the Merged Association to appear as a party to, any action or proceeding at law or before any administrative body, and to take any other action to vest, perfect or confirm title to the Rights and Obligations of the Merged Association and the Subsidiaries, and otherwise to carry out the purposes and intent of this Agreement, in each case either in its own name or the name of AgCarolina, AgCarolina FLCA, AgCarolina PCA, Cape Fear, Cape Fear FLCA or Cape Fear PCA.

Section 2.13. Future Lending Programs. The Associations shall possess all lending and similar authorities granted to each under the Act and Regulations in the Chartered Territory.

Section 2.14. Personnel Matters. The Merged Association shall be subject to the Cape Fear Farm Credit, ACA and AgCarolina Farm Credit, ACA Retention Plan adopted by the Boards of Directors of both Cape Fear and AgCarolina (the "Retention Plan"). Apart from the Retention Plan, the Merged Association will not be subject to any agreement or offer letter related to future employment of any existing or prospective employee or any agreement or plan that would provide severance or retention benefits to any employee or group of employees affected by the Merger. In addition, other than as provided in the Retention Plan, no senior officer of AgCarolina or Cape Fear has an agreement or an arrangement with his or her Association relating to employment or termination of employment that would result in a financial benefit related to the Merger. Senior officers will continue to participate in the Board-approved incentive plan that measures achievement of certain business goals. The Associations utilize common health, retirement and welfare plans. The Merger will not result in any material change to such plans. Differences between the Associations' compensation and other employee benefit plans will be reconciled by the Merged Association's Board following the Merger. All employee plans are subject to change in accordance with their terms and at the discretion of the Board.

Section 2.15. Interpretation. The provisions of this Article II shall not be interpreted to limit the powers, rights or authorities of the Merged Association that are provided by applicable law.

Section 2.16. Joint and Several Liability. The Merged Association, AgCarolina FLCA and AgCarolina PCA shall be jointly and severally liable on each other's debts and obligations after the Merger.

Section 2.17. Conditions of Approval. The Merged Association, AgCarolina Farm Credit, FLCA and AgCarolina Farm Credit, PCA shall be subject to the same Conditions of Approval imposed by FCA as in effect prior to the Merger, which Conditions of Approval are substantially as shown in Exhibit E hereto.

Section 2.18. Conditions of Merger. The Merged Association, AgCarolina Farm Credit, FLCA and AgCarolina Farm Credit, PCA shall be subject to the Conditions of Merger imposed by FCA as set forth in Exhibit G hereto.

ARTICLE III. REPRESENTATIONS AND WARRANTIES OF AGCAROLINA (ACA, PCA AND FLCA) AND CAPE FEAR FARM CREDIT (ACA, PCA AND FLCA)

Section 3.1. Representations and Warranties of Associations. Each party to this Agreement represents and warrants to the other that:

(a) Organization, Corporate Power, etc. It is a federally chartered instrumentality under the Act. It has all requisite statutory and other power to own, operate and lease its properties and carry on its businesses substantially as they are being conducted on the date of this Agreement. It has all requisite power and authority to enter into this Agreement, to carry out its obligations under this Agreement, and, upon the satisfaction of the conditions set forth herein, to consummate the transactions contemplated.

(b) Authorization of Agreement. The execution, delivery and performance of the Agreement and the consummation of the transactions contemplated hereby have been duly authorized by its Board of Directors. This Agreement has been executed and delivered by its duly authorized directors or officers and constitutes a valid and binding obligation of it, enforceable in accordance with its terms. However, the approval of this Agreement and the consummation of the Merger is subject to the fulfillment of those conditions provided in Section 5.1 of this Agreement.

(c) Information Supplied. None of the information supplied in this Agreement, in any material distributed to stockholders relating to this Agreement, or in any material submitted to FCA or any other Governmental Entity relating to this Agreement, contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, or, in the case of material not yet submitted, will contain any such untrue statement or omit to state any such material fact. All financial statements supplied shall be prepared on the basis of GAAP, except as otherwise expressly noted therein.

ARTICLE IV. COVENANTS

Section 4.1. Information. In the event that a representation and warranty made in Article III of this Agreement is rendered false or misleading by subsequent events, AgCarolina, AgCarolina FLCA, and AgCarolina PCA on the one hand, and Cape Fear, Cape Fear FLCA, and Cape Fear PCA on the other hand, shall provide the other party with any information necessary to make the represented and warranted information accurate and not misleading.

Section 4.2. Distributions. Except as provided in Section 4.3, no patronage may be paid to patrons nor any dividends paid on the stock or participation certificates of the Associations from the time of adoption of the Agreement by the Boards and until the Effective Date (but see Section 4.3). Neither Association shall retire any stock from the time of the adoption of the Agreement by the Board and until the Effective Date except in the normal course of business.

Section 4.3. 2022 Patronage. Prior to the Effective Date, each Association shall declare a patronage distribution for its year ending December 31, 2022, consistent with such Association's patronage resolutions and its current patronage allocation methodology. The Merged Association shall be obligated to distribute the patronage distribution declared by each Association's Board within the payment period required by subchapter T of the Internal Revenue Code subject to compliance with FCA Regulations.

Section 4.4. Patronage Program. Commencing on the Effective Date, the Merged Association shall establish a patronage program which shall not differentiate borrowers from each Association's respective chartered territory for similar loans, which program shall be governed by the Bylaws of the Merged Association.

Section 4.5. Offices. Although there is no current intention to close any branch or administrative office of either Association, the Merged Association shall not be under any obligation to maintain any office in either Association's chartered territory. Any decision to close an office will be a decision of the Merged Association's Board.

Section 4.6. Bank Approval. The Associations agree to abide by any conditions imposed by AgFirst in connection with its approval of the Merger.

ARTICLE V. CONDITIONS

Section 5.1. Conditions to AgCarolina and Cape Fear Obligations. The obligations of the Associations to effect the Merger under this Agreement shall be subject to the following conditions, but shall not be subject to the receipt of any legal opinion or ruling, with the exception of an opinion regarding the tax-free nature of the Merger:

(a) The approval of AgCarolina's and Cape Fear's respective Voting Stockholders as contemplated by Section 7.8 of the Act;

(b) The final approval by FCA of the Merger following approval by the Voting Stockholders as provided in the Regulations;

(c) The absence of a reconsideration vote against the proposed Merger by the Voting Stockholders of either AgCarolina or Cape Fear as contemplated by Section 7.9 of the Act and as specifically set forth on attached Exhibit F;

(d) No temporary restraining order, preliminary or permanent injunction or other order or restraint issued by any court of competent jurisdiction, no order, decree, restraint or pronouncement by any Governmental Entity and no other legal restraint or prohibition which would prevent or have the effect of preventing the consummation of the Merger or the other transactions contemplated hereby shall have been issued or adopted and be in effect;

(e) AgCarolina, AgCarolina FLCA, AgCarolina PCA, Cape Fear, Cape Fear FLCA and Cape Fear PCA shall have complied with all other applicable Regulations or directives in connection with the Merger;

(f) The representations and warranties of each Association herein contained shall have been true when made and, in addition, shall be true in all material respects on and at the Effective Date with the same force and effect as though made on and at the Effective Date, except as affected by transactions contemplated hereby and except for any activities or transactions after the date of this Agreement which are made in the ordinary course of business and are not prohibited by this Agreement; and

(g) Receipt of a legal opinion that the Merger and Subsidiary Mergers should qualify as tax-free reorganizations under Internal Revenue Code Section 368.

ARTICLE VI. TERMINATION, AMENDMENTS AND WAIVERS

Section 6.1. Termination. Following the date on which FCA grants preliminary approval of the Merger and before the Effective Date, this Agreement may be terminated by an Association upon a determination by it that another party has failed to perform in a timely manner any of the covenants and agreements contained in this Agreement and fails to cure the same within 10 business days after notice of such failure to perform. In addition, this Agreement may be terminated by either Association at any time before the Effective Date upon a determination by it (concurred with by FCA) that:

(a) The information disclosed to stockholders contained material errors or omissions;

(b) Material misrepresentations were made to stockholders regarding the impact of the Merger;

(c) Fraudulent activities were used to obtain approval of Voting Stockholders; or

(d) An event occurred between the time of the Voting Stockholders' vote approving the Merger and the Effective Date that would have a significant adverse impact on the viability of the Merged Association.

Section 6.2. Effects of Termination. In the event of termination of this Agreement as provided in Section 6.1 hereof, this Agreement shall forthwith become void and there shall be no liability or obligation with respect to this Agreement on the part of AgCarolina or Cape Fear or their respective directors, officers, or stockholders, other than with respect to each party's share of expenses as provided in Section 8.10 hereof.

Section 6.3. Amendments. This Agreement may be amended by the Associations at any time whether before or after approval by the Voting Stockholders by action taken by their respective Boards, provided that,

(a) Such amendment made after approval of the Agreement by FCA and/or AgFirst shall be ineffective if, after providing advance written notice of same to FCA and AgFirst, as the case may be, either such party rescinds or amends its prior approval; and

(b) Such amendment made after the Voting Stockholders have approved the Merger, to the extent it materially changes the terms of the Agreement, shall be ineffective unless approved by the Voting Stockholders.

Section 6.4. Waiver. Any term or provision of this Agreement may be waived in writing at any time by action taken by the Board of the party which is, or whose stockholders are, entitled to the benefits thereof. No such waiver, however, shall be effective until approved in writing by both FCA and AgFirst.

ARTICLE VII. DEFINITIONS

In addition to those terms defined elsewhere in this Agreement, the following terms, as used herein, shall have the meanings as set forth below, whether used in the singular or plural:

"Board" - the Board of Directors of Cape Fear or AgCarolina or the Subsidiaries, as indicated by the context.

"Chief Executive Officer" - the chief executive officer of AgCarolina or Cape Fear or his respective designee as indicated by the context.

"Governmental Entity" - the FCA or any part of any government having authority to assist, supervise or regulate the Associations, or that concern the Merger, or any action or document related thereto.

"Stockholder" - a holder of Stock in Cape Fear or AgCarolina, as indicated by the context.

"Stock" - the capital stock of Cape Fear or AgCarolina, as indicated by the context.

"Subsidiaries" - AgCarolina FLCA and AgCarolina PCA, as subsidiaries of the Merged Association.

"Surplus" - the unallocated surplus and allocated surplus, if any, of Cape Fear, Cape Fear FLCA, Cape Fear PCA, AgCarolina, AgCarolina FLCA and AgCarolina PCA, as of the Effective Date, as indicated by the context.

"System" - the Farm Credit System.

"Voting Stockholder" - a holder of Stock in Cape Fear or AgCarolina which is entitled to voting rights under the Act.

ARTICLE VIII. GENERAL PROVISIONS

Section 8.1. Authority of Chief Executive Officer and Boards. The Chief Executive Officer of AgCarolina and Cape Fear, or their respective designees shall have the authority, on behalf of their respective Associations, to carry out the terms of this Agreement. The Chief Executive Officer is authorized to execute, on behalf of its respective Association, any document necessary or desirable in order to evidence transfer, vesting or devolution of any property, right or privilege or franchise, or to vest or perfect in or confirm to each Association, its successors and assigns, title to and possession of all the Rights referred to in Article I of this Agreement, and otherwise to carry out the intent and purposes hereof.

Section 8.2. Survival of Representations, Warranties and Agreements. The representations, warranties and agreements of the Associations in this Agreement or in any agreement or instrument delivered by AgCarolina and Cape Fear pursuant to this Agreement shall survive the Effective Date.

Section 8.3. Successors and Assigns. This Agreement will inure to the benefit of and be binding upon AgCarolina ACA, AgCarolina FLCA, AgCarolina PCA, Cape Fear ACA, Cape Fear FLCA and Cape Fear PCA and their legally authorized successor(s) and assigns, and no other person will have any right or obligation hereunder.

Section 8.4. Execution in Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which shall constitute one instrument.

Section 8.5. Severability. If any one or more provisions of this Agreement shall be held invalid by a Government Entity for any reason whatsoever, the remaining provisions shall not be affected thereby.

Section 8.6. Captions. The captions or titles to the provisions of the Agreement are for convenience of reference only and are not intended to represent the full or partial construction or intent of said provisions.

Section 8.7. Notices. All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given (a) when delivered personally, by electronic mail or facsimile transmission to the recipient, (b) one business day after being sent to the recipient by reputable overnight courier service (charges prepaid), or (c) four (4) business days after being mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid, and addressed to the intended recipient as set forth below:

If to Cape Fear:	Nash Johnson, II, Chair 2919 Breezewood Ave., Suite 400 Fayetteville, NC 28304 E-Mail: NJohnson@capefearfc.com
Copy to:	Glen R. Smith, Board Chair and CEO Farm Credit Administration 1501 Farm Credit Drive McLean, VA 22102-5090; and Leon T. (Tim) Amerson, President and CEO AgFirst, FCB 1901 Main Street Columbia, SC 29201
If to AgCarolina:	Derek Potter, Chair AgCarolina Farm Credit, ACA 4000 Poole Road Raleigh, NC 21157 E-Mail: DPotter@agcarolina.com
Copy to:	Glen R. Smith, Board Chair and CEO Farm Credit Administration 1501 Farm Credit Drive McLean, VA 22102-5090; and Leon T. (Tim) Amerson, President and CEO AgFirst, FCB 1901 Main Street Columbia, SC 29201

Section 8.8. Miscellaneous. Except as otherwise provided herein, this Agreement (including the documents and instruments referred to herein):

(a) Constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof;

(b) Shall not be assigned by operation of law or otherwise; and

(c) Is not conditioned on the receipt of any legal opinions or rulings (except for those related to tax matters).

Section 8.9. Governing Law. This Agreement shall be governed by and construed in accordance with federal law, and, to the extent applicable, the laws of the State of North Carolina.

Section 8.10. Expenses. Each Association shall bear its own expenses associated with the Merger. Joint Merger-related expenses shall be shared equally between the Associations. Merger-related expenses incurred after the Effective Date shall be borne by the Merged Association.

[*signature page follows*]

IN WITNESS WHEREOF, this Agreement has been executed as of the date first above written.

AGCAROLINA FARM CREDIT, ACA

By: ______________________ Derek Potter, Chair

By: ______________________ David W. Corum, Chief Executive Officer

AGCAROLINA FARM CREDIT, FLCA

By: ______________________ Derek Potter, Chair

By: ______________________ David W. Corum, Chief Executive Officer

AGCAROLINA FARM CREDIT, PCA

By: ______________________ Derek Potter, Chair

By: ______________________ David W. Corum, Chief Executive Officer

CAPE FEAR FARM CREDIT, ACA

By: ______________________ Nash Johnson, II, Chair

By: ______________________ Evan J. Kleinhans, Chief Executive Officer

CAPE FEAR FARM CREDIT, FLCA

By: ______________________ Nash Johnson, II, Chair

By: ______________________ Evan J. Kleinhans, Chief Executive Officer

CAPE FEAR FARM CREDIT, PCA

By: ______________________ Nash Johnson, II, Chair

By: ______________________ Evan J. Kleinhans, Chief Executive Officer

EXHIBIT A

CAPITAL STOCK AND SURPLUS*
AS OF MARCH 31, 2022

AgCarolina	**Aggregate Par Value**	**# Shares/Units**
Class A Preferred Stock (non-voting)	$42,207,355	8,441,471
Class C Common Stock (voting)	3,711,730	742,346
Class C Participation Certificates (non-voting)	378,410	75,682
Unallocated surplus**	263,015,481	
Accumulated other comprehensive income, net of tax	-	
Total members' equity	$309,312,976	
Number of shares/units of common equity		9,259,499

Cape Fear	**Aggregate Par Value**	**# Shares/Units**
Class C Common Stock (voting)	$2,456,645	491,329
Class B Common Stock (non-voting)	390	78
Class C Participation Certificates (non-voting)	133,675	26,735
Unallocated surplus**	230,483,933	
Accumulated other comprehensive income, net of tax	(262,851)	
Total members' equity	$232,811,792	
Number of shares/units of common equity		518,142

* All classes of stock and participation certificates are at-risk, other than Class B Common Stock of Cape Fear.

** Includes surplus allocation issued in nonqualified written notices of allocation.

EXHIBIT B

AMENDED AND RESTATED CHARTER

AgCarolina Farm Credit, ACA
County of Pitt, NC

The Farm Credit Administration, in accordance with the Farm Credit Act of 1971, as amended ("Act"), hereby amends and restates the charter of AgCarolina Farm Credit, ACA, an agricultural credit association ("Association"). The principal office location of the association shall be in Greenville, NC. The Association is a Farm Credit System institution and a federally chartered instrumentality.

By this Federal charter, the Farm Credit Administration hereby authorizes said Association to exercise all powers conferred on the Association under the Act and the regulations of the Farm Credit Administration within the following territory:

> In the State of North Carolina, the Counties of Beaufort, Bertie, Bladen, Brunswick, Camden, Carteret, Chowan, Columbus, Craven, Cumberland, Currituck, Dare, Duplin, Edgecombe, Franklin, Gates, Granville, Greene, Halifax, Harnett, Hertford, Hoke, Hyde, Johnston, Jones, Lenoir, Martin, Nash, New Hanover, Northampton, Onslow, Pamlico, Pasquotank, Pender, Perquimans, Pitt, Robeson, Sampson, Scotland, Tyrrell, Vance, Wake, Warren, Washington, Wayne, and Wilson.

The Association is subject to the Conditions of Approval imposed by the Farm Credit Administration.

IN WITNESS WHEREOF, the Chair of the Farm Credit Administration Board has executed this Charter and caused this seal of the Farm Credit Administration to be affixed hereto. This charter shall be effective as of January 1, 2023.

Charter No. _____

FARM CREDIT ADMINISTRATION
McLean, Virginia

____
Glen R. Smith
Board Chair and CEO

____
Ashley Waldron
Secretary to the Board

The above language is a reasonable representation of the language which will be included in the proposed amended and restated charter of the Merged Association; however, the actual charter issued by the Farm Credit Administration may use different language to achieve the same effect.

AMENDED AND RESTATED CHARTER

AgCarolina Farm Credit, FLCA
County of Pitt, NC

The Farm Credit Administration, in accordance with the Farm Credit Act of 1971, as amended ("Act"), hereby amends and restates the charter of AgCarolina Farm Credit, FLCA, which is a Federal Land Bank with the authority to make and participate in long-term real estate mortgage loans ("Association"). The principal office location of the Association shall be in Greenville, NC. The Association is a subsidiary of AgCarolina Farm Credit, ACA. The Association is a Farm Credit System institution and a federally chartered instrumentality.

By this Federal charter, the Farm Credit Administration hereby authorizes said Association to exercise all powers conferred on the Association under the Act and the regulations of the Farm Credit Administration within the following territory:

> In the State of North Carolina, the Counties of Beaufort, Bertie, Bladen, Brunswick, Camden, Carteret, Chowan, Columbus, Craven, Cumberland, Currituck, Dare, Duplin, Edgecombe, Franklin, Gates, Granville, Greene, Halifax, Harnett, Hertford, Hoke, Hyde, Johnston, Jones, Lenoir, Martin, Nash, New Hanover, Northampton, Onslow, Pamlico, Pasquotank, Pender, Perquimans, Pitt, Robeson, Sampson, Scotland, Tyrrell, Vance, Wake, Warren, Washington, Wayne, and Wilson.

The Association is subject to the Conditions of Approval imposed by the Farm Credit Administration.

IN WITNESS WHEREOF, the Chair of the Farm Credit Administration Board has executed this Amended and Restated Charter and caused this seal of the Farm Credit Administration to be affixed hereto. This charter shall be effective as of January 1, 2023.

Charter No. _____

FARM CREDIT ADMINISTRATION
McLean, Virginia

____
Glen R. Smith
Board Chair and CEO

____
Ashley Waldron
Secretary to the Board

The above language is a reasonable representation of the language which will be included in the proposed amended and restated charter of AgCarolina Farm Credit, FLCA; however, the actual charter issued by the Farm Credit Administration may use different language to achieve the same effect.

AMENDED AND RESTATED CHARTER

AgCarolina Farm Credit, PCA
County of Pitt, NC

The Farm Credit Administration, in accordance with the Farm Credit Act of 1971, as amended ("Act"), hereby amends and restates the charter of AgCarolina Farm Credit, PCA, a production credit association ("Association"). The principal office location of the Association shall be in Greenville, NC. The Association is a subsidiary of AgCarolina Farm Credit, ACA. The Association is a Farm Credit System institution and a federally chartered instrumentality.

By this Federal charter, the Farm Credit Administration hereby authorizes said Association to exercise all powers conferred on the Association under the Act and the regulations of the Farm Credit Administration within the following territory:

> In the State of North Carolina, the Counties of Beaufort, Bertie, Bladen, Brunswick, Camden, Carteret, Chowan, Columbus, Craven, Cumberland, Currituck, Dare, Duplin, Edgecombe, Franklin, Gates, Granville, Greene, Halifax, Harnett, Hertford, Hoke, Hyde, Johnston, Jones, Lenoir, Martin, Nash, New Hanover, Northampton, Onslow, Pamlico, Pasquotank, Pender, Perquimans, Pitt, Robeson, Sampson, Scotland, Tyrrell, Vance, Wake, Warren, Washington, Wayne, and Wilson.

The Association is subject to the Conditions of Approval imposed by the Farm Credit Administration.

IN WITNESS WHEREOF, the Chair of the Farm Credit Administration Board has executed this Amended and Restated Charter and caused this seal of the Farm Credit Administration to be affixed hereto. This charter shall be effective as of January 1, 2023.

Charter No. _____

FARM CREDIT ADMINISTRATION
McLean, Virginia

____
Glen R. Smith
Board Chair and CEO

____
Ashley Waldron
Secretary to the Board

The above language is a reasonable representation of the language which will be included in the proposed amended and restated charter of AgCarolina Farm Credit, PCA; however, the actual charter issued by the Farm Credit Administration may use different language to achieve the same effect.

EXHIBIT C

BYLAWS

OF

AGCAROLINA FARM CREDIT, ACA

January 1, 2023

AGCAROLINA FARM CREDIT,
AN AGRICULTURAL CREDIT ASSOCIATION

BYLAWS

ARTICLE IV – DIRECTORS

Definitions

"Accrued Dividend" shall have the meaning set forth in Section 850.2 hereof.

"Act" means the Farm Credit Act of 1971, as it may be amended from time to time.

"Annual Meeting" means the annual meeting of Stockholders pursuant to Article III of these Bylaws.

"Association" means AgCarolina Farm Credit, ACA

"Bank" means AgFirst Farm Credit Bank.

"Board" means the Board of Directors of the Association. All references in these Bylaws to the "Board" shall refer both to the directors sitting as of the effective date of the Bylaws and to any successors thereof pursuant to these Bylaws, unless the context otherwise requires.

"Board Restructuring Plan" shall have the meaning set forth in section 400.1 hereof.

"Bylaws" means these Bylaws as amended from time to time pursuant to Articles VII and XV hereof.

"Class A Stock Disclosure Statement" shall have the meaning set forth in Section 720.6 hereof.

"Code" shall have the meaning set forth in Section 830.1 hereof.

"Dividend Rate" shall have the meaning set forth in Section 850.2 hereof.

"Effective Date" means the consummation of the merger of Cape Fear Farm Credit, ACA with and into the Association.

"FCA" means the Farm Credit Administration.

"Financial Expert: shall have the meaning set forth in Section 615 hereof.

"FLCA" means AgCarolina Farm Credit, FLCA, a Federal land bank association with direct lending authority and a subsidiary of the Association.

"GFA" shall have the meaning set forth in Section 120 hereof.

"Initial Board" shall have the meaning set forth in Section 400.1 hereof.

"IRC" shall have the meaning set forth in Section 830.6 hereof.

"Member" means a holder or joint holder of stock or participation certificates in the Association, except another System institution.

"Net Earnings" shall have the meaning set forth in Section 840.1 hereof.

"Net Loss" shall have the meaning set forth in Section 840.3 hereof.

"Outside Director" shall have the meaning set forth in Section 400.3 hereof.

"PCA" means the AgCarolina Farm Credit, PCA, a production credit association and a subsidiary of the Association.

"Patron" shall have the meaning ascribed to such term in Section 860 hereof.

"Patronage Resolution" shall have the meaning ascribed to such term in Section 860.1 hereof.

"Record Date" shall have the meaning set forth in Section 350.6 hereof.

"Regulations" means FCA regulations or directives applicable to and binding on the Association.

"Sectional Session" shall have the meaning ascribed to such term in Section 300.3 hereof.

"Stock" means all classes of outstanding capital stock of the Association.

"Stockholder" means a holder or joint holder of any Stock.

"Stockholder-Elected Directors" shall have the meaning set forth in Section 400.1 hereof.

"Subsidiaries" shall have the meaning ascribed to such term in Section 110 hereof.

"System" means the Farm Credit System.

"Voting Stockholder" means a holder of Association equity who is eligible, under the Act, Regulations and these Bylaws, to vote in respect of any matter presented for a vote of such equity holders.

ARTICLE I -- PREAMBLE

100. The Association is a federally chartered, Member-owned, cooperative credit institution operating pursuant to the Act. Subject to the Act and the Regulations and under the supervision of the Bank, the Association in its chartered territory possesses and may exercise all lending, participation and similar authorities granted by the Act, other statutes or Regulations, as may be amended from time to time. The Bank possesses no authority in the corporate governance of the Association other than that mandated by law. Without limiting the foregoing, the Association:

(a) may make, guarantee, or participate with other lenders in short, intermediate and long-term loans and provide other similar financial assistance to:

(1) bona fide farmers and ranchers and producers or harvesters of aquatic products, for agricultural or aquatic purposes and other requirements of such borrowers as specified in the Act;

(2) rural residents for financing of housing in rural areas; and

(3) persons or organizations furnishing to farmers and ranchers farm-related services directly related to their on-farm operating needs; and

(b) make or participate with other lenders in long-term real estate mortgage loans in rural areas, as defined by the FCA, or to producers or harvesters of aquatic products, and make continuing commitments to make such loans under specified circumstances, for a term of not less than five nor more than forty years; and

(c) provide technical assistance to borrowers, applicants, and Members, and make available to them, at their option, such financially related services appropriate to their on-farm and aquatic operations in accordance with applicable the Regulations.

105. The Bylaws constitute rules for the internal operation of the Association. Unless otherwise noted, "Section" shall refer to a section of these Bylaws. As of the Effective Date, these Bylaws hereby amend, restate, and replace in its entirety any prior bylaws of the Association.

110. Lending Authorities.

The Board may authorize the Association, PCA and FLCA to conduct some or all of the authorities granted in the Act and Regulations to Production Credit Associations and Federal Land Credit Associations, respectively. PCA and FLCA shall be referred to collectively as the "Subsidiaries."

120. Relationship with FLCA and PCA.

The Association, PCA and FLCA shall conduct an integrated lending operation. To the extent authorized, the PCA shall possess, among other authorities granted under the Act, the authority to make, hold and participate in short and intermediate-term loans and provide financially related services to qualified borrowers in the Association's territory. The FLCA shall possess, among other authorities granted under the Act, the authority to make, hold and participate in long-term real estate loans and provide financially related services to qualified borrowers in the Association's territory. In addition, all three institutions shall enter into a General Financing Agreement ("GFA") with the Bank for purposes of funding loans originated and made by the Association, PCA and FLCA pursuant to their respective lending authorities. The indebtedness owed to the Bank under the GFA shall be the joint and several obligations of all three institutions. The Association at all times will own all of the voting capital stock of the FLCA and PCA.

ARTICLE II -- MEMBERSHIP: ELIGIBILITY TO BORROW

200. Members of the Association shall include all holders of legal title to capital stock or participation certificates as evidenced on the books of the Association, except any System institution. Any person to whom this Association is authorized by the Act and Regulations to extend credit or other related services is eligible to apply for a loan or such other services from this Association and become a Member of the Association. In the case of a deceased or legally incompetent Stockholder, the executor, administrator, guardian or other legally authorized representative of such Stockholder shall be considered to be the Stockholder for the purpose of voting. Each Stockholder, or individual designated in accordance with these Bylaws to vote the Class C Common Stock of a Stockholder, is authorized to speak on any question being considered at a meeting of Stockholders, when recognized by the chairman of the meeting. Motions, nominations and seconds may be made and voted on only by the individuals designated to vote the Class C Common Stock of Voting Stockholders in accordance with these Bylaws.

ARTICLE III -- MEETINGS OF STOCKHOLDERS

300. Time and Place

300.1. Annual Meetings.

There shall be an Annual Meeting of Stockholders at such place(s) in the Association's chartered territory or, when approved by the Board, within a reasonable distance of the Association's territory, at such date(s) and time(s) as the Board may by resolution provide. Notwithstanding the foregoing, in accordance with Section 611.110(a) of the Regulations, the Board may allow an online meeting space to be used in addition to a physical meeting space to conduct an Annual Meeting. Unless the FCA shall permit otherwise, a physical meeting space must always exist to conduct an Annual Meeting.

300.2. Special Meetings.

Special meetings of Stockholders may be called at any time by resolution of the Board. Such meetings shall be called at any time upon written request of at least ten (10%) percent of the Voting Stockholders. Each notice of a special meeting of Stockholders shall state the time, place, and purpose(s) of the meeting. If the Board fails or refuses to order such notice to be made, the notice may be given by the Voting Stockholder(s) making the call in accordance with the provisions of Section 310 hereof.

300.3. Sectional Sessions.

The Board may provide for the Annual Meeting or special meetings of Stockholders to be held in consecutive sectional sessions at different times and places ("Sectional Session"). The date of the convening of the first Sectional Session shall be the date of the meeting for the purpose of notice thereof to Stockholders. Each Stockholder shall be notified of all sessions to be convened and shall be entitled to attend any or all of such sessions. At each Sectional Session except the last, the meeting shall be adjourned until the next session of the meeting. The last Sectional Session must be scheduled for a time no later than fifteen calendar days after the first Sectional Session. The attendance at all Sectional Sessions shall be combined for the purpose of constituting a quorum, but no Voting Stockholder shall be counted or permitted to vote at more than one session. The votes duly cast at all sessions shall be counted together to constitute the vote of the meeting. Nominations from the floor for directors and nominating committee members, and matters requiring a vote of Voting Stockholders, must be introduced at the first Sectional Session of the meeting and so announced in the notice of the meeting; provided however, that if the vote is by mail ballot as provided in Section 410.5 of these Bylaws, nominations may be made and matters requiring a vote of all Voting Stockholders may be introduced at any Sectional Session of the meeting.

310. Notice of Meetings.

The Chairman of the Board shall cause written notice of each annual and special meeting of the Stockholders to be mailed not less than ten (10) business days, but not more than thirty (30) business days, prior to the date of the meeting to all Stockholders. The list of Stockholders entitled to such notice shall be a current list of Stockholders. The notice shall be mailed to the last known post office address of the Stockholder as it appears on the Association's records. The notice shall state the purpose, time and place of the meeting. Simultaneous with the mailing, the Annual Meeting Information Statement (AMIS) may be published on the Association's website. If published on the website, the AMIS shall be available for at least thirty days. The AMIS shall be available for public inspection at all offices. No business shall be transacted at special meetings other than the business referred to in the notice. All notices of Annual Meetings must be signed by the chief executive officer, chief financial officer and a member of the Board.

320. Quorum.

At each annual or special meeting of the Stockholders, three (3%) percent of the total number of Voting Stockholders determined as of the Record Date shall constitute a quorum. For purposes of determining a quorum at the annual or special meeting where mail balloting is used for director elections, mail ballots shall be used to determine a quorum. Proxies will also be included to establish a quorum when proxies are permitted under Section 350.2 of these Bylaws. If less than a quorum is present at any meeting of the Stockholders, the chairman of the meeting may adjourn the meeting from time to time until a quorum is obtained. The Voting Stockholders present in person or by proxy at a duly called meeting at which a quorum has been established may continue to transact business until adjournment, notwithstanding the withdrawal of enough Voting Stockholders to leave less than a quorum.

330. Conduct of Annual Meeting.

At the Annual Meeting, reports of the Board, including those reports required by Section 1110 of these Bylaws, shall be given by persons designated by the Board. Other items of business which may come before the meeting include but are not limited to: (1) determination of the existence of a quorum; (2) proof of due notice of meeting; (3) reading and disposition of minutes; (4) annual reports of officers and committees; (5) election of directors and nominating committee members; (6) unfinished business; (7) new business; and (8) a report of the Association's key operating data. All Stockholder meetings shall be conducted in accordance with procedures deemed fair and reasonable by the chairman of the meeting who shall preside at the meeting.

335. Minutes of Meeting.

The secretary of the Association shall act as recording secretary at all meetings of Stockholders, unless some other person is designated by the Board or chairman of the meeting to serve in that capacity.

340. Nominating Committees.

340.1. Qualifications and Election of Nominating Committee.

(a) At each Annual Meeting, the Voting Stockholders determined as of the Record Date shall elect a nominating committee composed of twelve (12) Stockholders who own or jointly own Class C Common Stock of the Association. Also, an individual designated in accordance with these Bylaws to vote the Class C Common Stock held by a Stockholder may serve as a member or alternate on the nominating committee of the Association so long as that individual meets all of the other requirements for serving on the nominating committee of the Association. Notwithstanding anything contained herein to the contrary, only one Stockholder jointly sharing ownership of the Class C Common Stock of the Association may seek the opportunity and serve on the nominating committee within an election cycle, and that individual is not required to be designated to cast votes on behalf of all the Stockholders sharing ownership of the Class C Common Stock.

(b) Of the twelve (12) members of the nominating committee, one (1) shall be designated for each of the ten (10) Nominating Regions and two (2) shall be at-large seats. In order to stand for election as a member of the nominating committee, the candidate must be a resident of, or have the candidate's farm operations headquartered in, the Nominating Region corresponding to such seat. In the case of the at-large seats, the candidate must be a resident, or have the candidate's farm operations headquartered, anywhere within the territory of the Association. The Nominating Regions are set forth below:

Region Designation	Nominating Region
1	Harnett, Wake
2	Bladen, Cumberland, Hoke and Scotland
3	Sampson
4	Brunswick, Columbus, Robeson, New Hanover
5	Franklin, Granville, Halifax, Northampton, Vance, Warren
6	Bertie, Camden, Currituck, Chowan, Dare, Gates, Hertford, Hyde, Pasquotank, Perquimans, Tyrrell, Washington
7	Edgecombe, Martin, Nash, Wilson
8	Duplin, Jones, Lenoir
9	Greene, Johnston, Wayne
10	Beaufort, Carteret, Craven, Onslow, Pamlico, Pender, Pitt

(c) Each Stockholder who neither resides nor has such Stockholder's farm operations headquartered in the Association's chartered territory shall be treated as residing in the Nominating Region where the branch servicing the Stockholder's loan is located, but such Stockholder is not eligible to serve as a member of the nominating committee.

(d) For purposes of this section, (i) an individual is deemed to reside where the individual maintains his or her primary residence, (ii) a Stockholder who owns or jointly owns Class C Common Stock is deemed to reside where the individual designated to vote the Class C Common Stock of the Stockholder in accordance with these Bylaws maintains his or her primary residence, and (iii) the farm operations of a nominating committee member or candidate are deemed headquartered at the mailing address of record on file with the Association.

(e) Directors, salaried officers and employees of the Association are not eligible to serve on the nominating committee. No individual is eligible to be nominated, elected, or shall continue to serve as a member of the nominating committee of this Association if the individual serves as any of the following for any non-Farm Credit System financial institution which is authorized to make the same types of loans that are or may be made by this Association: (i) officer, (ii) employee, (iii) director, or (iv) member of any committee whose function, in whole or in part, is to consider the marketing, policies, lending, operations, or other competitive activities of the financial institution. A nominating committee candidate may not be a candidate for election to the Board in the election which the committee is identifying nominees.

(f) In addition to the foregoing, nominating committee member shall meet the same qualifications for election and continuing service as set forth for directors in Sections 400.3, 400.4 and 400.5.

(g) The nominating committee so elected shall serve for a term of one year. A member of the nominating committee is eligible to be elected to serve as a member of the nominating committee for up to four consecutive one year terms. After the expiration of four consecutive one year terms as a member of the nominating committee, a person must be absent from membership on the nominating committee for at least one year before becoming eligible for election to the nominating committee.

340.2. Functions of the Nominating Committee.

The nominating committee shall review a current list of the holders of all classes of Stock of the Association. Such list shall (i) denote the class of Stock held by each such holder, and (ii) shall also include the Voting Stockholders and individuals designated in accordance with these Bylaws to vote the Class C Common Stock held by a Voting Stockholder, who are eligible to serve as Stockholder-Elected Directors if elected. The nominating committee shall ascertain the willingness of eligible Stockholders, and individuals designated in accordance with these Bylaws to vote the Class C Common Stock held by a Voting Stockholder, to serve, and shall submit for election a slate of such individuals to run as candidates for the Board. Members of the nominating committee cannot be nominated for director positions. The election slate shall, except as provided below, include at least two nominees for each position to be filled. If the nominating committee, after diligent effort, is unable to identify more than one eligible candidate who is willing to run for a Stockholder-Elected Director position that is to be filled, it shall promptly submit to the Board a written explanation of the reasons why it is unable to find more than one such person. If, after three business days following receipt of such explanation, the Board has not sent to the nominating committee a written objection to such explanation, the nominating committee shall be deemed to have authority to submit a slate of nominees providing for only one nominee per position, to the extent described in the explanation.

The nominating committee shall also perform the function specified in Section 430.2 hereof.

340.3. Availability of Resources.

The Association will provide the nominating committee reasonable access to administrative resources in order to perform its duties. At a minimum, the nominating committee will be provided a current list of the holders of all classes of Stock of the Association as set forth in Section 340.2 of these Bylaws, the most recent Bylaws, the current Director Qualifications Policy, and a copy of the Impartiality of Director Elections Policy. At the request of the committee, the Association shall provide a summary of the current Board self-evaluation. However, the Association will require a written pledge of confidentiality by committee members prior to releasing evaluation documents.

340.4. Nomination of Candidates to the Nominating Committee.

(a) The nominating committee shall present a list of candidates for each of the twelve (12) nominating committee seats, who shall be Stockholders that own or jointly own the Class C Common Stock of the Association or individuals designated in accordance with these Bylaws to vote the Class C Common Stock held by a Stockholder, for the Voting Stockholders to consider in electing the nominating committee for the following year.

(b) The nomination of candidate(s) for election to the nominating committee may be made from the floor by Voting Stockholders and individuals designated in accordance with these Bylaws to vote the Class C Common Stock held by a Voting Stockholder. Nominations from the floor must be eligible and qualified candidates who comply with the Nominating Region requirements to which the nominating committee seat is assigned. In accordance with Section 300.3, in the event of Sectional Sessions where voting occurs, nominations from the floor will only be accepted at the first Sectional Session.

(c) The nominators must be Voting Stockholders or individuals designated in accordance with these Bylaws to vote the Class C Common Stock held by a Stockholder. The nominees must be Stockholders that own or jointly own the Class C Common Stock or individuals designated in accordance with these Bylaws to vote the Class C Common Stock held by a Stockholder. Each nominee shall be responsible for providing in paper or electronic form such nominee's biographical and disclosure information as required by law, Regulations, these Bylaws, and the policies of the Association at such session; provided, however, if voting shall not occur at such session, such nominee's biographical and disclosure information must be received by the Association no later than three (3) business days after the nomination. Disclosure information forms will be available at the Association's corporate office for any potential floor nominee consideration and at the Annual Meeting.

(d) Upon receiving a floor nomination, the Annual Meeting process will be stopped until eligibility is determined. The nominee's biographical, and disclosure information (if available), will be immediately reviewed by the Association's chief executive officer or designee and due diligence performed to determine initial eligibility. After initial eligibility is determined, the meeting will proceed.

(e) After receiving a floor nomination, the floor nominee must state if he or she accepts the nomination for election to the Board. Nominations from the floor do not require a "second" before being placed on a ballot, although the chairman conducting the meeting, in his sole discretion, may permit Voting Stockholders to second a nomination to show support.

(f) Following the Annual Meeting, the Association shall as necessary conduct additional due diligence to determine if each nominee meets all the eligibility requirements imposed by the Regulations, Bylaws and the Association's policies. Each nominee meeting all eligibility requirements will be placed on the ballot. If the nominee is ineligible to be elected to the position nominated, the nominee shall be removed from the ballot. Following the Annual Meeting, if the newly elected nominating committee member is ineligible, the nominating committee member shall be immediately removed from office.

(g) The requirements for a floor nomination of candidates for election to the nominating committee shall be included in the Association's information statement as well as in the notice provision for any nominating committee elections.

340.5. Quorum and Minutes.

A majority of the nominating committee shall constitute a quorum for transacting the business of the nominating committee. The committee shall keep minutes of its deliberations, which minutes shall be maintained by the Association's chief executive officer or his or her designee in accordance with the Association's records disposal schedule.

350. Voting.

350.1. Voting, Voting Strength, and Designee for Voting Stock.

Each Voting Stockholder determined as of the Record Date is designated and duly authorized to vote; provided however, each Voting Stockholder determined as of the Record Date shall be entitled to only one vote regardless of the number of single or joint loans such Voting Stockholder may have with the Association. For the purpose of this Section, loan(s) made to one or more members of such Voting Stockholder's household, or to one or more entities in which such Voting Stockholder is an equity owner, and which the Association reasonably believes to be for the sole purpose of creating multiple votes, shall be deemed to be loan(s) made to such Voting Stockholder. In the case of joint loans, the vote may be cast by only one of the joint holders designated and duly authorized by the other joint holder(s) in a writing filed with the Association. The vote of a Voting Stockholder that is a legal entity shall be cast by an individual equity owner or officer of the entity, designated and duly authorized in a writing filed with the Association. In no event may an individual vote more than once, nor shall any Voting Stockholder be entitled to cumulate votes.

350.2. Proxy Voting.

At any meeting of the Stockholders, any Voting Stockholder may be represented and vote by a proxy appointed by an instrument in writing when the use of proxies is permitted under the Act and Regulations and approved by resolution of the Board. Proxy forms and ballots shall be prescribed by the Board. The executed proxy shall be filed with the secretary of the Association prior to any or all sessions of the Stockholder's meeting. In the event that the written instrument shall designate two or more persons to act as proxies, a majority of such persons present at the meeting (or, if only one shall be present, then that one) shall have and may exercise all of the powers conferred by such written instrument upon all of the persons so designated, unless the instrument shall provide otherwise. No proxy shall be valid after the expiration of eleven months from the date of its execution unless coupled with an interest, or unless the person executing it specified therein the length of time for which it is to continue in force, which in no case shall exceed seven years from the date of its execution. Subject to the above, any proxy duly executed continues in full force and effect until a written instrument revoking it or a duly executed proxy bearing a later date is filed with the secretary of the Association. Subject to the foregoing, a Voting Stockholder may revoke a proxy in writing before voting begins at the Stockholder's meeting.

350.3. Lists of Members, Stockholders and Voting Stockholders.

The Association shall maintain a list of the Members, which list shall include all borrowers who are primarily liable for repayment of a loan to the Association, Stockholders, and Voting Stockholders indicating the names of the individuals that are designated in accordance with these Bylaws to vote the Class C Common Stock of the Stockholders. The list shall be used when mailing or distributing proxies or ballots, and for other purposes as may be authorized by the Board, subject to the Act and the Regulations. The list shall also be used to assure that no Voting Stockholder votes more than once in connection with each meeting of the Stockholders. The list shall also be used for communication among such Members and Stockholders, as provided in the Act and Regulations.

350.4. Majority Vote.

When a quorum is established in accordance with Section 320 of these Bylaws, the vote of a majority of the Voting Stockholders determined as of the Record Date, present in person, represented by proxy or voting by mail ballot under Section 410.5, shall decide any question brought before the meeting, unless the question is one upon which by express provisions of these Bylaws, applicable law, or Regulations a different vote is required, in which case such express provision shall govern and control. If a meeting is held in consecutive Sectional Sessions, the results of the votes cast at all sessions of the meeting shall be reported to the Stockholders only after the last Sectional Session.

350.5. Issuance of Preferred Stock.

Notwithstanding any other provision of these Bylaws, issuances of preferred stock shall be subject to the vote of the Voting Stockholders in accordance with Section 615.5230(b)(1) of the Regulations.

350.6. Record Date.

The record date for the determination of those Stockholders entitled to vote ("Record Date") shall be set by the Board as of the close of business of a day not less than then (10) business days, but not more than ninety (90) business days, preceding the date of the meeting.

360. Action Without Meeting.

Any action required to be taken, or which may be taken, at any annual or special meeting of the Stockholders may be taken without a meeting, without notice, and without a vote, if consent in writing, setting forth the action to be taken, shall be signed by 75% of the Voting Stockholders, or by their duly authorized representatives, entitled to vote with respect to the subject matter thereof.

ARTICLE IV – DIRECTORS

400. Board of Directors; Outside Director.

400.1. Initial Board; Board Restructuring Plan.

As of the Effective Date, the Board shall consist of twenty-four (24) directors, of which nineteen (19) shall be elected by the Voting Stockholders ("Stockholder-Elected Directors") and five (5) directors shall be appointed by the Board in accordance with Section 400.3 hereof (the "Initial Board"). The Initial Board is set forth below.

Nominating Region	New Seat	Incumbent	Current term
1	1	Jackie Thompson, Sr	2020-2023
2	2A	Dean Hilton	2019-2023
2	2B	Paul Maguire	2022-2026
2	2C	Michael Inman	2022-2026
2	2D	Ruby Bullard	2022-2026
3	3A	Nash Johnson	2021-2025
3	3B	Jennifer Daniels	2021-2025
4	4A	Bo Stone	2019-2023
4	4B	Adrian Locklear	2020-2024
5	5	Ellis Taylor	2019-2022
6	6A	Stuart Pierce	2021-2024

6	6B	Bundy Lane	2020-2023
7	7A	Paul Drake	2019-2022
7	7B	Robert Turner, Jr.	2019-2022
8	8A	Morris Murphy	2020-2024
8	8B	Rodney Smith	2021-2024
9	9A	Audie Murphy	2022-2025
9	9B	Mark Wellons	2021-2024
10	10	Derek Potter	2022-2025
Outside	O1	Bonnie Hancock	2022-2025
Outside	O2	Blake Brown	2020-2023
Outside	O3	Tony Grant	2019-2023
Outside	O4	F.A. (Andy) Lowrey	2021-2024
Outside	O5	Gary Rouse	2021-2025

The following plan ("Board Restructuring Plan") shall be implemented to reduce the number of Stockholder-Elected Directors from nineteen (19) to ten (10) over seven years following the Effective Date:

(i) At the 2023 Annual Meeting, Seats 2A and 4A will close, and a new at-large seat shall be opened for one full four-year term ("At-Large 1 Seat").

(ii) At the 2024 Annual Meeting, seats 8A and 8B shall be collapsed into a single seat, and seat 6A shall close.

(iii) At the 2025 Annual Meeting, seats 3A and 3B shall be collapsed into a single seat, seat 9A shall close, and a new at-large seat shall be opened for one full four-year term ("At-Large 2 Seat").

(iv) At the 2026 Annual Meeting, seats 2B, 2C and 2D shall be collapsed into a single seat, and seats 7A and 7B shall be collapsed into a single seat.

(v) At the 2027 Annual Meeting, At-Large Seat 1 shall be closed.

(vi) At the 2029 Annual Meeting, At-Large Seat 2 shall be closed.

In order to stand for election or be appointed to a Stockholder-Elected Director position, the candidate must be a resident of, or have the candidate's farm operations headquartered in, the Nominating Region corresponding to such seat. The Nominating Region for At-Large 1 Seat and At-Large 2 Seat shall be the Association's entire chartered territory. Each Stockholder who neither resides nor has such Stockholder's farm operations headquartered in the Association's chartered territory shall be treated as residing in the Nominating Region where the branch servicing the Stockholder's loan is located, but such Stockholder is not eligible to serve as a Stockholder-Elected Director.

Notwithstanding anything contained herein to the contrary, any modification to the Board Restructuring Plan shall require the affirmative vote of not less than two-thirds of the directors of the Association then in office.

400.2. Continuing Board.

Following the Board Restructuring Plan, the Board shall consist of ten (10) Stockholder-Elected Directors and at least two (2) and no more than five (5) directors who shall be appointed by the Board in accordance with Section 400.3 hereto; provided however, the Stockholder-Elected Directors shall constitute at least 60 percent of the members of the Board. Upon the conclusion of the Board Restructuring Plan, each of the ten (10) Stockholder-Elected Director seats shall be designated to a Nominating Region as defined in Section 340.1(b). In order to stand for election or be appointed to a Stockholder-Elected Director position, the candidate must be a resident of, or have the candidate's farm operations headquartered in, the Nominating Region corresponding to such seat.

For purposes of this section, (i) an individual is deemed to reside where the individual maintains his or her primary residence, (ii) a Stockholder who owns or jointly owns Class C Common Stock is deemed to reside where the individual designated to vote the Class C Common Stock of the Stockholder in accordance with these Bylaws maintains his or her primary residence, and (iii) the farm operations of a Voting Stockholder, Stockholder, Member or candidate are deemed headquartered at the mailing address of record on file with the Association. Each Stockholder who neither resides nor has its farm operations headquartered in the Association's chartered territory shall be treated as residing in the Nominating Region where the branch servicing the Stockholder's loan is located, but such Stockholder is not eligible to serve as a Stockholder-Elected Director.

The Board, based upon the Association's most recent mailing address of record on file with the Association for each Voting Stockholder, may from time to time evaluate the equitability of representation. Any changes to the boundaries of the Nominating Regions and number of positions assigned to each Nominating Region shall be made with the objective of ensuring equitable representation from all sections of the chartered territory and as nearly as possible from all types of agricultural practices within the chartered territory.

In accordance with Section 350.1, each Voting Stockholder as of the Record Date will be entitled to vote in the election for each Stockholder-Elected Director seat.

400.3. Outside Directors.

Notwithstanding Section 400.1 above or any other provision of these Bylaws, at least one member of the Board shall be a person who is not a director (other than of the PCA or FLCA), officer, employee, stockholder or agent of any System institution (the "Outside Director") at the time that such person becomes a director of the Association, and while serving as a director of the Association. So long as the Association has total assets exceeding $500 million on January 1 of each calendar year, the Board shall have no fewer than two Outside Directors.

Each Outside Director shall be elected to the Board by all of the directors (other than the Outside Director seeking reelection). Except as expressly otherwise provided in these Bylaws, the qualifications, manner of nomination, election, bases of removal, and related matters respecting the Outside Director(s) shall be determined from time to time by the Board, subject to applicable Regulations. Subject to Section 420.1, the term of the Outside Directors shall be the same as those for directors elected by the stockholders. An Outside Director shall be automatically terminated if and when he or she becomes a director (other than of the PCA or FLCA), officer, employee, stockholder or agent of a System institution.

400.4. Qualifications of Stockholder-Elected Directors.

(a) Except for the Outside Director(s), no person shall be nominated, elected or appointed, or allowed to continue to serve, as a director, unless he or she is an owner or joint owner of Class C Common Stock as of the Record Date, or is an individual designated in accordance with these Bylaws to vote the Class C Common Stock of a Stockholder; is a bona fide farmer, rancher, or producer or harvester of aquatic products; and resides or has its farm operations headquartered in the Association's chartered territory. For purposes of this section, (i) a director is deemed to reside where such director maintains his or her primary residence, (ii) a Stockholder who is an owner or joint owner of Class C Common Stock is deemed to reside where the individual designated to vote the Class C Common Stock of the Stockholder in accordance with these Bylaws maintains his or her primary residence, and (iii) the farm operations of a director are deemed headquartered at the mailing address of record on file with the Association. No person shall be nominated, elected or appointed or continue to serve if such person's service is prohibited by the Regulations.

(b) Notwithstanding anything contained herein to the contrary, no more than one Stockholder jointly sharing ownership of the Class C Common Stock may simultaneously serve as a director of the Association, and that individual is not required to be designated to cast votes on behalf of all the Stockholders sharing ownership of the Class C Common Stock.

(c) If the Class C Common Stock held by a director is converted during the director's term into other stock, such conversion shall not disqualify the director from completing his or her term.

(d) An individual designated to vote the Class C Common Stock of an entity may be a director of the Association so long as that individual meets all the other requirements for serving as a director. A legally authorized representative of a deceased or incompetent Stockholder shall be ineligible to be elected as a Stockholder-Elected Director unless such representative is a Stockholder who is an owner or joint owner of Class C Common Stock in his or her own right or is designated to vote the Class C Common Stock of a Stockholder.

(e) Unless the context dictates otherwise, all references herein to a "director" shall refer to a director of the Association.

(f) Notwithstanding anything contained herein to the contrary, no person shall be nominated, elected or appointed, or allowed to continue to serve as a director or a member of the nominating committee of the Association, if that person is the spouse, parent, sibling, natural or adopted child, mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law or daughter-in-law, or otherwise qualifies as a family member under FCA's standard of conduct regulations, of a: (i) director of the Association, (ii) nominee for election to the Board, (iii) member of the nominating committee of the Association, (iv) nominee for election to the nominating committee of the Association, or (v) salaried officer of the Association.

400.5. Additional Qualifications of Directors.

An individual who is a salaried officer or an employee of the Association or of any other organization within the System is not eligible to be elected or appointed and may not serve as a director of the Association. A former salaried officer or employee of an Association or any other organization within the System is not eligible to be elected or appointed as a director within one year after ceasing to be employed by the Association or any other organization within the System. Notwithstanding anything contained herein to the contrary, a director of the Association may serve simultaneously on the board of directors of the Bank.

An individual is not eligible to serve as a director if such individual is a party to a loan which is or becomes classified adversely and the individual has not, within sixty days of receiving written notice of such classification, developed a written plan satisfactory to the Board, to upgrade the loan to an acceptable classification within a reasonable period of time.

Loan classifications to be used in administering the preceding paragraph shall be those determined by the Association, external examiners approved by the Association, or the FCA.

The adverse classification of any sitting director's loan shall be reviewed by the Board prior to the disqualification of such director because of such adverse classification.

The Board shall adopt a policy identifying additional desirable director qualifications including the type and level of knowledge and experience desired for Board members and explaining how the desired qualifications were identified. The policy on desirable director qualifications shall be reviewed and updated periodically as needed and shall be provided to the nominating committee as guidance in their selection of potential director candidates.

400.6. Service as Director for an Outside Financial Institution.

No individual is eligible to be nominated, elected, or shall continue to serve as a director of this Association if the individual serves as any of the following for any non-Farm Credit System financial institution which is authorized to make the same types of loans that are or may be made by this Association: (i) officer, (ii) employee, (iii) director, or (iv) member of any committee whose function, in whole or in part, is to consider the marketing, policies, lending, operations, or other competitive activities of the financial institution.

400.7. Prohibition to Continue as Director.

The office of any director shall automatically become vacant in the event that such director:

(a) files a petition for relief in voluntary bankruptcy, or otherwise institutes suit under applicable voluntary federal or state bankruptcy, insolvency, or receivership laws; or

(b) is adjudged a debtor in an involuntary federal bankruptcy or placed in receivership in a state proceeding; or

(c) seeks reorganization under the Bankruptcy Code of personal business interests or of a corporation in which the director owns the controlling interest; or

(d) is party to a foreclosure proceeding (judicial or nonjudicial) involving property in which the director has an interest, which proceeding has been instituted because of the director's default on indebtedness to a System institution; or

(e) is convicted of any felony or any criminal offense involving dishonesty or a breach of trust while holding office; or

(f) becomes legally incompetent; or

(g) is held liable for damages for fraud.

400.8. Absence from Board Meetings.

The absence of a director from three consecutive regular meetings of the Board, unless explained to the satisfaction of the other directors, shall automatically terminate the director's service and the resulting vacancy shall be filled as provided in Section 430.1.

410. Election of Directors.

410.1. Election to Fill Expired Terms and Vacancies on the Board.

In the manner provided by these Bylaws, each year, the Voting Stockholders determined as of the Record Date shall elect one or more Stockholder-Elected Directors as may be required to fill the position of each Stockholder-Elected Director whose term is expiring or to fill a vacancy on the Board.

410.2. Nominations Made from Floor and Casting Ballots.

(a) At each meeting at which Stockholder-Elected Directors are to be voted upon (including voting to be conducted after such meeting by mail ballot under Section 410.5), the nominating committee with respect to each Stockholder-Elected Director seat in which there is a term expiration or vacancy shall submit a slate of candidates for election to the Board who comply with the eligibility and qualification requirements of the

Nominating Region corresponding to such seat as set forth in Section 400.1 or Section 400.2, after which the chairman of the meeting will entertain nominations from the floor for candidates for election to the Board. Nominations from the floor must meet the same eligibility and qualification requirements as candidates nominated by the nominating committee. In accordance with Section 300.3, in the event of Sectional Sessions where voting occurs, nominations from the floor will only be accepted at the first Sectional Session.

(b) The nominators must be Voting Stockholders or individuals designated in accordance with these Bylaws to vote the Class C Common Stock held by a Stockholder. The nominees must be Stockholders that are owners or joint owners the Class C Common Stock of the Association or individuals designated in accordance with these Bylaws to vote the Class C Common Stock held by a Stockholder. Each nominee shall be responsible for providing in paper or electronic form such nominee's biographical and disclosure information as required by law, Regulations, these Bylaws, and the policies of the Association at such session; provided, however, if voting shall not occur at such session, such nominee's biographical and disclosure information must be received by the Association no later than three (3) business days after the nomination. Disclosure information forms will be available at the Association's corporate office for any potential floor nominee consideration and at the Annual Meeting.

(c) Upon receiving a floor nomination, the Annual Meeting process will be stopped until eligibility is determined. The nominee's biographical, and disclosure information (if available), will be immediately reviewed by the Association's chief executive officer or designee and due diligence performed to determine initial eligibility. After initial eligibility is determined, the meeting will proceed.

(d) After receiving a floor nomination, the floor nominee must state if he or she accepts the nomination for election to the Board. Nominations from the floor do not require a "second" before being placed on a ballot, although the chairman conducting the meeting, in his sole discretion, may permit Voting Stockholders to second a nomination to show support.

(e) After the chairman conducting the election closes the floor nominations, unless voting shall be by mail ballot under Section 410.5, the Voting Stockholders determined as of the Record Date shall then cast ballots and the chairman of the meeting shall appoint a tellers committee of Voting Stockholders or individuals designated in accordance with these Bylaws to vote the Class C Common Stock held by a Voting Stockholder, to tally the ballots. Salaried officers and employees and Voting Stockholders who are directors, candidates, or members of the nominating committee and alternates are ineligible to serve on the tellers committee. In lieu of a tellers committee, a third independent party may be retained to tally the votes.

(f) Following the Annual Meeting, the Association shall as necessary conduct additional due diligence to determine if each nominee meets all the eligibility requirements imposed by the Regulations, Bylaws and the Association's policies. Each nominee meeting all eligibility requirements will be placed on the ballot. If the nominee is ineligible to be elected to the position nominated, the nominee shall be removed from the ballot. If a newly elected Stockholder-Elected Director is determined to be ineligible, the Stockholder-Elected Director shall be immediately removed from office and the position filled per Section 430 of these Bylaws.

(g) The requirements for a floor nomination of candidates for election to the Board shall be included in the Association's information statement as well as in the notice provision for any director elections.

410.3. Election by Position.

All candidates shall be listed on the ballot by the position to be filled. Incumbents will not be designated as such on the ballot. Subject to Section 340.2, for each vacancy, two or more different candidates will stand for election. If more than one position is to be filled, the election with respect to each position shall be conducted independently. The candidate receiving the largest number of votes for each position shall be declared elected.

410.4. Tallying the Ballots.

The tellers committee, or such independent third party if retained to tally the votes, shall convene to tally the ballots and shall certify the results to the chairman of the meeting, who shall inform the Stockholders of the results. If the meeting is held in Sectional Sessions, the results of the votes cast at all sessions of the meeting shall be certified to the Stockholders only after the last Sectional Session.

410.5. Mail Balloting.

The Board may elect to hold all voting for Stockholder-Elected Directors and nominating committee members by mail ballot. The procedure for such mail ballot shall be as follows:

Within fifteen (15) business days following the date of the Annual Meeting, or of the last Sectional Session if the Annual Meeting is held in Sectional Sessions, a ballot shall be mailed to each Voting Stockholder determined as of the Record Date. The election polls shall be closed at the end of the fifteenth (15th) business day following the date on which the ballots are mailed to the Voting Stockholders. On the first business day after the polls are closed, the tellers committee shall convene in the Association's headquarters to tally the ballots returned prior to the closing of the polls. The tellers committee (or independent third party if appointed by the Board) shall certify the results of the election to the chief executive officer of the Association, who shall send a notice to the Stockholders within ten (10) business days announcing the results of the election.

Mailing a ballot to a Voting Shareholder's address as recorded in the books or records of the Association shall be conclusive evidence of receipt of the ballot by the Voting Shareholder. The receipt, collection, and tallying of ballots may be under the supervision and guidance of either the Association's legal counsel or outside auditing firm. If the Board so directs, the legal counsel or outside auditing firm shall certify as to the results of the election prior to any public announcement of the results of the election.

410.6. Tie Votes.

If no person is elected to a position because of a tie vote, the tie vote may be broken by a "flip of a coin" or any other impartial method approved by the Board.

420. Term.

420.1. Length of Term.

Except as otherwise provided in Sections 400.1 and 430, or as otherwise set forth in this Section 420.1, the term of each director shall be four years. No individual may serve more than sixteen (16) consecutive years of service as a director of the Association; provided however, in determining the number of consecutive years of service for each director named to the Initial Board, such director's consecutive years of service as a member of the Board of Directors of either Cape Fear Farm Credit, ACA or this Association immediately prior to the Effective Date shall be included in calculating the sixteen (16) consecutive years of service. Notwithstanding the foregoing, any director named to the Initial Board is eligible to serve two (2) additional four-year terms after the conclusion of the term such director is serving as of the Effective Date.

(a) For each Stockholder-Elected Director elected by the Voting Stockholders:

(1) The Stockholder-Elected Director's term, whether a full term or a partial term resulting from a vacancy, shall begin on the later of (i) the day such Stockholder-Elected Director's election is certified in accordance with Section 410.4 or 410.5, or (ii) 12:01 AM on January 1 of the year immediately following the year in which such Stockholder-Elected Director's election occurs; and

(2) The Stockholder-Elected Director's term shall extend up to, but not including, the later of (i) the day such Stockholder-Elected Director's successor's election is certified in accordance with Section 410.4 or 410.5, or (ii) 11:59 PM on December 31 of the year in which such Stockholder-Elected Director's successor's election occurs (the successor may be the Stockholder-Elected Director whose term is ending, if re-elected).

(b) For each Stockholder-Elected Director appointed by the Board to fill a vacancy in a Stockholder-Elected Director position in accordance with

Section 430, the Stockholder-Elected Director's term shall begin when appointed.

(c) For each Outside Director:

(1) The Outside Director's term, whether a full term or a partial term resulting from a vacancy, shall begin when elected or appointed by the Board; and

(2) The Outside Director's term shall extend until the last day of the Outside Director's term, unless there is not a qualified successor to fill the position, and then the term shall continue until the day the successor's term begins.

After the expiration of such terms and any extension thereof, a person must be absent from membership on the Board for at least one (1) year before becoming eligible for election or appointment to the Board. In the case of a director elected or appointed to fill a vacancy on the Board, the term of such director shall expire in accordance with Section 430. Notwithstanding the foregoing, despite the expiration of a director's term as set forth above, each director continues to serve until his or her successor is elected and qualified, or until there is a decrease in the number of directors in accordance with the Act and these Bylaws.

Notwithstanding anything contained herein to the contrary, a director's service on the Board shall immediately terminate in the event the director shall: (a) resign; (b) be removed from office; (c) become unable to act by reason of death or disqualification; or (d) occupy a position that is shortened or terminated by due action of the Voting Stockholders. The terms and basis for removal of the Outside Directors shall be the same as those for directors elected by the stockholders.

420.2. Staggering Terms.

If as a result of a change in the number of directors, or for other reasons, the terms of directors do not expire on a staggered basis, the terms of the directors elected thereafter shall be for such periods, not to extend beyond four years thereafter, as will re-establish expiration of terms of directors on an equitably staggered basis.

420.3 Age Qualification.

Notwithstanding anything contained herein to the contrary, no individual who is seventy (70) years of age or older on December 31 of the year preceding the date of election or appointment shall be eligible to be nominated, elected or appointed as a director, regardless of whether such election or appointment is by the Board or by the stockholders and regardless of whether such individual is serving as a director at the time of such proposed nomination, election or appointment. Subject to Section 420.1, a director serving at the time of his or her seventieth birthday may complete such director's then current term.

430. Vacancies.

430.1. Filling a Vacancy on the Board.

Subject to Section 5.34 of the Act and Section 420.1 hereof, whenever a vacancy occurs in a Stockholder-Elected Director seat, other than from the expiration of a term of office, the remaining directors shall appoint a Stockholder who owns or jointly owns Class C Common Stock, or an individual designated to vote the Class C Common Stock of a Stockholder in accordance with these Bylaws, who complies with the eligibility and qualification requirements of the Nominating Region corresponding to such seat as set forth in Section 400.1, to fill the vacancy until the next Annual Meeting at which time an election will be held to fill the vacancy; provided however, that if the vacancy occurs within six months preceding the next Annual Meeting, the Board may elect not to appoint a replacement and instead keep the position vacant until such Annual Meeting. Any Stockholder-Elected Director appointed by the Board shall not be treated as a Stockholder-Elected Director for purposes of the Regulation requiring that at least 60% of the sitting directors on the Board must be directors elected by the Voting Stockholders. If the vacant directorship is that of an Outside Director, then either (a) the remaining members of the Board, including Outside Directors, will appoint a replacement Outside Director to serve the remaining unexpired term, or (b) the Board will determine to retain the vacancy in the Outside Director seat so long as there is at least such number of remaining Outside Directors currently serving as set forth in Section 400.3, unless otherwise provided by law, regulation, or these Bylaws.

430.2. Vacancies of All or a Majority of the Board.

Subject to Section 5.34 of the Act, if all or a majority of the director positions become vacant for any reason, the nominating committee shall promptly meet, and, by a vote of a majority of the committee's members who are present at such meeting (provided a quorum of the committee is present), shall appoint eligible and qualified persons to fill sufficient vacancies on the Board to constitute a quorum. The Board shall thereafter promptly elect eligible and qualified Stockholders who own or jointly own Class C Common Stock to fill the remaining vacancies. Such Directors appointed pursuant to this Section 430.2 shall be elected to serve until the next Annual Meeting or a special meeting of Stockholders called to elect director(s).

440. Duties of Directors.

440.1. The Board shall be responsible for the general control and direction of the affairs of the Association. The Board shall determine Association policy matters, periodically review the operations of the Association, and keep itself informed of the Association's fulfillment of its objectives, goals, and responsibilities in accordance with the Act and Regulations, and with Bank policies, procedures, and objectives. The Board shall recognize that the Association, FLCA and PCA are responsible for, and dependent on, each other's financial condition. Accordingly, the Board shall govern the Association's affairs and establish policies with the primary objective of improving the three institution's combined financial condition.

440.2. The Board shall appoint and fix the salary of the chief executive officer. Also the Board shall prescribe the duties and responsibilities of the chief executive officer, who shall be responsible for the management of the Association. The Board shall provide for the payment from the Association's general funds of the reasonable and necessary expenses incurred by officers, employees, and committees of the Association in connection with the Association's business.

445. Officers of the Board.

445.1. General.

As soon as practicable following each Annual Meeting, and at such other times during the year as is necessary to fill vacancies, the Board shall elect a chairman and a vice chairman from among the members of the Board.

445.2. Duties of the Chairman of the Board.

The chairman shall: (a) preside over all meetings of the Board (and the chairman or the Board's designee shall preside over all meetings of the Stockholders); and (b) perform such other duties as may be prescribed by the Board.

445.3. Duties of the Vice Chairman of the Board.

In the absence of the chairman, the vice chairman shall perform the duties of the chairman. In the absence of both the chairman and the vice chairman, one of the other directors shall be elected by those present to preside over the meeting.

445.4. Removal.

The chairman and vice chairman may be removed from their positions as officers of the Board at any time by a majority vote of the entire membership of the Board.

450. Board Meetings.

450.1. Regular Meetings.

Regular meetings of the Board shall be scheduled and held at least quarterly at such times and at such places as approved by the Board.

450.2. Special Meetings.

Special meetings of the Board shall be held whenever called by (a) the chairman, (b) the chief executive officer, or (c) a majority of the directors.

Business may be conducted at regular or special meetings of the Board by telephone conference call provided a reasonable attempt is made to reach all directors, a quorum is present, and technical arrangements permit all persons participating to hear each other at the same time. Such participation shall constitute presence in person at the meeting.

450.3. Notice of Meeting.

Notice of each meeting of the Board, except regularly scheduled meetings specified by resolution of the Board, shall be given to each director by the chief executive officer, secretary, or by another employee of the Association as may be designated by the Board. Such notice may be given by mail, written or electronic means, or by telephone. If given by mail, such notice shall be mailed at least five (5) days before the meeting date. If given by electronic or telephonic means, such notice shall be sent at least forty-eight hours prior to the time of the meeting. If given by telephone, the chief executive officer, secretary, or designated employee shall make a reasonable effort to reach all directors, and shall certify that such notice has been given, or such efforts made, at least forty-eight hours prior to the time of the meeting. Notice of any meeting may be waived in writing, either before or after the meeting. On the signing of the waiver of notice of a meeting by a majority of the directors, a meeting of the Board may be held at any time. Participation at a meeting shall constitute waiver of notice of that meeting, except where the director attends the meeting for the sole and express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

450.4. Action without Meeting.

Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of the Board or committee, as the case may be.

460. Honoraria.

The Association may allow directors reasonable honoraria for attendance at Board meetings, committee meetings, or for special assignments. The Association may also reimburse directors for reasonable expenses incurred in connection with such meetings or assignments. However, when a director represents both the Association and another System institution at a single meeting or assignment, the honoraria and expenses may be shared on a pro rata basis between the two institutions. The Bank may share in the payment of honoraria when agreed to by the Association and the Bank in accordance with Bank policies.

470. Quorum: Majority Vote

A majority of the directors then serving in office at a meeting duly assembled shall be necessary to constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board, except as may be otherwise specially provided by law, Regulations or these Bylaws. If a quorum shall not be present at any meeting of the directors, the directors in attendance may adjourn the meeting from time to time without notice other than announcement at the meeting until a quorum shall be present. At any adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. The directors present at a duly convened meeting may continue to transact business until adjournment notwithstanding the withdrawal from the meeting of enough directors so that less than a quorum remains.

480. Removal of Directors.

480.1. Removal by Shareholders.

A director may be removed from the Board by a majority vote of the Voting Stockholders present in person or by proxy at an annual or special meeting of the Stockholders, upon a motion for removal, duly made, seconded and carried, provided the notice of the meeting contains notification that the removal is to be considered.

480.2. Special Removal of Outside Director.

In addition to removal under Section 480.1 above, an Outside Director may be removed from the Board by: (a) a majority vote of the Voting Stockholders present in person or by proxy at an annual or special meeting, upon a motion for removal, duly made, seconded and carried, provided the notice of the meeting contains notification that the removal is to be considered, or (b) by a two-thirds majority vote of the full Board. The Outside Director subject to the removal action is prohibited from voting in his or her own removal action.

480.3 Removal by Board.

The Board shall consider and vote on the possible removal of a director who is found by the Association's designated Standards of Conduct Official (the "SOCO"), a competent investigator properly engaged by the SOCO, or the FCA to have violated any policy, Bylaw or regulation related to the nomination or election of the Board. Upon approval by a two-thirds majority vote of the full Board, such director shall be removed from the Board. The director subject to such removal action is prohibited from voting on his or her own removal. The reason for removal must be fully documented.

490. Resignation.

A director may resign by delivering written notice to the Board specifying the date upon which such resignation is to be effective.

495. Boards of PCA and FLCA.

Upon being elected or appointed as a director of the Association, such director shall automatically become a member of the Boards of Directors of PCA and FLCA and shall remain on such Boards so long as such individual remains a member in good standing of the Association's Board.

ARTICLE V -- OFFICERS AND EMPLOYEES

500. Appointment and Qualifications.

500.1. Association Officers.

The Board shall appoint a chief executive officer of the Association who shall serve at the pleasure of the Board and shall continue in office until a successor is appointed and takes office, unless the chief executive officer shall resign, dies, retires, or is removed by the Board. Other Association officers shall include one or more vice presidents, a secretary, a treasurer, and any other salaried officers as may be provided for by the Board. Individuals may be appointed to these positions by the Board or by the chief executive officer as prescribed in Section 510.1 of these Bylaws. One individual may hold a combination of these offices, except that no person may simultaneously serve as chief executive officer and secretary.

500.2. Previous Directors as Salaried Employees.

No individual shall be eligible to become a salaried officer or employee of the Association if, within the previous twelve months, such individual served as a director of the Association or of the Bank.

510. Duties of Officers.

510.1. Duties of the Chief Executive Officer

The chief executive officer shall: (a) see that all lawful orders and resolutions of the Board, all applicable provisions of the Act and Regulations, and all policies and procedures prescribed by the Bank are carried into effect; (b) perform such duties and exercise such authority as vested in him or her by the Board; (c) be responsible for the ordinary and usual business operations of the Association; and (d) unless this power is reserved to or limited by the Board, employ, supervise and dismiss any and all other officers and employees of the Association, fix their compensation within salary plans approved by the Board's compensation committee, and designate the order of precedence in which the other officers shall act in the absence of any officer. The chief executive officer may have the title of president, manager, general manager, or other title as determined by the Board.

510.2. Duties of the Secretary.

The secretary shall: (a) keep a complete record of all meetings of the Stockholders and the Board, except meetings of the nominating committee; (b) be responsible for the corporate records of the Association; (c) keep the corporate seal, if any, and affix it to all Association documents requiring a seal; (d) make such reports as may be required by the Act or the Regulations; and (e) perform such other duties as may be required by the chief executive officer or by the Board.

510.3. Duties of the Treasurer (Chief Financial Officer).

The treasurer shall: (a) have custody of all funds, securities, and assets of the Association; (b) provide full and complete records of all assets and liabilities of the Association; (c) make such reports as may be required by the Act or the Regulations; (d) maintain complete equity ownership records; and (e) perform such other duties with respect to the finances of the Association as may be prescribed by the chief executive officer or by the Board.

520. Removal.

The chief executive officer may be removed from office with or without cause by a majority vote of the entire Board.

530. Service Contract.

The Board may enter into a contract with the Bank pursuant to which the Bank may perform on behalf of the Association some of the administrative or clerical duties and responsibilities that would otherwise be performed by officers and employees of the Association. The duties to be performed by the Bank under such contract shall not, however, include discretionary duties which, under these Bylaws, are required to be performed by the Board or the chief executive officer.

540. Joint Management.

Unless the Board directs otherwise, all officers appointed hereunder shall have the same positions and authorities with respect to Association, PCA and FLCA.

ARTICLE VI -- COMMITTEES

600. Association Executive Committee.

The Board may elect two directors to act with the chief executive officer (or another employee designated by the Board) as an executive committee. The executive committee shall have such authorities as may be delegated by the Board. The Board may designate any of the directors who are not regular members of the executive committee as alternate members. A majority of the members of the executive committee, whether regular or alternate, shall constitute a quorum, provided that the chief executive officer or a designated employee alternate is present. Meetings of the executive committee may be conducted by telephone conference call provided a reasonable attempt is made to reach all committee members, a quorum is present, and the technical arrangements permit all persons participating to hear each other at the same time. Actions taken under this authority shall be reported to the Board at its next regular meeting.

610. Loan Committee.

The Board may delegate to the chief executive officer, individual employee(s), or committee(s) of employees of the Association the authority to approve applications for membership and loans or participations within specified limits. No loan shall be made unless the application therefor has received the approval of a majority of the members of the loan committee present at the meeting at which action is taken. The loan committee shall have, possess, and exercise such other power and authority as may be delegated to it by the Board. Periodic reports of all actions on loans and applications shall be submitted to the Board at its regular meeting, or earlier, if required.

615. Audit Committee.

The Board shall appoint an audit committee of at least three Board members, to act in accordance with its Board-approved charter. The audit committee will be responsible for the following: (i) oversee management preparation of financial reports to shareholders; (ii) determine the appointment, compensation, and retention of external auditors, and review the external auditors work; and (iii) oversee managements system of internal controls relating to the preparation of financial reports, to include controls relating to the institutions compliance with applicable laws and regulations. The audit committee must have at least one Board member designated as the "Financial Expert" as defined in the Regulations.

616. Compensation Committee.

The Board will establish a compensation committee of at least three Board members, to act in accordance with its Board-approved charter. The compensation committee will have the responsibility of reviewing and approving the compensation policies and plans for senior officers and employees.

617. Governance Committee.

The Board will establish a governance committee of at least four Board members, to act in accordance with its Board-approved charter. The governance committee will be responsible for the following: (i) evaluate and recommend to the Board candidates to be appointed Board members; (ii) review, evaluate and recommend levels of Board compensation, honorarium and travel expense reimbursement; (iii) review and recommend availability and levels of continuing education and training for directors; and (iv) ensure that the board self-evaluation is completed annually.

618. Risk Management Committee.

The Board will establish a risk management committee of at least three Board members, to act in accordance with its Board-approved charter. The risk management committee will assist the Board in fulfilling its responsibilities related to the oversight of the Association's risk management policies and practices.

620. Other Committees.

The Board may, at its discretion, appoint such other committees as may be necessary or desirable, shall appoint or discharge any member of such a committee, and shall prescribe the duties and responsibilities of each such committee it establishes.

630. Quorum.

A majority of any committee shall constitute a quorum.

640. Withdrawal from Meeting.

A member of the Board or an employee or director serving on any committee shall withdraw from the meeting of the Board or committee during its deliberation and determination of any matter related to the director's or employee's personal interests, and the minutes of the meeting shall so state.

645. Minutes.

Each committee shall keep a written record of its proceedings.

ARTICLE VII -- CAPITAL STOCK AND PARTICIPATION CERTIFICATES

700. Authorization, Classes, Par or Face Value.

The Association is authorized to issue and have outstanding Class A Common, Class B Common, Class C Common and Class D Preferred Stock, and Class B Common and Class C Participation Certificates, each in such amount as specifically provided herein, or, if no amount is specifically so provided, in such amount as may be necessary to conduct the Association's business. The Association is also authorized to issue up to 20 million shares of Class A Preferred Stock. The features of these classes are summarized in the Features of Equities Table at the end of these Bylaws. Class B Common Stock and Class B Participation Certificates shall be issued only (a) pursuant to the plan that resulted in the issuance of an ACA charter to the Association (or its predecessor), and (b) to Members who, immediately prior to the FCA's issuance of an ACA charter to the Association (or its predecessor), held equities in the Production Credit Association and/or Federal Land Bank Association having the same respective designations. Other classes of equity (a) shall be issued as provided in the preceding sentence, or (b) may be issued as provided in Section 720. Each share of stock (common and preferred) and unit of participation certificates shall have a par or face value of $5.00. Fractional shares of common stock or units of participation certificates shall not be issued. Fractional shares may only be issued in the case of Class A Preferred Stock. Except as to Class B Common and Class B Participation Certificates, all transfers, exchanges, conversions, and retirements of stock and participation certificates shall be at book value not to exceed par. Equities shall vote in accordance with Section 350 hereof. Thus, among other things, (a) each new issuance of preferred stock is subject to the approval of a majority of the shares voting of each class of equities adversely affected by the preference, voting as a class, whether or not otherwise authorized to vote, in person or by proxy, at a duly authorized meeting of stockholders, and (b) no Voting Stockholder is entitled to cumulate votes.

710. Ownership and Form of Issuance.

Evidence of ownership of capital stock and participation certificates may be by book entry or in definitive form as determined by the Board, except that stock issued to a Farm Credit System institution, may be by book entry or in definitive form as prescribed by the stockholder. Unless otherwise directed by the Board, all classes of equity will be issued in book entry form and ownership shall be confirmed by the Association upon the request of the holder. The Association shall be its own transfer agent in all matters relating to its capital stock and participation certificates.

720. Issue, Rights, Preferences and Limitations.

720.1. Class A Common Nonvoting Stock.

(a) Class A Common Stock may be issued:

(1) For allocated surplus distributions (Section 830), dividend payments (Section 850), and patronage distributions (Section 860); and

(2) In exchange for Class C Common or Class C Participation Certificates converted pursuant to the provisions of Section 740 of these Bylaws and/or Section 4.3A(c)(1)(E)(ii) of the Act; and

(b) Class A Common Stock shall be retired only at the discretion of the Board. Ownership of Class A Common Stock provides no voting rights.

720.2. Class B Common Stock.

Class B Common Stock does not confer voting rights. It shall be retired at its par value. Class B Common may be issued to and owned by only those borrowers who held Class B Common in the Association's predecessor Federal Land Bank Association and/or in its predecessor Production Credit Association immediately prior to the issuance of an ACA charter to the Association.

720.3. Class C Common Voting Stock.

Class C Common Stock shall be issued as follows:

New borrowers who are eligible to become Voting Stockholders (pursuant to the Act and Regulations) must purchase, at the time of the first loan disbursement, the number of shares of Class C Common Stock determined by the Board to be necessary to contribute to the adequate capitalization of the Association. This amount of stock shall not be less than the lower of the following amounts:

(1) two hundred (200) shares ($1,000 par value); or

(2) one (1) share for each $250.00 (or fraction thereof) of the amount of the loan.

The amount required to be purchased shall not be greater than 10 percent of the loan amount from the Association, PCA and FLCA; however, the Board may require new borrowers to purchase more stock if the Association is deemed not to be in compliance with the capital requirements of the Act and Regulations.

Only persons to whom Class C Common may be issued may own such Class C Common. Owners of Class C Common Stock have voting rights as provided in Section 350. Class C Common Stock may be retired only at the discretion of the Board. Dividends on Class C Common Stock shall be non-cumulative.

720.4. Participation Certificates.

720.41. Class B Participation Certificates may only be owned by those borrowers who held Class B Participation Certificates in the Association's predecessor Federal Land Bank Association or in its predecessor Production Credit Association immediately prior to the issuance of an ACA charter to the Association. Class B Participation Certificates do not confer voting rights. They shall be retired at face value.

720.42. Class C Participation Certificates shall be issued to (and may be owned only by) borrowers who are not eligible to become Voting Stockholders (as defined in Section 720.3). New borrowers who are not eligible to become Voting Stockholders must purchase, at the time of the first loan disbursement, the number of Class C Participation Certificate units determined by the Board to be necessary to contribute to the adequate capitalization of the Association; provided, however, that the amount required to be purchased shall not be less than nor more than the amount of stock required to be purchased by those borrowers who are eligible to purchase Class C Common Stock. Class C Participation Certificates do not confer voting rights.

720.43. Class C Participation Certificates may be issued to borrowers or applicants who are:

(a) Rural residents, to capitalize rural housing loans;

(b) Persons or organizations furnishing farm-related services to capitalize their loans; and/or

(c) Other persons or organizations who are eligible to borrow from the Association or participate in Association loans but who are not eligible to hold voting stock (as defined in Section 720.3).

720.44. Class C Participation Certificates may be issued for allocated surplus distributions (Section 830), dividend payments (Section 850), and patronage distributions (Section 860).

720.45. Class C Participation Certificates may be issued to any person who is not a stockholder but who is eligible to borrow from the Association, for the purpose of qualifying such person for technical assistance, financially related services, and/or leasing services offered by the Association.

720.46. Class C Participation Certificates shall be retired at the sole discretion of the Board. Dividends on Class C Participation Certificates shall be non-cumulative.

720.5. Class D Preferred Stock.

Subject to part (a) of the last sentence of Section 700 hereof, up to $25 million of Class D Preferred Stock may be issued to such persons or investors (and may be owned by such persons or investors) as may be permitted under a plan adopted by the Board. Class D Preferred Stock may be retired only at the discretion of the Board. Class D Preferred Stock shall have such terms and dividend rate as may be determined by the Board. Class D Preferred Stock shall confer no voting rights and shall have preference as to dividend(s) (Section 850) over common stock. Dividends on Class D Preferred Stock shall be noncumulative. Class D Preferred Stock is subordinate to Class A Preferred Stock in respect of liquidation rights and such other rights as provided herein. Class D Preferred Stock may be retired only at the discretion of the Board, and then only at book value not to exceed par value.

720.6. Class A Preferred Stock.

The Association may issue up to 20 million shares of Class A Preferred Stock with a par value of $5 per share, or such lower limitation imposed by FCA in connection with FCA's action approving the disclosure statement furnished to prospective purchasers of Class A Preferred Stock, including any amendments thereto ("Class A Stock Disclosure Statement") or otherwise. Class A Preferred Stock may only be issued to, and may only be held by, holders of Class C Common Stock or Class C Participation Certificates. Class A Preferred Stock possesses only those voting rights set forth in Section 790 hereof. Class A Preferred Stock possesses such other rights as specifically provided for herein and in the Class A Stock Disclosure Statement. The Association may issue fractional shares of Class A Preferred Stock.

720.7. Transfer of Equities in Lieu of Purchase.

The requirements, set forth in preceding subsections of this Section 720, for borrowers to purchase Association stock or participation certificates at the time loans are made to such borrowers, apply only when the capital adequacy requirements applicable to the Association (as provided in the Act and Regulations) are not met. At all other times, the requirements of this Section 720 for borrowers to purchase stock or participation certificates at the time loans are made to such borrowers may be met either through purchase from the Association or through transfer of such stock or participation certificates from authorized holders thereof.

720.8. Loans Designated for Sale or Sold Into the Secondary Market.

(a) Notwithstanding any other provision of these bylaws, no voting stock or participation certificate purchase requirement shall apply with respect to a loan that is made on or after February 27th, 1997, and is designated at the time made for sale into a secondary market; provided that, if a loan designated for sale into a secondary market is not sold within 180 days following the date of such designation, the voting stock or participation certificate purchase requirement otherwise applicable to the loan in the absence of this bylaw provision shall apply.

(b) Notwithstanding any other provision of these bylaws, all outstanding voting stock or participation certificates held by a borrower with respect to a loan shall be retired if: (i) the loan is made prior to February 27th, 1997, it is sold into a secondary market, and the permanent capital of Association would not, after or due to such retirement, fail to meet the applicable minimum capital adequacy standards established by the Act or Regulations; or (ii) the loan is made on or after February 27th, 1997, it is designated at the time made for sale into a secondary market, it is sold into such market after the 180 day period beginning on the date of such designation, and the permanent capital of this Association would not, after or due to such retirement, fail to meet the applicable minimum capital adequacy standards established by the Act or Regulations.

730. Transfer.

Classes A Preferred and D Preferred, Classes A Common, B Common and C Common, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or to hold such stock or participation certificates as enumerated in Sections 700 and 720, subject to the following conditions: (a) transfer shall not be effectuated prior to notification of and acknowledgment by the Association, if no indebtedness is due by the transferor to the Association; and (b) transfer shall not be effectuated prior to notification of and written consent of the Association if indebtedness is due by the transferor to the Association. Class A Preferred Stock is transferable only to another holder of Class A Preferred Stock under procedures established by the Board, and then only after the transferor and transferee provide joint written notice to the Association in a form prescribed by the Association's Board.

740. Conversion.

740.1. Shares of Class D Preferred may be converted to a like amount of Class C Common or Class C Participation Certificates by those holders eligible to borrow from the Association at the time of the first loan disbursement.

740.2. Class C Stock or Class C Participation Certificates shall automatically be converted to Class A Common Stock within two years after the holder ceases to be a borrower, as determined by the Board. Since such conversion constitutes a distinct investment decision by the borrower, the Association will, in connection with each such conversion, furnish the borrower with disclosure comparable to that which is furnished to new borrowers.

740.3. Reserved

740.4. Class C Common Stock may be converted to Class C Participation Certificates of equivalent value, subject to the following conditions:

(1) The borrower shall have previously borrowed money from the Association and purchased Class C Common Stock as required by the Bylaws;

(2) The borrower shall apply to the Association for a new loan of one of the types set forth in Section 720.43 or 720.45, requiring him to purchase Class C Participation Shares in accordance with the Bylaws;

(3) At the time of application for the new loan, the borrower is no longer engaged in the occupation which previously made him eligible under the Act and the Bylaws as a Voting Stockholder of the Association;

(4) If the Association makes the new loan to the borrower, the Association shall convert all Class C Common Stock then held in the borrower's name to Class C Participation Certificates; conversion to be at book value of the Class C Common Stock, not to exceed par value;

(5) In connection with the conversion, the Association shall provide the borrower with disclosure required by Section 615.5250 (a)(3) & (4) of the Regulations; and

(6) Simultaneously with the conversion and issuance of Class C Participation Certificates, the borrower shall relinquish his voting rights under Section 350.1 of the Bylaws and the borrower's name shall be removed from the Voting Stockholder list maintained by the Association pursuant to Section 350.3 of the Bylaws.

740.5. Class C Participation Certificates may be converted to Class C Common Stock of equivalent value, subject to the following conditions:

(1) The borrower shall have previously borrowed money from the Association and purchased Class C Participation Certificates as required by the Bylaws;

(2) The borrower shall apply to the Association for a new loan requiring him to purchase Class C Common Stock in accordance with the Bylaws;

(3) If the Association makes the new loan to the borrower, the Association shall convert all Class C Participation Certificates then held in the borrower's name into Class C Common Stock; conversion to be at book value of the Class C Participation Certificates, not to exceed face value;

(4) In connection with the conversion, the Association shall provide the borrower with the disclosure set forth in Section 615.5250 (a)(3) & (4) of the Regulations; and

(5) Simultaneously with the conversion, the borrower shall have voting rights as provided in Section 350.1 of the Bylaws and the borrower's name shall be

added to the Voting Stockholder list maintained by the Association pursuant to Section 350.3 of the Bylaws.

750. Retirements.

750.1. Subject to the Regulations, Class B Common and Class B Participation Certificates shall be retired in ways that come within the meaning of "the ordinary course of business" as defined by the Regulations.

750.2. Subject to the applicable provisions of the Regulations, when the debt of a borrower is in default, the Association may, but is not required to, order the retirement in any order, of any stock, participation certificates, allocations of surplus or other equities held by the borrower and application of the proceeds thereof against the borrower's indebtedness to the Association, PCA and FLCA. Any such retirement and application of proceeds shall be after notice to the borrower consistent with the Regulations.

750.3. If at any time the Board of Directors shall determine that the financial condition of the Association will not be impaired thereby, any stock, participation certificates, or other equities held by or in the name of the borrower may be retired in full or in part (with the exception of Class B equities, stock and participation certificates, which are retired in the "ordinary course of business", as defined by the Regulations). The Board of Directors shall have sole discretion to retire any capital credited to a patron's account. The Board of Directors may take into account special circumstances, such as the death of a patron, in exercising its resolution at a duly called meeting.

750.4. At the sole discretion of the Board, shares of Class A Preferred Stock shall be retired at book value not to exceed par value, subject to the terms and conditions set forth in the Class A Stock Disclosure Statement. Notwithstanding the foregoing, no shares of Class A Preferred Stock may be retired if the retirement would result in failure of the Association to meet minimum capital adequacy standards established under Regulations or would otherwise violate any Regulation.

750.5 At the sole discretion of the Board, shares of Class D Preferred Stock shall be retired at book value not to exceed par value.

760. Impairment.

760.1. Any losses suffered by the Association shall first be applied against unallocated surplus as reflected on the books of the Association. To the extent that such losses exceed unallocated surplus, resulting in an impairment of the Association's allocated surplus or capital stock, such losses shall be allocated in accordance with Section 840.3.

760.2. Impaired stock and participation certificates shall be restored in the sequence provided in Section 840.2 until each share of stock and unit of participation certificates has a book value equal to its par or face value, respectively.

770. Distribution on Liquidation.

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

(a) First, to the holders of Class A Preferred Stock, pro rata, until an amount equal to the aggregate par value of all such shares then issued and outstanding, plus declared but unpaid dividends, has been distributed to such holders;

(b) Second, to the holders of Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders;

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

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

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

(f) Sixth, any remaining assets of the Association after such distributions shall be distributed to past and present Patrons on a patronage basis, to the extent practicable.

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

780. Lien and Security Interest.

Except with respect to stock held by a Farm Credit System institution, the purchaser of all stock and/or participation certificates shall be deemed to have granted to the Association, and the Association shall have, a first lien and security interest on all allocated surplus, stock and participation certificates in the Association owned by such borrower as additional collateral for any indebtedness of the borrower to the Association, PCA and FLCA.

790. Amendment to Capitalization Bylaws and Issuance of Preferred Stock.

Any amendment to Articles VII and VIII of these Bylaws or to the capitalization bylaws of PCA or FLCA, other than those of a strictly technical nature not affecting substantive rights, shall not become effective unless approved by a majority of Voting Stockholders voting at a duly authorized meeting of Stockholders. Any amendment authorizing the issuance of preferred stock shall not become effective unless approved by a majority of the shares voting of each class of equities adversely affected by the preference, voting as a class, whether or not such classes are otherwise authorized to vote.

ARTICLE VIII -- EARNINGS, SURPLUS, DIVIDENDS, PATRONAGE DISTRIBUTIONS

800. Capitalization Plan.

The Board shall adopt, maintain, and amend from time to time, as the Board deems appropriate, a capitalization plan for the Association. The capitalization plan shall be designed to enable the Association to meet the capital adequacy standards established in the Regulations. Subject to these Bylaws, the capitalization plan shall provide for, among other things, the manner in which the Association's stock, participation certificates and allocated equities shall be issued, transferred, and retired. In connection with the Capitalization Plan, no dividends shall be cumulated.

810. Interest Rates.

The Board shall authorize such interest rates or interest rate programs for use by the Association as are determined to be within the lending standards prescribed by the Bank. It shall be the objective of the Association to provide the types of credit needed by eligible borrowers, at a reasonable cost, on a sound business basis, taking into account the marginal cost of money to the Association, necessary reserves and expenses to the Association, and the services provided to borrowers and Members.

820. Surplus Accounts.

As contemplated in the Plan, the Association shall create an unallocated surplus account and an allocated surplus account. The Association shall maintain the unallocated surplus account and, subject to Section 830.1, may maintain the allocated surplus account. The minimum aggregate amount of these two accounts shall be determined by the Board. At the end of any fiscal year, if the surplus accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the requirements of any general financing agreement or other commitments of the Association, the Association shall apply earnings for the year to the unallocated surplus account in such amounts as may be determined necessary by the Board.

830. Allocated Surplus Account.

830.1. As contemplated in the Plan, the Association shall create and, subject to the Regulations and Association policy, shall maintain an allocated surplus account consisting of earnings held therein and allocated to Members on a patronage basis pursuant to Section 860. Allocated surplus may be issued as either "qualified written notices of allocation" or "non-qualified written notices of allocation," or both, as those terms are defined under Internal Revenue Code ("Code") Section 1388:

(a) All allocations in the form of qualified written notices of allocation shall be issued in annual series and shall be identified by the year of issuance. Each such series shall be retired fully or on a pro rata basis, only at the discretion of the Board, in order of issuance by year as funds are available.

(b) All allocations in the form of non-qualified written notices of allocation shall be issued in annual series and identified by the year of issuance. Each annual series may be subdivided between two or more classes. Each such series, or class thereof, shall be retired at the sole discretion of the Board.

Only those persons to which allocated surplus may be issued may own such allocated surplus. In the event of a net loss for any fiscal year, such allocated surplus account shall be subject to impairment in the order specified in Section 840.3, and on the basis of latest allocations first.

830.2. The Association shall have a first lien and security interest on all surplus account allocations owned by any borrowers, and all distributions thereof, as additional collateral for such borrowers' indebtedness to the Association.

830.3. Subject to the applicable provisions of the Regulations, 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 surplus account allocations owned by such borrower to be applied against the indebtedness based on its fair value.

830.4. Any surplus allocated to a borrower after October 5, 1988 shall be retired at the sole discretion of the Board. There is no express or implied right granted to a Member to have such allocated surplus retired upon request.

830.5. Upon approval of the Board, any retirement of allocated surplus may be paid, in cash, Class A Preferred Stock, in other forms of available equities or applied against any of the Member's indebtedness to the Association in accordance with Section 830.3. In no event shall such retirement reduce the Association's regulatory capital below the minimum required by the Regulations. Retirements of less than the full amount of allocations issued in the same series shall be on a pro rata basis. Any part of a surplus allocated distribution in stock to one Member that is less than the par amount of one share may be held by the Association and included with subsequent distributions. If allocated surplus is retired for Class A Preferred Stock, the Patron shall be furnished a copy of the Class A Stock Disclosure Statement that is furnished to purchasers of Class A Preferred Stock.

830.6. All qualified notices of allocation shall satisfy the definition of a "qualified written notice of allocation" as defined in section 1388 of the Internal Revenue Code (the "IRC"). All nonqualified notices of allocation shall satisfy the definition of a "nonqualified written notice of allocation" as also defined in section 1388 of the IRC.

830.7. A record of the holders of allocated surplus shall be kept and maintained by the Association. Allocations of "qualified" amounts will be maintained separately from allocations of "nonqualified" amounts. Such surplus accounts shall be transferable only to the Association or to an eligible Member of the Association in the manner established by the Board, and no transfer thereof shall be binding upon the Association unless so transferred on the books of the Association.

830.8. If at any time the Board of Directors shall determine that the financial condition of the Association will not be impaired thereby, any surplus allocations held by or in the name of the borrower may be retired in full or in part. The Board of Directors shall have sole discretion to retire any capital credited to a patron's account. The Board of Directors may take into account special circumstances, such as the death of a patron, in exercising its resolution at a duly called meeting.

840. Application of Earnings or Losses.

840.1. As soon as practicable after the end of each accounting period, the Association shall (i) determine the net earnings of the Association for such period before the provision for income taxes ("Net Earnings"); (ii) the amount thereof which constitutes net earnings from Patronage Business (as defined below); and (iii) the amount thereof which constitutes net earnings from other business ("other business").

840.2. Any net earnings determined pursuant to Section 840.1 shall be applied in the following order of priority:

(a) First, to the restoration of the amount of the impairment, if any, of Class A Preferred Stock issued and outstanding, if any, until such stock is no longer impaired;

(b) Second, to the restoration of the amount of the impairment, if any, of Class D Preferred Stock issued and outstanding, if any, until such stock is no longer impaired;

(c) Third, to the restoration of the amount of the impairment, if any, of Class A Common and Class B Common Stock and Class B Participation Certificates issued and outstanding, until such stock and equities are no longer impaired;

(d) Fourth, to the restoration of the amount of the impairment, if any, of Class C Common Stock and Class C Participation Certificates issued and outstanding, if any, pro rata until such stock and equities are no longer impaired;

(e) Fifth, to the restoration of the amount of impairment, if any, of allocated surplus in the reverse order of such impairment;

(f) Sixth, to an unallocated surplus contingency reserve, if deemed necessary by the Board;

(g) Seventh, for payment of dividends on stock in accordance with these Bylaws if authorized by the Board.

The amounts so applied under subsections (a) through (g) above shall be treated as coming first from Net Earnings from other business and then from Net Earnings from Patronage Business.

After the applications above, any remaining Net Earnings (to the extent attributable to Patronage Business) may be distributed as patronage refunds under Section 860 hereof, which refunds may be paid in the form of allocated surplus, stock, cash or any combination of the above; any remaining Net Earnings from "other business" may be utilized to pay or provide for income taxes or credited to unallocated surplus.

840.3. If the Association has a net loss ("Net Loss") for an accounting period, then the Association shall apply such Net Loss to reduce unallocated surplus and then, except as may be otherwise provided in the Act, treat such Net Loss as impairing allocated surplus and stock in the following order:

(a) First, allocated surplus evidenced by nonqualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;

(b) Second, allocated surplus evidenced by nonqualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;

(c) Third, Class A Common Stock, Class B Common Stock, Class C Common Stock and Class C Participation Certificates issued and outstanding, pro rata until such stock is fully impaired; and

(d) Fourth, Class D Preferred Stock issued and outstanding, if any.

(e) Fifth, Class A Preferred Stock issued and outstanding, if any.

Impairments shall be considered as being applied pro rata to each share and/or unit outstanding in the class. Impairments of allocated surplus shall be applied pro rata by year of issuance.

850. Dividends.

850.1. Subject to the Act and the Regulations thereunder, and provided that at the time of declaration thereof no class of common stock and participation certificates shall be impaired, non-cumulative dividends may be declared on all classes of common stock and participation certificates as the Board from time to time may, in its sole discretion, determine. Dividends may be distributed in cash, stock which the recipient is eligible to hold, or both. Any dividends paid to the holders of common stock and participation certificates shall be on a per share basis without preference between classes of common stock and participation certificates or between holders of the same class of stock except that any class of common stock that results from the conversion of allocated surplus may be subordinated to other classes of common stock and participation certificates in the payment of dividends. No dividends on common stock and participation certificates shall be paid with respect to any year for which the Association has passed an obligating resolution to distribute patronage under Section 860 hereof. No dividend shall exceed eight percent (8%) per annum of the par or face value of the common stock or participation certificates with respect to which such dividend is being paid.

Notwithstanding the foregoing, the Association shall not pay a dividend on common stock or participation certificates unless all accrued dividends on Class A Preferred

Stock as of the end of the most recent accrual period (as defined in Section 850.2 below) have been fully paid or declared and a sum set aside in payment thereof. Further, dividends may not be paid on common stock or participation certificates if the action would result in failure of the Association to meet minimum capital adequacy standards established under Regulations or would otherwise violate any Regulation.

850.2. Dividends on each share of outstanding Class A Preferred Stock shall accrue on a daily basis at an annual rate (the "Dividend Rate") on the $5 par value of the share (or such lower fractional amount) beginning on the date such share was issued ("Accrued Dividend"). The Dividend Rate shall be set, and adjusted from time to time, by the Board pursuant to the terms of the Class A Stock Disclosure Statement, provided, however, the Dividend Rate shall not exceed eight percent (8%) per annum. Dividends shall accrue whether or not they have been declared and whether or not there are profits, surplus or other funds of the Association legally available for the payment of dividends. Accrued Dividends shall cumulate until declared and paid.

Subject to the Act and the Regulations thereunder, and provided that at the time of declaration thereof no class of common stock shall be impaired, Accrued Dividends on Class A Preferred Stock may be declared in the Board's sole discretion in the order accrued. Declared dividends will be paid to holders of record on the date specified by the declaration. The obligation of the Association to pay dividends on Class A Preferred Stock may be indefinitely deferred as long as no dividend is paid to holders of common stock and participation certificates have been paid. When declared, dividends on Class A Preferred Stock may be paid in cash or additional shares of Class A Preferred Stock as the Board so determines.

Notwithstanding the foregoing, dividends may not be paid on Class A Preferred Stock if the action would result in failure of the Association to meet minimum capital adequacy standards established under Regulations or would otherwise violate any Regulation.

850.3. Dividends on Class D Preferred Stock

The Board may declare non-cumulative dividends on Class D Preferred Stock in its sole discretion at a rate set by the Board, provided that the dividend rate shall not exceed 8% per annum, and provided further that no dividends shall be declared or paid on Class D Preferred Stock unless all accrued dividends on Class A Preferred Stock as of the end of the most recent accrual period (as defined in Section 850.2) have been fully paid or declared and a sum set aside in payment thereof.

Notwithstanding the foregoing, dividends may not be paid on Class D Preferred Stock if the action would result in failure of the Association to meet minimum capital adequacy standards established under Regulations or would otherwise violate any Regulation.

850.4. Any dividend that is declared by the Board on any class of preferred stock and distributed by the Association shall not reduce the net earnings from business done with or for Patrons for the year of distribution as defined in Section 860. Such dividends are in addition to amounts otherwise payable to Patrons which are derived from business done with or for Patrons during the fiscal year.

850.5. Dividends may be paid to holders of record on the effective date of declaration or at such previous date as may be set by the Board by resolution.

850.6. Notwithstanding other provisions of this Section, no dividend may be declared if the action would result in failure of the Association to meet minimum capital adequacy standards established under Regulations or would otherwise violate any Regulation.

860. Patronage Distributions.

860.1. Subject to the provisions of the Act and Regulations, prior to the beginning of any fiscal year or other period, the Association's Board may, by adoption of a resolution (the "Patronage Resolution"), obligate the Association to distribute, as a patronage dividend, its available Patronage-Sourced Net Earnings for such fiscal year or other period. Patrons shall be defined in the Patronage Resolution, and may include Members and such other customers, borrowers and financial institutions with which the Association, PCA and/or FLCA conduct business during the fiscal year. Patronage-Sourced Net Earnings shall mean the consolidated net earnings of the Association, PCA and FLCA for the fiscal year attributable to patronage business done with or for Patrons. All transactions done with or for Patrons shall be deemed patronage business unless otherwise provided in the Patronage Resolution. Any outstanding Patronage Resolution that is not rescinded prior to the beginning of a fiscal year shall become irrevocable and constitute a binding legal obligation of the Association with respect to such fiscal year. All patronage business between the Association and Patrons shall be subject to and shall include as part of its terms, whether the same has been expressly referred to in said transaction or not, the provisions of this Article VIII of the Bylaws of this Association.

860.2. All patronage distributions shall be in the proportion that the amount of interest and other income earned by the Association, PCA and FLCA on patronage business with each Patron bears to the total income earned, or revenue received, by the Association, PCA and FLCA on all such patronage business during the fiscal year, or such other proportionate patronage basis as may be approved by the Board consistent with the requirements of Subchapter T of the Code. The Board may establish, on a fair and equitable basis, separate patronage pools for patronage business transactions of the same type or with similar characteristics. Earnings from transactions that do not constitute patronage business will be segregated into a separate pool and will be not available for distribution as a patronage dividend.

860.3. Patronage-Sourced Net Earnings of a fiscal year available for patronage distribution shall be determined only after making the applications as required in Section 840.2, including the setting aside of a portion of the net earnings in the unallocated surplus account, as deemed prudent for sound capital accumulation, and making provision for payment of the Association's federal income or related taxes for the fiscal year; provided, that, these amounts shall first come from net earnings, if any, attributable to sources other than patronage business with or for Patrons of the Association and any non-patronage sourced net earnings not so applied shall be set aside in the unallocated surplus account. The Board in its resolution may establish a minimum level of available earnings and if the available earnings fall below this level no patronage distribution will be made.

860.4. If the Association will meet its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association (including Class A Preferred Stock), allocations of earnings retained in an allocated surplus 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. All qualified notices of allocated surplus shall satisfy the definition of a "qualified written notice of allocation" as defined in Section 1388 of the IRC. All nonqualified notices of allocated surplus shall satisfy the definition of a "nonqualified written notice of allocation" as set forth in Section 1388 of the IRC. Any part of a patronage distribution in Class A Preferred or Class D Preferred Stock to one borrower that is not a multiple of $5.00 may be distributed in cash or held by the Association for the borrower and included in a subsequent distribution.

860.5. If a Patron is past due or otherwise delinquent in the payment of any principal, interest, fees, charges, penalties or other amounts owing under any one or more promissory notes and other written instruments or agreements, including deeds of trust, security agreements, assignments and other security documents, executed by the Patron, alone or with others, to, with, or for the benefit of, the Association, PCA or FLCA, or if the Patron is otherwise in default under the terms of any one or more of the aforementioned promissory notes and other written instruments or agreements, at the discretion of the Association acting through the President or an Association senior officer designated by the President, all or any part of any patronage distribution to that Patron may be applied against the payment of any and all indebtedness or other obligations owing by the Patron to any one or more of the Association, PCA and FLCA. If the payment of any indebtedness or other obligations in which the Association, PCA or FLCA owns a participation interest is past due or otherwise delinquent, or some other default exist thereunder, the Association may apply any accrued patronage to such indebtedness or other obligations.

860.6. Each holder of voting stock of the Association shall, by such act of membership and receipt of a copy of this Bylaw article, consent that the amount of any distributions with respect to patronage which are made in, or evidenced by, qualified written notices of allocation, as defined in Code Section 1388, including allocations of surplus and patronage refunds paid in stock, and which are received by such person from the Association, will be taken into account as income by such person at the stated dollar amount in the manner provided in Code Section 1385(a) in the taxable year in which such qualified written notices of allocation are received. Such holder also consents by such act alone, to take into account as income in the same manner the amount of any distributions with respect to patronage, provided such person receives written notice that such amount has been applied on such person's indebtedness or other obligations owing to, or held or serviced by, the Association, PCA or FLCA. Each such holder further consents that the amount of any distributions with respect to such person's patronage which are made in, or evidenced by, nonqualified written notices of allocation (as defined in Code Section

1388) will be taken into account (as income) by the holder in the taxable year in which such nonqualified written notices of allocation are redeemed. Consent under this paragraph shall be continuing in effect, but shall cease to be effective with respect to patronage of a distributee occurring after the distributee has ceased to hold voting stock of the Association.

860.7. Without limiting any other provisions in this Section 860, including Section 860.5, but in addition thereto, the Association may obtain the written consent of each Patron that the amount of any distributions with respect to such Patron's patronage, which are made in, or evidenced by, qualified written notices of allocation (as defined in Code Section 1388), including patronage allocation of surplus account, patronage refunds paid in stock or distributions with respect to patronage that has been applied to the Patron’s indebtedness or other obligations owing to, or held or serviced by, the Association, PCA or FLCA, and for which the Patron has received written notice, will be taken into account (as income) by the Patron at their stated dollar amounts in the manner provided for in Code Section 1385(a) in the taxable year in which such qualified written notices of allocation are received by the Patron. Without limiting any other provisions in this Section 860, including Section 860.5, but in addition thereto, the Association may further obtain the written consent of each Patron that the amount of any distributions with respect to such party’s patronage which are made in, or evidenced by, nonqualified written notices of allocation (as defined in Code Section 1388), will be taken into account (as income) by such party in the taxable year such nonqualified written notices of allocation are redeemed. The form of consent shall be prescribed by the Board and shall be continuing in effect until revoked by the Patron, and it may be included as part of the loan application or other appropriate form signed by Patrons. Consent may also be obtained by use of a qualified check in the manner provided for in Code Section 1388.

860.8. PCA and FLCA - Where the Association arranges for the provision of credit and/or related services to its Patrons through PCA and/or FLCA, and such Patrons avail themselves of the arrangements made and maintained by the Association by borrowing or acquiring related services from PCA and/or FLCA, all net earnings or loss attributable to such provision of credit and/or related services shall be treated as net earnings or loss of the Association from business done with its Patrons and all business done with PCA and FLCA shall be treated as business done with the Association.

ARTICLE IX -- EXECUTION OF DOCUMENTS

900. Transactions with the Bank, Releases, and Uniform Commercial Code Transactions.

All documents required to be executed in connection with transactions with the Bank, and releases of security, including releases and satisfactions of judgments, subordination agreements, and all security agreements, financing, continuation and termination statements, and other writings relating to secured transactions within the meaning of the Uniform Commercial Code, may be executed in the name of the Association by the chief executive officer or the chief executive officer's designee who shall be identified by name in a report to the Board and recorded in the minutes thereof.

910. Other Transactions.

Bonds, contracts, conveyances, and all other documents, except checks and vouchers of the Association, shall be signed by the chief executive officer or any other officer of the Association designated by him or her, and, when required, shall be attested to by other officer(s) or employee(s) designated by the Board. When the Association holds a deed of trust containing a provision for foreclosure by the Association under a power of sale, the Board or the chief executive officer, if that officer has been delegated such authority by the Board, may, at either's discretion, designate and authorize an attorney for the Association to exercise such power and convey the property in the name of the Association. No person shall sign and attest the same document.

920. Expenses and Checks.

The chief executive officer or any other employee(s) designated by the chief executive officer shall, subject to subsequent approval of the Board, unless it shall require prior approval under its established policies, approve and pay all expenses of the Association and shall sign all checks and vouchers issued by the Association.

ARTICLE X -- RECORDS AND REPORTS

1000. Records.

Copies of the organization papers of the Association, returns of Association elections, proceedings of all regular and special meetings of the Stockholders and directors, the Bylaws and any amendments thereto, resolutions of the Board and reports of all committees thereof shall be recorded in the minute books of the Association. The minutes of all committees and of the Board shall be signed by the person acting as secretary of the meeting. The foregoing materials, and such others as the Board may specify from time to time, shall be retained by the Association in accordance with the records retention program approved by the Board.

1010. Reports.

The Association shall make available to each Member and Stockholder such reports as are required by the Act and Regulations and such other reports as the Board deems advisable. The financial statements included in each annual report of the Association shall be audited by independent accountants.

ARTICLE XI -- UNCLAIMED PROPERTY

The Association shall make diligent efforts to pay the proceeds of any retirement of stock, participation certificates and accrued dividends to the owners thereof. In the event the Association is unable to determine the address or whereabouts of the owner or the heirs and assigns of the owner, the funds shall be disposed of in accordance with the Act, the Regulations, and applicable state law.

ARTICLE XII -- FISCAL YEAR

The fiscal year of this Association shall be the calendar year.

ARTICLE XIII -- SEAL

The Association may have such seal as the Board may determine.

ARTICLE XIV -- INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES, AND AGENTS

1400. Indemnification

1400.1. The Association shall indemnify, to the fullest extent permitted by law, any director, officer or employee who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director, officer or employee of the Association, or is or was serving, pursuant to authorization in writing by the Board or the Association's chief executive officer, or his or her delegate, as a director, officer, employee, partner, agent, administrator, advisor, fiduciary or member of another corporation, non-profit or cooperative organization, partnership, unincorporated association, joint venture, trust, retirement or other employee benefit plan or other organization or entity, against expenses (including attorneys' fees), judgments, fines, penalties and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding.

1400.2. The Association may indemnify any agent of the Association to the same extent as and under the same provisions applicable to directors, officers and employees, but only by specific action of and to the extent designated by the Board.

1400.3. As used in this Article, "party" means a defendant or respondent in an action, suit or proceeding.

1410. Additional Indemnification Provisions

Notwithstanding any other provision of this Article, a director, officer or employee of the Association who has been wholly successful, on the merits or otherwise, in the defense of any action, suit or proceeding referred to in Section 1400.1 to which he or she was a party shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with such action, suit or proceeding.

1420. Procedure

Any indemnification under this Article (unless ordered by a court) shall be made by the Association only as authorized in the specific case upon a determination that indemnification of the director, officer or employee is proper in the circumstances. Such determination shall be made (1) by the Board by a majority vote of directors who were not parties to such action, suit or proceeding, even though less than a quorum, or (2) if such a majority is not obtainable (or, even if obtainable, a majority of disinterested directors so directs), by independent legal counsel in a written opinion. For the purposes of this Section 1420, independent legal counsel shall be selected by a majority of disinterested directors or, if such a majority is not obtainable, by the Board.

1430. Advances of Expenses

Notwithstanding the provisions of Section 1420, reasonable expenses incurred in defending any action, suit or proceeding referred to in Section 1400 of this Article, shall be paid by the Association in advance of the final disposition of such action, suit or proceeding, if the director, officer or employee shall undertake in writing to repay such amount to the extent that it is ultimately determined, as provided herein, that such person is not entitled to indemnification for such amount. Advances of expenses shall be made promptly and, in any event, within thirty (30) days, upon the written request of the director, officer or employee. Notwithstanding the foregoing, no advance shall be made by the Association if and to the extent a determination is reasonably made pursuant to Section 1420 that the director, officer or employee is not entitled to indemnification for such expenses pursuant to Section 1400.

1440. Right of Claimant to Bring Suit

(i) If a claim for indemnification or advancement under this Article is not paid in full by the Association within thirty (30) days after a written claim therefore has been received by the Association, the claimant may any time thereafter bring suit against the Association to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking has been tendered to the Association) that the claimant has not met the standards of conduct which make it permissible under the applicable law for the Association to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Association.

(ii) Neither the failure of the Association (including its Board or independent legal counsel) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct, nor an actual determination by the Association (including its Board or independent legal counsel) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

1450. Contractual Rights

The right to be indemnified or to the reimbursement or advancement of expenses pursuant to this Article (i) is a contract right based upon good and valuable consideration, pursuant to which the person entitled thereto may bring suit as if the provisions hereof were set forth in a separate written contract between the Association and the director, officer or employee, (ii) is intended to be retroactive and shall be available with respect to events occurring prior to the adoption hereof, and (iii) shall continue to exist after the rescission or restrictive modification hereof with respect to events occurring prior thereto. However, this Article does not constitute a contract of employment or any terms and conditions of employment, and does not alter the employment status of any employee.

1460. Requested Service

Any director, officer or employee of the Association serving, in any capacity, (i) another entity of which a majority of the securities entitled to vote in the election of its directors or comparable executives is held directly or indirectly by the Association and/or other System entities, (ii) any employee benefit plan of the Association or of any entity referred to in clause (i) above, or (iii) any committee, subcommittee, special asset group or other similar body related to the System, shall be deemed to be doing so pursuant to authorization in writing by the Board.

1470. Other Rights

The indemnification and advancement of expenses provided by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expense may be entitled under any insurance or other agreement, vote of directors or otherwise, both as to actions in their official capacity and as to actions in another capacity while holding an office, and shall continue as to a person who has ceased to be a director, officer or employee and shall inure to the benefit of the heirs, executors and administrators of such person. The Association may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Association or who is or was serving in any of the capacities referred to in Section 1400.1 hereof against any liability asserted against him or her or incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Association would have the power to indemnify him or her against such liability under the provisions of this Article.

1480. FCA Penalties

Notwithstanding any other provision of these Bylaws, the Association may not indemnify directors, officers, employees, or agents against expenses, penalties, or other payments incurred as a result of an administrative proceeding or action instituted by the FCA, which results in a final order assessing civil money penalties personally against such individual(s) or requiring affirmative action by such individual(s) to make payment to the Association, PCA or FLCA.

ARTICLE XV -- AMENDMENTS

1500. Except as provided below, these Bylaws may be altered, amended or repealed and new bylaws may be adopted by the affirmative vote of a majority of the entire membership of the Board at any meeting of the Board with respect to which notice of intention to alter, amend, repeal or adopt new bylaws at such meeting has been given, and which notice includes a copy of the proposed amendment(s). Notwithstanding the foregoing, any amendment to Articles VII or VIII of these Bylaws or to the capitalization bylaws of the PCA or FLCA, other than those of a strictly technical nature not affecting substantive rights, shall not become effective unless approved by the Voting Stockholders determined as of the Record Date at a duly authorized meeting of the Stockholders. Any amendment authorizing the issuance of preferred stock shall not become effective unless approved by a majority of the shares of each class of equities affected by the preference, voting as a class, whether or not such classes are otherwise authorized to vote at a duly authorized Stockholders' meeting.

1510. These Bylaws shall become effective on the Effective Date, and the bylaws and amendments thereto of the Association in effect prior to the Effective Date are hereby rescinded.

FEATURES OF EQUITIES
PROVIDED FOR IN BYLAWS OF
AGCAROLINA FARM CREDIT, ACA

Class	When Retired	Retirement Value	Voting Rights	Cumulation of Dividends	Payable
A Common	At discretion of Board 720.1	Par 720.1(b)	No 720.1(b); 700	Non-cumulative 800	At discretion of Board 850.1
B Common	In ordinary course of business 750.1	Par 720.2	No 720.2; 700	Non-cumulative 800	At discretion of Board 850.1
C Common	At discretion of Board 720.3	Book not to exceed par 700	Yes 720.3; 700	Non-cumulative 720.3	At discretion of Board 850.1
D Preferred	At discretion of Board 720.5	Book not to exceed Par 700	No 720.5; 700	Non-cumulative 720.5	At discretion of Board 850.1
B PCs	In ordinary course of business 750.1	Face 720.41	No 720.41; 700	Non-cumulative 800	At discretion of Board 850.1
C PCs	At discretion of Board 720.46	Book not to exceed Face 700	No 720.42; 700	Non-cumulative 720.46	At discretion of Board 850.1
Allocated Surplus	At discretion of Board 830.1	Book not to exceed stated value 830.1	No	Not applicable	Not applicable
A Preferred	At discretion of Board 750.4	Book not to exceed Par 750.4	No 720.6; 700	Cumulative 850.2	At discretion of Board 850.2

Notes

1. **Purpose of Table**: The table is not intended to summarize all of the rights and features of each class of equity authorized by the Bylaws. Rather, the table is intended (a) to summarize certain important features of certain classes, and (b) in so doing, to indicate which classes are intended to constitute permanent capital within the meaning of Section 4.3A(a)(1) of the Farm Credit Act and

12 C.F.R. §615.5240 and which classes are, by contrast, protected equities within the meaning of Section 4.9A(d)(2) of the Farm Credit Act and 12 C.F.R. §615.5260(a)(1).

2. **Voting Rights:** Where the table indicates that a class of equity is non-voting, this indication is subject to 12 C.F.R. §615.5230(b)(1), which confers specified voting rights on otherwise non-voting classes of equity. See Sections 700 and 350 of the Bylaws.

3. **References to Section Numbers:** Each number set out in the table - e.g., 720.1(a) - is a citation to the provision of the Bylaws providing for the feature summarized in the portion of the table that refers to the number. Note that the statement in Section 830.1 that allocated equities will be retired "as funds are available" is interpreted as meaning that such equities will be retired at not more than their book value. No section number relates to allocated surplus voting rights; these are simply not conferred by the Bylaws.

CERTIFICATION

I, the undersigned corporate secretary of AgCarolina Farm Credit, ACA, hereby certify that the foregoing Bylaws were duly adopted to be effective as of the Effective Date.

____
Print Name:____________________________
Corporate Secretary

Date: __________________, 20__

EXHIBIT D

AGCAROLINA FARM CREDIT
PROPOSED CAPITAL ADEQUACY PLAN

INTRODUCTION

Under FCA Regulations, AgCarolina Farm Credit, ACA, and its subsidiaries, the PCA and FLCA (collectively "AgCarolina") must adopt a plan under which sufficient capital and surplus, as defined in the Farm Credit Act of 1971, as amended (Act), will be accumulated to adequately capitalize AgCarolina as prescribed in regulations issued by the Farm Credit Administration (FCA). The Capitalization Plan is designed to provide for the accumulation of capital in amounts which (a) assure that AgCarolina continuously complies with the FCA's capital adequacy regulations and (b) assure safe and sound ongoing operations in the context of AgCarolina's specific operating environment and business objectives. As the ACA, PCA and FLCA conduct operations on an integrated basis, this Capitalization Plan is defined for AgCarolina on a combined/consolidated basis. Any reference to "Board" or "Board of Directors" will mean, individually or collectively, the Board/s or Board/s of Directors of the ACA, PCA and FLCA.

This plan is based upon the Board's consideration of factors including the following: (1) the capability of management, (2) the quality of operating policies, procedures and internal controls, (3) the quality and quantity of earnings, (4) asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan portfolio, (5) the sufficiency of liquid funds, (6) the needs of AgCarolina's customer base, and (7) any other sources of risk warranting additional capital. These factors are discussed further in Appendix A attached hereto.

This Capitalization Plan shall be reviewed and approved by the Board annually as part of the business planning cycle. This plan is qualified in its entirety by reference to Section 350 and Articles VII, VIII and XV of AgCarolina's Bylaws (Bylaws). The Capitalization Plan complies with applicable provisions of the Act and FCA regulations and with the Bylaws.

CAPITAL COMPONENTS

Common Equity Tier 1 (CET1) Capital Components

- Unallocated Retained Earnings (URE)
- Paid-in capital
- Qualifying Common Cooperative Equities ≥ 7 year term or never retired
- Statutory minimum borrower stock regardless of term

\+ **Additional Tier 1 (AT1)**

Noncumulative perpetual preferred stock (NPPS) (*not currently applicable to the Association*)

= **Tier 1 Capital**

Tier 2 Capital Components

- Qualifying Common Cooperative Equity that is outstanding ≥ 5 year and < 7 years: (*not currently*

applicable to the Association)
   - Purchased stock
   - Allocated equities (stock and surplus) (*not currently applicable to the Association*)

Third-party capital (≥ 5 years at issuance) normally sold outside the System (*not currently applicable to the Association*)
   - Cumulative perpetual preferred stock (1st call date ≥ 5 years)
   - Limited life (term) preferred stock
   - Sub debt
- Allowance for losses (up to 1.25% of Risk-Weighted Assets)
- Other capital items approved by FCA (*not currently applicable to the Association*)

Unallocated Retained Earnings Equivalents (UREE)
- Nonqualified allocated equities not subject to revolvement
   - Must be designated as UREE at time of allocation
   - Capitalization bylaw or board resolution must restrict redesignation and prevents revolvement/retirement except:
      - Upon dissolution or liquidation
      - Required by a court of competent jurisdiction
      - Required under 615.5290 (restructuring)

Permanent Capital
- Capital stock issued to investors other than AgCarolina members, if such sales are authorized by the Board; and
- Retained earnings, whether allocated or unallocated.

SOURCES OF CAPITAL

Under Article VII of the Bylaws, AgCarolina Farm Credit, ACA is authorized to issue and have outstanding Class A Common, Class B Common, Class C Common and Class D Preferred Stock, and Class B and Class C Participation Certificates, each in such amount as specifically provided herein, or, if no amount is specifically so provided, in such amount as may be necessary to conduct the Association's business. The Association is also authorized to issue up to 20 million shares of Class A Preferred Stock. Other classes of equity may be issued as provided for in an amendment or amendments to the Bylaws, subject to the Act and FCA regulations. All references to "stock" herein, unless specifically labeled by class, also refer to participation certificates. All stock (common and preferred) and participation certificates have a par or face value of five dollars ($5.00) per share or unit.

<u>NOTE</u>: The ACA at all times will own all of the voting stock, issued in accordance with its respective Bylaws, of the PCA and FLCA. Borrowers/members will own stock in the ACA.

The ACA's Bylaws specifically provide for the building of at-risk capital through the issuance of the following classes of equity:

Class A Common Stock

A non-voting class which shall be retired at its par value in the normal course of business, as defined in FCA regulations.

Class B Common Stock

A non-voting class which shall be retired at its par value in the normal course of business, as provided in FCA regulations.

Class C Common Stock

A voting class which may be issued only to AgCarolina borrowers who are eligible under the Act to become voting stockholders. Class C Common Stock shall be purchased by such borrowers, at the time of the first loan disbursement, as a condition for obtaining a loan, in an amount determined by the Board at its discretion within a range between (1) a minimum of one share for each $250 (or fraction thereof) of the amount of the loan or 200 shares ($1,000.00), whichever is less, and (2) a maximum not to exceed ten percent (10%) of the loan balance, provided, however, that this maximum may be exceeded if AgCarolina is not in compliance with permanent minimum capital standards required by the Act and FCA regulations. Retirement shall be at the sole discretion of the Board provided that AgCarolina is in compliance with the provisions of the Capitalization Objectives section of this Plan. If retired, Class C Common Stock shall be retired at its book value not to exceed its par value.

Class B Participation Certificates

A non-voting class which shall be retired at face value in the ordinary course of business, as provided in FCA regulations.

Class C Participation Certificates

A non-voting class which shall be issued as a condition for obtaining a loan to rural home-loan borrowers, persons or organizations who are eligible to borrower or participate in AgCarolina loans, but who are not eligible to hold Class C Common Stock; and others, as provided in the Bylaws. The number of units required to be purchased shall be equal to the number of shares of Class C Common Stock that would be required to be purchased by a borrower eligible to hold such Stock in connection with a loan of the same amount. Retirement of Class C Participation Certificates shall be at book value, not to exceed face value, and shall be at the sole discretion of the Board provided that the minimum capital adequacy standards established by the Board are met.

Class A Preferred Stock

The Association may issue up to 20 million shares of Class A Preferred Stock with a par value of $5 per share, or such lower limitation imposed by FCA in connection with FCA's action approving the disclosure statement furnished to prospective purchasers of Class A Preferred Stock, including any amendments thereto ("Class A Stock Disclosure Statement") or otherwise. Class A Preferred Stock may only be issued to, and may only be held by, holders of Class C Common Stock or Class C Participation Certificates. Class A Preferred Stock possesses only those voting rights set forth in Section 790 hereof. Class A Preferred Stock possesses such other rights as specifically provided for herein and in the Class A Stock Disclosure Statement. The Association may issue fractional shares of Class A Preferred Stock.

Class D Preferred Stock
A non-voting class which may be issued to investors as permitted under a plan adopted by the Board. As preferred stock, this class shall have preference as to dividends and priority in the event of liquidation of AgCarolina. Retirement of Class D Preferred Stock shall be at the sole discretion of the Board provided that the minimum capital adequacy standards established by the Board are met. If retired, Class D Preferred Stock shall be retired at its book value, not to exceed its par value.

Other Classes of Stock
Other classes of stock shall, subject to the Act and FCA regulations, have such rights, designations, preferences, qualifications, limitations and restrictions as shall be provided in the amendment to the Bylaws establishing such classes.

Loans Designated for Sale or Sold Into the Secondary Market
No voting stock or participation certificate purchase requirement shall apply with respect to a loan that is made on or after February 27th, 1997, and is designated at the time made for sale into a secondary market; proved that, if a loan designated for sale into a secondary market is not sold within 180 days following the date of such designation, the voting stock or participation certificate purchase requirement otherwise applicable to the loan in the absence of this provision shall apply.

Surplus Accounts
AgCarolina shall maintain both unallocated and allocated retained earnings (surplus) accounts.

AgCarolina shall apply earnings to these accounts in amounts necessary to achieve capital adequacy standards established by the Board. Notice of allocations to evidence the amount of earnings distributions to each patron shall be given to all participants. Subject to the Act, in the event of a net loss for any fiscal year, such allocated surplus account shall be subject to full impairment (in order of latest allocations first) before any capital stock or participation certificates are impaired.

When the debt of a borrower is in default, the Board may, in its sole discretion after determining it to be in the best interest of AgCarolina, order any and all purchased stock to be applied to the indebtedness. Any such application to indebtedness shall be prior to similar application of capital stock owned by the borrower.

In the event of a death of a borrower whose loan has been repaid or is in the process of final liquidation, the Board may, in its sole discretion after determining it to be in the best interest of AgCarolina, order any and all surplus account allocations owned by such borrower that are eligible to be retired pursuant to the New Capital Regulations, to be retired at a discounted rate determined by policy.

Risk Weighted Assets (RWA)
The major asset category on AgCarolina's balance sheet is loans. Loans in which AgCarolina is the primary lender and loans in which AgCarolina is a participant are risk weighted at 100 percent with the exception of loans which are weighted at 20 percent or 50 percent per specified FCA regulations. AgCarolina assets risk weighted at 100 percent also include such items as fixed assets, receivables and leases. Other

AgCarolina assets are risk weighted from 0 to 80 percent as provided in the FCA regulations. A risk weighting of 150 percent is assigned to most loans that are past due or are in nonaccrual status pursuant to regulation. The Association follows FCA guidance specified in §628 of the regulations to calculate risk weighted assets. The summation of all risk weighted assets is the "aggregate risk weighted assets" of the Association.

Capital Ratio Calculations

CET1 Ratio	CET1 / RWA
Tier 1 Ratio	T1 / RWA
Total Capital Ratio	TC / RWA
PC Ratio	PC / RWA
Tier 1 Leverage Ratio	T1 / Total Assets
UREE Leverage Ratio	UREE / Total Assets

Capital Ratio Minimums and Targets

The Board hereby establishes the following capital standards which exceed the minimum requirements mandated by FCA regulations. The Board has determined that these standards are desirable and achievable.

Capital Measure	Regulatory Minimums	Conservation & Leverage Buffers	Total Regulatory Minimum	FIRS 1	Board Minimum	Board Target
CET1 ratio*	4.5%	2.5%	7.0%	11.5%	13.0%	16.0%
T1 ratio*	6.0%	2.5%	8.5%	13.0%	13.0%	16.0%
TC ratio*	8.0%	2.5%	10.5%	14.5%	14.5%	16.0%
PC ratio*	7.0%	---	7.0%	---	12.0%	16.0%
T1 Leverage ratio†	4.0%	1.0%	5.0%	8.0%	10.0%	>12.0%
UREE Leverage ratio†	1.5%	---	1.5%	6.0%	2.5%	>10.0%

UREE – Unallocated Retained Earnings & Equivalents
*** Ratios are based on Risk-Weighted Assets.**
† Ratios are based on Total Assets

So long as the common equity tier 1 capital ratio of AgCarolina exceeds the thirteen percent requirement, the Board may, upon review of the financial condition and capital position of AgCarolina, authorize the retirement of Class C Common Stock and Class C Participation Certificates held by stockholders at the time of final loan liquidation.

Should AgCarolina drop below the thirteen percent requirement, the Board may periodically, based upon review of the financial condition and progress of AgCarolina, authorize the retirement of Class C Common

Stock and Class C Participation Certificates held by stockholders no longer having a lending relationship with AgCarolina as of a specified time. In authorizing such retirement, the Board must determine that said retirement will not impair the financial condition of AgCarolina or significantly impede the eventual attainment of its permanent capital requirement.

Capital levels shall be measured monthly.

Under the oversight of the Audit Committee, management will continue to evaluate appropriate long term capital targets and minimums for our Association.

<u>Stock Requirements Applicable to Borrowing Members</u>

AgCarolina is authorized to issue voting stock or participation certificates as a condition of borrowing. The Board hereby approves the issuance of stock to borrowers in the minimum amounts allowed by FCA regulations and the Bylaws. These amounts are as follows:

(a) Loan applicants who are eligible to be voting stockholders must purchase Class C Common Stock in an aggregate amount equal to the lesser of 200 shares ($1,000.00) or one (1) share for each $250.00 (or fraction thereof) of the amount of the loan.

(b) Loan applicants who are not eligible to be voting stockholders must purchase Class C Participation Certificates in an aggregate amount equal to the lesser of 200 units ($1,000.00) or one (1) unit for each $250.00 (or fraction thereof) of the amount of the loan.

<u>Retirement or Redemption of Equities</u>

The success of the Capitalization Plan ultimately depends on the number and aggregate volume of loans made by the Association. In the event that purchases of at-risk equities in connection with such loans are not sufficient to meet capital adequacy requirements, alternative methods of capitalization will be utilized.

If capital standards, as determined by the Board, are exceeded, the Board may retire or redeem certain classes of equities, or portions thereof. Capital stock, participation certificates and all other classes of equity that constitute capital, however, can be redeemed and retired only at the discretion of the Board provided that AgCarolina is in compliance with the minimum capital adequacy standards established by this Plan and they are in compliance with the Capital Regulations.

As long as capital standards are exceeded, the Board through adoption of this Capitalization Plan, delegates to management authority to retire capital stock and participations certificates on loans in the process of final liquidation through normal course of business.

Such classes constituting permanent capital include: Class C Common Stock; Class D Preferred Stock; Class C Participation Certificates; Class A Preferred and allocated surplus. Unallocated surplus also constitutes permanent capital. There is no express or implied right granted to any holder of equities to have his or her equities redeemed or retired at any time or in conjunction with any specified cycle or revolvement period.

Such classes constituting protected capital may be retired in the normal course of business and include Class A Common Stock, Class B Common Stock and Class B Participation Certificates. See "Sources of Permanent Capital" above.

Class C Voting Stock will be retired automatically for members maintaining a zero principal or commitment balance for more than two years. Class C-Stock will be annually evaluated as of May 31 and applicable C stock will be retired no later than June 30th of the same year. Retirements will only be made if capital standards as determined by the Board of Directors are exceeded.

DISTRIBUTION OF EARNINGS

At the end of each fiscal year, AgCarolina shall determine its net earnings for the fiscal year. After AgCarolina has retained earnings in an amount adequate to ensure continued financial strength and continued compliance with its required capital and surplus levels, any remaining earnings may be distributed to patrons. AgCarolina is expected to make a patronage distribution each year. Such distributions will not reduce permanent capital except to the extent of their cash component, which, as indicated herein, will be as determined annually by the Board of Directors. No other distributions that would reduce capital shall be made at any time when AgCarolina's actual capital level are less than its required level set forth herein. Pursuant to the Bylaws, the Board will determine the appropriate manner in which patronage distributions will be made, subject to the intention to pay the Board determined portion in cash. No patronage distributions may occur if any class of stock or allocated surplus is impaired.

To the extent earnings are available dividends may be paid on stock as determined by AgCarolina's Board. The dividend rates per share, and dividend preferences, will be as provided in the Bylaws or as established by the Board pursuant thereto. In addition, dividends may be paid to stockholders in the form of cash or equities or both.

As the Board of Directors annually evaluates the approval of patronage based on this plan and in accordance with applicable regulations, the following table is a general guide for the percentage of net income that can be paid to achieve the desired capital strategy. This is general guidance, more detailed and specific information is reviewed annually in conjunction with the patronage decision making process.

Strategy	% Net Income Paid in Patronage
Capital Growth Strategy	**30-50%**
Capital Sustainment Strategy	**50-65%**
Capital Contraction Strategy	**65%-100%**
* Assumes Approx 4% Average Annual Growth	

PATRONAGE / NON - PATRONAGE POOLS

It is the policy of the Association to remain firmly committed to cooperative principles, generally, and as specifically set forth in the regulations of the Farm Credit Administration at 12 CFR Section 615.5230. At the same time, the Association believes it in the best interest of its members to establish a methodology for the distribution for patronage refunds and allocated surplus which recognizes a fair and equitable basis for the allocation of income and expenses among pools of loans having similar characteristics. This methodology will also enable the Association to meet competitive market place conditions and to manage its capital on an efficient basis for the benefit of all its members. This policy is intended to establish the Association's rationale for (i) the creation and administration of the pools described, (ii) the allocation of costs and expenses to the respective pools and the concomitant levels of patronage therefore, and (iii) the limited circumstances under which loans may be extended on a non-patronage basis.

ALLOCATION METHODOLOGY

Patronage shall be allocated/distributed in proportion to gross interest income net of interest on escrows earned from each Patron and also provided that interest earned from any Patron whose loan was reinstated to accrual status from nonaccrual status or was liquidated and paid in full while in nonaccrual status at any time during said year shall be determined based upon the interest accrued while in nonaccrual status that is recognized as income in that year in accordance with GAAP. Any Patron whose loan was participated after origination for capital or balance sheet risk management purposes shall remain eligible for patronage on the entire loan and the net interest earned with respect to such loan shall be adjusted accordingly.

Any patronage dividend or servicing fee in lieu of patronage earned with respect to a Patronage Transaction participated, in part or whole, to another System institution shall be distributed to the underlying borrower after deducting a fair and equitable expense charge. Any Patron whose loan was participated at or after origination in which the Patron is aware the loan would be sold due to hold limitations or other reasons shall be allocated patronage on the designated group for the portion held and a separate designated group for the portion sold.

NON-PATRONAGE LOANS

Loans may be extended on a non-patronage basis when, in the judgment of the Association's management, the circumstances surrounding a particular loan so warrant. Such circumstances shall include one or more of the following elements:

1. The loans to be designated as non-patronage-based share common characteristics such as commercial grade and quality, size, and commodity types which are consistent with the Association's risk management policies and are supported by a fair and equitable allocation of expenses and overhead associated with the loans so grouped.

2. Purchased participations and/or other loans purchased in the Capital Markets.

For any loan made on a non-patronage basis, the borrower shall be fully informed of the circumstances and shall be required to sign a waiver of any and all patronage and other equity interests in the Association that the borrower otherwise would have had if the loan had been on a patronage basis. The waiver should recite, as consideration, the interest rate and/or other terms of the loan.

The Association currently has a portfolio of non-patronage loans that were created because the risk rating for the loan justified retention of interest and/or fee income at a higher level than loans otherwise sharing similar characteristics in the Association's portfolio or the competitive environment in which the loan is to be made commands lower spreads than those earned on comparable loans made in a less competitive environment.

NOTICES

The Capitalization Plan is designed to treat all loan applicants and holders of AgCarolina equity in an equitable manner. Should a special situation arise that is not clearly covered by the Plan or that could cause inequities, AgCarolina, with the approval of the Board, may require additional investment by holders of common stock and participation certificates as is consistent with the terms and intent of the Capitalization Plan and necessary to cure such inequity. In applying this provision, like treatment will be accorded to similarly situated loan applicants and holders of equity.

Consistent with the foregoing, the Board acknowledges its responsibility for determining the total capital needs of AgCarolina in order to assure the Association's continuing financial viability and to provide for growth necessary to meet the needs of AgCarolina's borrowers. The Board undertakes to determine such needs on an ongoing basis and prior to any retirement of non- protected equities.

VIII. A.
CAPITALIZATION PLAN
APPENDIX A

In determining the appropriateness of the capital adequacy levels established by this Capitalization Plan, the Board of Directors of AgCarolina has carefully considered each of the following areas and has made the following determinations:

- The AgCarolina Board of Directors has the necessary training, expertise and experience to ensure the safety and soundness of the organization at the capital levels established herein. Board Governance is functioning in a sound manner and the Board is well qualified to adopt and approve the Capitalization Plan.

- AgCarolina management has the expertise and experience necessary to ensure the safety and soundness of the organization at the capital levels established herein. Operating under supervision of the Board, management is well qualified to direct ongoing operations.

- Policies and procedures have been established, adopted by the Board where appropriate, and implemented to ensure the safe, sound and efficient operation of the organization. The internal control environment is sound and is sufficient to protect AgCarolina and provide reasonable assurance of compliance with applicable policies and procedures which have been implemented in accordance with the internal control policy adopted by the Board of Directors.

- Financial projections prepared by AgCarolina for the upcoming three year period indicate earnings are adequate to ensure the safety and soundness of the organization. The overall financial condition is projected to steadily improve on a sound basis. The projected stability and safety is predicated primarily on consistent, earned income and does not rely on non-recurring or windfall profits. Of course, there is no assurance that these projections will be attained.

- The overall quality of the loan portfolio is Acceptable with risks and potential losses well identified. An ongoing review program is in place to ensure that the quality is maintained. The allowance for loan losses is deemed adequate to properly protect AgCarolina from potential losses known to exist and from unidentified losses inherent to the portfolio. In conjunction with the capital adequacy levels established herein, the financial soundness and safety of AgCarolina is well assured.

- AgCarolina is sufficiently liquid under generally accepted accounting measures and under the terms of the General Financing Agreement to provide for safe and sound operation and the funding of loan requests. Projections indicate that the liquidity will continue at acceptable levels throughout the upcoming three-year projection period.

- The capital adequacy levels for AgCarolina as established herein will ensure the financial safety and soundness of AgCarolina while allowing the organization to continue to service the needs of its borrowers.

- Lending and pricing policies of AgCarolina are adequate to protect against interest rate and funding risks. Interest Rate Risk (IRR) is considered in capital planning, however with the match funding of loans and the methodology from AgFirst to fund Loanable Funds automatically at the weighted average rate of the Association's portfolio the IRR that needs to be managed at the Association level is minimized dramatically. AgCarolina has sufficient monitoring and control mechanisms in place to ensure compliance with its pricing policies. No other significant risks have been determined to exist which have not been adequately analyzed and protected against.

EXHIBIT E

CONDITIONS OF APPROVAL FOR AGCAROLINA FARM CREDIT, ACA, WITH SUBSIDIARIES – AGCAROLINA FARM CREDIT, FLCA, AND AGCAROLINA FARM CREDIT, PCA

The Farm Credit Administration (FCA) imposed these Conditions of Approval (Conditions) on AgCarolina Farm Credit, ACA (ACA), AgCarolina Farm Credit, FLCA (FLCA), and AgCarolina Farm Credit, PCA (PCA), under 12 U.S.C. § 2261. These Conditions are effective on the date the amended and restated charters for ACA, FLCA, and PCA become effective. These Conditions will remain in effect until FCA amends, waives, or terminates them. If, at any time, FCA believes it appropriate to take any action affecting the ACA, FLCA, or PCA (collectively the Associations), nothing in these Conditions prevents FCA from doing so.

CONDITION I

The Associations will comply, on a combined, consolidated, or merged basis, with those requirements of the Farm Credit Act of 1971, as amended (Act), and regulations issued under the Act that are applicable to Farm Credit System (System) associations, including, but not limited to, board of director requirements, capital requirements, assessment obligations, lending limits, and reporting requirements, except when FCA determines that compliance in such manner is not appropriate. When FCA determines that, to effect the intent of the Act or regulations issued thereunder, it is not appropriate for the Associations to comply with a statutory or regulatory requirement on a combined, consolidated, or merged basis, FCA will notify the Associations and each of the Associations will comply with the statutory or regulatory requirement provided in the notice.

CONDITION II

Any General Financing Agreement and other financing agreement or arrangement between one or more of the Associations and AgFirst Farm Credit Bank (AgFirst) or other System institution will require all the current and future assets of each of the Associations be available to collateralize and secure all loans made by AgFirst, or other System institution.

CONDITION III

The Associations will, by written agreement between and among the Associations, guarantee and, at a minimum, pledge all current and future assets of each of the Associations to collateralize and secure each debt and other legal obligation that any of the Associations owe to any individual or legal entity, including but not limited to, AgFirst, other creditors, and members or borrowers of one or more of the Associations. The effective date of the written agreement will be the date these Conditions become effective.

CONDITION IV

A. FLCA and PCA will irrevocably transfer to ACA the voting rights that FLCA or PCA may have or acquire as a stockholder of AgFirst or other System bank.

B. When the number of an association's voting stockholders determines how votes are cast, ACA will cast for ACA, PCA, and FLCA only one vote assigned a weight proportional to the number of voting stockholders of ACA.

C. When the number of shares owned by an association determines how votes are cast, ACA will cast the votes for each class of equities of ACA, PCA, or FLCA entitled to vote, on a combined basis.

CONDITION V

ACA, FLCA, or PCA will not, without the prior written approval of FCA, issue, sell, transfer, contribute, or otherwise convey ownership of any shares of the voting stock of the subsidiary associations to any individual or legal entity, except to ACA.

CONDITION VI

AgCarolina Farm Credit, ACA and its wholly-owned subsidiaries are granted participation in the FCA loan syndication study for the same duration and subject to the same conditions of approval as previously imposed on Cape Fear Farm Credit, ACA and its wholly-owned subsidiaries.

EXHIBIT F

STOCKHOLDER RECONSIDERATION OF STOCKHOLDER APPROVAL

Within 30 days after the stockholder votes, AgCarolina and Cape Fear shall notify their respective stockholders of the results of the vote. Following the date such notification is mailed, and if the votes are in favor of the Merger, then the voting stockholders of AgCarolina and Cape Fear shall have 35 days in which to file with the Farm Credit Administration a petition to require the voting stockholders of AgCarolina and Cape Fear to meet to reconsider the Merger. The petition must be signed by 15% of the voting stockholders of either AgCarolina or Cape Fear, as the case may be. Following FCA's approval of the petition, a special stockholders' meeting shall be called by AgCarolina and Cape Fear, respectively, to permit its voting stockholders to vote on the reconsideration. If a majority of the AgCarolina or Cape Fear voting stockholders voting then vote against the Merger, the Merger is not approved. In the event the Merger is approved upon the reconsideration vote, the effective date of the Merger is automatically postponed to not less than 60 days after the mailing of the notification of the results of the first vote, or 15 days after the date of the reconsideration vote, whichever is later.

EXHIBIT G

CONDITIONS OF MERGER FOR AGCAROLINA FARM CREDIT, ACA, WITH SUBSIDIARIES – AGCAROLINA FARM CREDIT, FLCA, AND AGCAROLINA FARM CREDIT, PCA

The Farm Credit Administration (FCA) imposed these Conditions of Merger (Conditions) on AgCarolina Farm Credit, ACA (ACA), AgCarolina Farm Credit, FLCA (FLCA), and AgCarolina Farm Credit, PCA (PCA), under 12 U.S.C. § 2261. These Conditions are effective on the date the amended and restated charters for ACA, FLCA, and PCA become effective. These Conditions will remain in effect until FCA amends, waives, or terminates them. If, at any time, FCA believes it appropriate to take any action affecting the ACA, FLCA, or PCA (collectively the Associations), nothing in these Conditions prevents FCA from doing so.

CONDITION I

Deemed prior approval requirements in 12 C.F.R. § 628.20(f)(5)

In determining compliance with the safe harbor provisions under § 628.20(f)(5)(ii), if the capital distribution is to take place less than one year after the effective date of the merger, the continuing association must use the pro-forma combined[1] dollar amount of common equity tier 1 (CET1) capital of the two predecessor associations in the same quarter of the previous calendar year, inclusive of fair-market value (FMV) adjustments required to reflect the merger under GAAP, as applicable, as the dollar amount of CET1 capital in the previous calendar year.[1]

CONDITION II

Reporting on the advantages, strategies, initiatives, and benefits of the merger

Within sixty (60) calendar days of the effective date of the merger, the continuing association's board must approve a plan to measure, monitor, and report on the association's success in achieving the expected advantages, strategies, initiatives, and benefits of merger (e.g., improved operating efficiency; maintaining branch office locations; Young, Beginning, and Small farmers and ranchers and producers or harvesters of aquatic products program; etc.) identified in the merger proposal and accompanying information. Within seven calendar days after approving the plan, the continuing association must provide a copy of the plan to the FCA's Office of Examination.

If the association would like, the plan may be incorporated, as a separate and distinct section, into the operational and strategic business plan required by § 618.8440.

Management must report, in writing, at least quarterly to the continuing association's board on the progress toward achieving the expected advantages, strategies, initiatives, and benefits in implementing the merger. Reporting must continue through at least calendar year-end 2026.

[1] The pro-forma balance sheet required by § 611.1122(e)(16) may be used to determine the combined dollar amount of CET1 capital for the Safe Harbor compliance determination.

CONDITION III

Integrated Audit – Internal Controls over Financial Reporting (ICFR)

Within six (6) months after the effective date of the merger, the continuing association's board must adopt a written plan to require the continuing association's external auditor to issue an attestation report, which must express an opinion on the effectiveness of ICFR and send a copy of the adopted plan to FCA's Office of Examination. The plan must include milestone dates to obtain an annual attestation report beginning with fiscal year 2026 and include the report in the continuing association's 2026 annual report to shareholders and in each annual report thereafter. This condition will expire when, in the opinion of the external auditor, the continuing association maintains, in all material respects, effective ICFR for three (3) consecutive years.

SUMMARY OF CHANGES TO BYLAWS AND CHARTERS

Bylaws of AgCarolina and Cape Fear

The Bylaws that will become effective as of the date of the Merger are attached as Exhibit C to the Agreement and Plan of Merger. Such Bylaws will be approved by the Merged Association's Board at the first Board meeting following the Effective Date. If the Merger is not approved, the existing Bylaws of AgCarolina and Cape Fear will continue as the Bylaws of the respective Associations.

There are very few material differences between the Bylaws that will take effect upon the Merger and the Associations' respective current Bylaws. A summary of the material differences is set forth below:

Cape Fear (before Effective Date)	**AgCarolina (before Effective Date)**	**Merged Association (as of Effective Date)**
	Article III – Voting	
All obligors on a loan are jointly "stockholders" owning voting stock and are therefore eligible to be elected to the Board and nominating committee. The vote of a Voting Stockholder that is a legal entity may be cast by an individual equity owner or officer of the entity. Each Voting Stockholder is entitled to one vote regardless of the number of single or joint loans the stockholder may have. Loan(s) made to one or more members of such Voting Stockholder's household, or to one or more entities in which such Voting Stockholder is an equity owner, and which the Association reasonably believes to be for the sole purpose of creating multiple votes, shall be deemed to be loan(s) made to such Voting Stockholder.	No provision on voting rights of joint owners of voting stock. The vote of a Voting Stockholder that is a legal entity shall be cast by an individual stockholder of the entity. If a Voting Stockholder controls another Voting Stockholder, the two shall be considered one person entitled to one vote. Control means more than a 50% ownership interest of the other stockholder or of the collateral securing the other stockholder's loan.	Same as Cape Fear.
	Article III – Record Date	
The record date for the determination of those Stockholders entitled to vote ("Record Date") shall be set by the Board as of the close of business of a day not less than 10 business days, but not more than 90 business days preceding the date of the meeting.	No express provision on record date.	Same as Cape Fear.

Cape Fear (before Effective Date)	**AgCarolina (before Effective Date)**	**Merged Association (as of Effective Date)**
Article III – Nominating Committee	**Article III – Nominating Committee**	**Article III – Nominating Committee**
Nominating Committee composed of eight stockholder who own or jointly own voting stock. Of the eight members, two shall come from each nominating region (defined below) and two shall be at-large positions. An individual may not serve more than three consecutive one-year terms on the nominating committee.	Nominating Committee consists of ten voting stockholders, of which one shall come from each of the ten nominating regions (defined below), plus four stockholders at large. No term limit on nominating committee members.	Nominating committee is composed of 12 stockholders who own or jointly own voting stock. Of the 12 members of the nominating committee, one shall be designated for each of the 10 nominating regions and two shall be at-large seats. An individual may not serve more than four consecutive one-year terms on the nominating committee.
Article IV – Board Composition	**Article IV – Board Composition**	**Article IV – Board Composition**
Board is composed of nine stockholder-elected directors and three appointed outside directors.	Board is composed of 10 stockholder-elected directors and two appointed outside directors.	Upon the Effective Date, the "Initial Board" will be composed of all stockholder-elected directors and appointed outside directors serving immediately prior to the Merger. Over the next seven years, the Board's size will be reduced from 19 to 10 stockholder-elected directors. The continuing Board will include 10 stockholder-elected directors and at least two, but no more than five, appointed outside directors.
Article IV – Board Terms; Term Limits; Age Limits	**Article IV – Board Terms; Term Limits; Age Limits**	**Article IV – Board Terms; Term Limits; Age Limits**
Four-year terms. Bylaws impose a term limit for directors of 12 consecutive years. No individual who is 70 years of age or older on December 31 of the year preceding the date of election or appointment shall be eligible to be nominated, elected or appointed as a director.	Four-year terms. No term limit. No person shall be eligible for appointment, reappointment, election, or re-election as a Director following the date of their 70th birthday.	Four-year terms. No individual may serve more than four consecutive four-year terms (16 years) provided, however, that any director named to the Initial Board will be eligible to serve two additional four-year terms of the conclusion of the term such director is serving as of the Effective Date. No individual who is 70 years of age or older on December 31 of the year preceding the date of election or appointment shall be eligible to be nominated, elected or appointed as a director.

Cape Fear (before Effective Date)	AgCarolina (before Effective Date)	Merged Association (as of Effective Date)
	Article IV – Nominating Regions	
Bylaws establish three geographic nominating regions. Two director positions are assigned to each region. In order to stand for election to a position, candidate must reside or have his or her farm operations headquartered in the region corresponding to the seat. In addition, three director positions are nominated on an at-large basis.	Board authorized to establish ten geographic nominating regions, one for each stockholder-elected director position, plus four stockholders at large. In order to be elected to a seat, individual must be permanently domiciled in nominating region corresponding to the seat.	After Board Restructuring Plan is fully implemented, Merged Associations' chartered territory will be divided into 10 nominating regions, one for each continuing stockholder-elected director position. In order to stand for election to a particular seat, a candidate must reside in the nominating region" corresponding to such seat. A voting stockholder is considered as residing in the nominating region that includes the headquarters or principal address of his or her farming operation.
	Article IV – Director Qualifications	
General prohibition on director concurrently serving as a director, officer or employee of a non-System financial institution offing the same types of loans. An individual designated to vote the Class C Common Stock of an entity may be a director of the Association and meets all other requirements for serving as a director.	Board may give approval for a director to serve as a director, officer or employee or other specified role with a non-System financial institution. An individual designated to vote the Class C Common Stock of a corporation of partnership may be a director of the Association as long as he or she owns stock or is a member of the partnership and meets all other requirements for serving as a director.	Same as Cape Fear.
	Article IV – Director Removal	
The Board shall consider and vote on the possible removal of a director who is found by the Association's designated Standards of Conduct Official (the "SOCO"), a competent investigator properly engaged by the SOCO, or the FCA to have violated any policy, Bylaw or regulation related to the nomination or election of the Board. Upon approval by a two-thirds majority vote of the full Board, such director shall be removed from the Board. The director subject to such removal action is prohibited from voting on his or her own removal. The reason for removal must be fully documented.	No similar provision	Same as Cape Fear.

Cape Fear (before Effective Date)	AgCarolina (before Effective Date)	Merged Association (as of Effective Date)
Article VI – Board Committees		
In addition to Executive Committee; Governance Committee; Audit Committee; Compensation Committee; and Loan Committee, the Board is required to establish a Risk Management Committee.	Board required to maintain the following standing committees: Executive Committee; Governance Committee; Audit Committee; Compensation Committee; and Credit Committee.	Same as Cape Fear.
Article VII – Class A Preferred Stock		
No provisions authorizing the issuance of Class A Preferred Stock.	Provisions authorizing the issuance of Class A Preferred Stock.	Same as AgCarolina. See Preferred Stock Proposal, at page 23.

The above table does not reflect a number of non-substantive revisions and the removal of obsolete provisions from the Bylaws of AgCarolina and Cape Fear.

Bylaws of Subsidiaries

The existing Bylaws of AgCarolina Farm Credit FLCA and AgCarolina Farm Credit PCA will not change as a result of the Merger, although certain technical, non-substantive amendments will be made to reflect the Merger. These Bylaws are identical in all material respects to the current Bylaws of Cape Fear FLCA and Cape Fear PCA.

Charter

The FCA will issue an amended and restated charter to AgCarolina. This charter will be identical in all material respects to the existing charters of AgCarolina and Cape Fear and will cover the combined territories of AgCarolina and Cape Fear. The charters of AgCarolina FLCA and AgCarolina PCA will likewise be amended to include the former territory of Cape Fear. After the Merger, the Merged Association and its subsidiaries will possess the authority to provide short- and intermediate-term credit and long-term mortgage credit throughout the Chartered Territory. A map of the proposed Chartered Territory of the Merged Association and its subsidiaries follows this page. The map identifies the nominating regions that will be used for director elections.

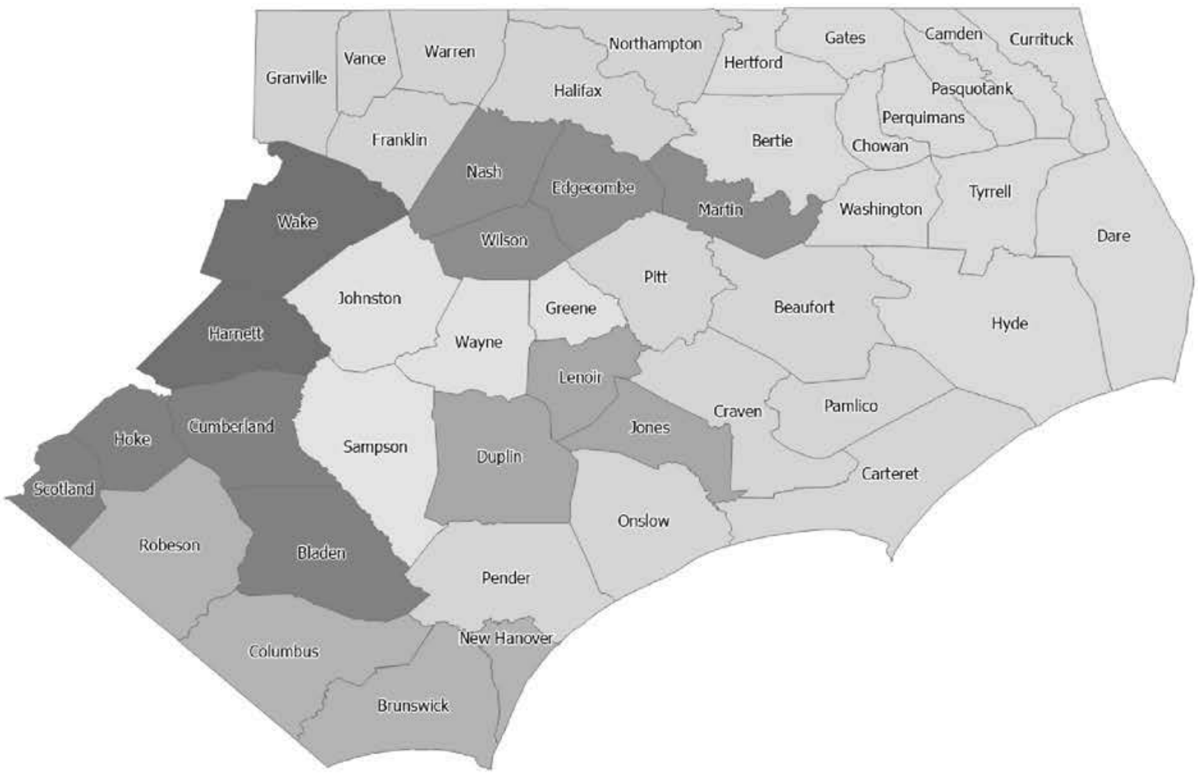
Map of Chartered Territory – Nominating Regions

The following map depicts the Chartered Territory of the Merged Association. For director nomination purposes, director positions will be assigned to specific nominating regions. In order to be eligible to stand for election for a particular seat, the voting stockholder must reside in the nominating region corresponding to the seat. Candidates are nominated on a regional basis to ensure that all territories are equitably represented on the Board. All voting stockholders may vote in each director election. Cumulative voting is not allowed.

Following the Merger, the nominating regions will include 10 numbered regions (1-10). These regions encompass the Merged Association's entire chartered territory. Three Regions are within Cape Fear's chartered territory; four Regions are within AgCarolina's chartered territory; and three Regions include portions of each Association's chartered territory. The Regions are set forth below:

Region Designation	Nominating Region	Legacy Affiliation	# of directors
1	Harnett, Wake	Blended	1
2	Bladen, Cumberland, Hoke and Scotland	Cape Fear	1
3	Sampson	Cape Fear	1
4	Brunswick, Columbus, Robeson, New Hanover	Cape Fear	1
5	Franklin, Granville, Halifax, Northampton, Vance, Warren	AgCarolina	1
6	Bertie, Camden, Currituck, Chowan, Dare, Gates, Hertford, Hyde, Pasquotank, Perquimans, Tyrrell, Washington	AgCarolina	1
7	Edgecombe, Martin, Nash, Wilson	AgCarolina	1

8	Duplin, Jones, Lenoir	Blended	1
9	Greene, Johnston, Wayne	AgCarolina	1
10	Beaufort, Carteret, Craven, Onslow, Pamlico, Pender, Pitt	Blended	1
			10



COMPARISON OF INTEREST RATES AND FEES CHARGED BY AGCAROLINA AND CAPE FEAR

Historical Interest Rate Spreads Charged By the Associations

A comparison of the spread between each Association's average interest rate charged to borrowers and its cost of funds is set forth below.

Weighted year-to-date average interest rate spreads as of:	**03/31/22**	**12/31/21**	**12/31/20**
AgCarolina	2.12%	2.12%	2.20%
Cape Fear	2.24%	2.26%	2.28%

Current Interest Rate Comparison

Set forth in the table below is a comparison of the interest rates charged by each Association to borrowers for selected loan products:

Average Rates Charged from January 1, 2022 through March 31, 2022	**AgCarolina**	**Cape Fear**
Real Estate Mortgage Fixed	5.03%	5.17%
Real Estate Mortgage Variable	N/A	4.07%
Production and Intermediate Term Fixed	4.54%	5.31%
Production and Intermediate Term Variable	4.06%	4.24%
Farm Related Business Fixed	4.65%	6.97%
Farm Related Business Variable	3.87%	4.25%
Rural Residential Real Estate Fixed	5.34%	5.79%
Rural Residential Real Estate Variable	4.99%	4.75%
Farmer/Entity >50% stock Fixed	3.83%	N/A
Direct Extension of Eligible Borrower Fixed	5.19%	N/A
Lease Receivables Fixed	4.30%	N/A
Farm Credit Express	4.17%	4.75%
Capital Markets Fixed	4.58%	3.89%
Capital Markets Variable	2.23%	2.33%

*** Differences between the Associations' respective loan products account for some portion of the variations in the rates charged. Historical interest rate information provided above should not be viewed as an indication of pricing on future loans.**

The above table provides a comparison of rates for representative loan products where the terms offered by the Associations are comparable.

Loan-Related Fee Comparison (as of March 31, 2022)

Set forth below is a comparison of the various loan-related fees charged by the Associations as of March 31, 2022:

Type of Fee	*AgCarolina Percentages or Dollars*	*Cape Fear Percentages or Dollars*
Assumption Fee	Same as normal fee for new loan	Same as Origination Fee
Inspection Fee	$100	N/A
Note Modification Fee	$100 minimum	0.25%; $250 Minimum
Late Charge Fee	COAL – 1.5% of the installment amount to be charged after the 29th day (maximum of $1,000); REAL – 1.5% of the installment amount to be charged after the 15th day (minimum of $10); Participations, Syndications and Large Commercial Loans - Negotiated	4% of Installment Amount
Partial Release Fee	Cost to Record Instrument + $100	Cost to Record Instrument + $0 - $200
Subordination Fee	Cost to Record Instrument + $100	Cost to Record Instrument + $250
NSF/Stop Payment Fee	$30	$25
Consent to Easement	Cost to Record Instrument + $100	Cost to Record Instrument + $250
Release from Liability	$100 minimum; may be increased to $500 if significant credit analysis is needed to support request	N/A
Re-amortization	$100 minimum if spread is maintained or increased: ½ of normal loan origination fee on outstanding principal if spread decreased	Due to Significant Principal Payment - $0 All Other Reasons – 0.25%; $250 Minimum
Interest Rate Conversions/Pricing fees	$100 minimum if spread is maintained or increased: ½ of normal loan origination fee on outstanding principal if spread decreased	Negotiated; $100 minimum
Appraisal Fees-New Loans	Outside Appraiser – Actual cost of Appraisal Internal Appraisal – Based on Complexity of Property. Ranges from $550 - $2,500+ $150 fee for review to approve appraisal prepared for another Lender $100 tax card valuation fee per tract $400 fee per AVM valuation	Outside Appraiser – Actual cost of Appraisal Internal Appraisal – Based on Complexity of Property. Ranges from $350 - $3,000+

Type of Fee	*AgCarolina Percentages or Dollars*	*Cape Fear Percentages or Dollars*
Filing Recording/UCC Fees	Cost to Record Instrument	Cost to Record Instrument
Origination Fee – Agricultural Purpose Loans	$350 minimum Fixed Rate: Term Debt Equipment Loans - $100 $0 to $100,000 – 1% $100,001 to $750,000 – 0.75% $750,001 to $1,500,000 - 0.50% $1,500,001 - $3,999,999 – 0.25% $4,000,000+ - 0.20% Variable: Operating / Inventory $0 to $100,000 – 0.75% $100,001 to $750,000 – 0.50% $750,001 to $1,500,000 - 0.375% $1,500,001 - $3,999,999 – 0.25% $4,000,000+ - 0.20% Platinum LOC / Multiple Year Inventory $0 to $100,000 – 1.75% $100,001 to $750,000 – 1.25% $750,001 to $1,500,000 - 0.75% $1,500,001 - $4,000,000 – 0.50% $4,000,000+ - 0.375%	Loans with terms < 1 year Based on Loan Amount Fees are Cumulative $0 to $75,000 - 1% $75,001 to $500,000 - 0.50% $500,001+ - 0.25% Loans with terms > 1 year Based on Loan Amount Fees are Cumulative $0 to $200,000 - 1% $200,001 to $500,000 - 0.50% $500,001+ - 0.25%
Origination Fee – Rural Home/Land Purpose Loans	1%	1%
Substandard Loan Fee	1.50%	N/A
Flood Determination Fee	$19.50	$18.60
Default Fee	2% default penalty interest on COAL loans except where limited by law	N/A
Home Equity Fee	0.25%	N/A
2nd Mortgage / Cash Out	1.50%	N/A
Loan Fee – RHL Construction	1.25%	N/A

It is anticipated that the Merged Association will continue the fee programs of each Association in their respective territories for a period of time until a transition is made to a uniform fee program applicable across the chartered territory of the Merged Association.

RELATIONSHIP WITH FUNDING BANK – SUMMARY OF GENERAL FINANCING AGREEMENT

General Financing Agreement

AgCarolina and Cape Fear each obtain primarily all of its funding from AgFirst through pursuant to a general financing agreement ("GFA"). The GFAs of the two Associations are substantially identical. Upon the Merger, the Merged Association will continue obtaining its funding under the existing GFA of AgCarolina, although the maximum loan amount will be increased to reflect the larger organization created by the Merger. It is not anticipated that the cost of funds under the GFA for the Merged Association will be materially different from the costs of funds under each Association's current GFA. It is not expected that the Merged Association will be subject to any materially new or different restriction, condition or limitation imposed by AgFirst through the GFA or through its supervisory authority.

PROPOSED POLICIES OF THE MERGED ASSOCIATION CONCERNING INTEREST RATES, FEES, CAPITALIZATION, LENDING LIMITS AND PATRONAGE (SUBJECT TO CHANGE WITHOUT NOTICE)

Each Association currently has the authority to determine and implement policies which may impact borrowers. Following the Merger contemplated by this Merger Disclosure Statement, the Merged Association will have those same authorities. Generally, the policies and operations of the Merged Association will be similar to the existing policies and operations of AgCarolina and Cape Fear. Although changes and adjustments to these programs and policies may occur in the future as part of normal operations, changes anticipated as a direct result of the Merger deal primarily with alignment as opposed to material changes. Examples of policies and operations that may affect a borrower's cost of doing business with the Merged Association include the following:

Interest Rates: The Merged Association will adhere to the following guidelines for our approach to market based interest rates and fees. The Merged Association will price (rates and fees) to market throughout the territory but may vary rates and fees based on regional differences if applicable. We will focus on providing value to our customers recognizing that we must always be competitive in our pricing. Repricing loans (rate conversion) will remain an important tool for retaining volume, managing spreads over time and enhancing client relationships. Pricing decisions should factor in originating and servicing costs based on the risk, size, type and depth of the client relationship to provide an acceptable overall level of profitability.

Loan and servicing fees: The Merged Association will adopt a mix of the current Associations practices. Market forces drive the level of fees that can be charged for loan origination, appraisal, interest rate conversions, loan prepayments, loan servicing and interest rate locks. Fees typically are based on risk, size, and type of loan product or service. A summary fee schedule for the Merged Association is shown below, however, the schedule is subject to change without notice.

	Farm Real Estate Loan	Home Loan	Short/Intermediate Loan
Assumption	0.25% - 1.00%	N/A	0.25% - 1.75%
Consent to Easement	$100	$100	$100
Interest Rate Conversions	$100	$100	$100
Loan Service Fee	0.25% - 1.00%	1.00%	0.25% - 1.75%
Partial Release	$100	$100	$100
Subordination	$100	$100	$100
Release from Liability	$100	$100	$100

Interest Collection: The frequency of interest collection affects the effective interest rate paid by the borrower. Interest collection options are extensive and include monthly, quarterly, semi-annually, and annual options, etc., to meet client needs. Interest may also be paid at maturity or upon loan renewal in certain circumstances.

Capitalization: The capitalization bylaws provide the board of directors with the authority to continue to establish the stock purchase requirement between: 1) a minimum of 2% of the borrowers outstanding loan balance or $1,000, whichever is less or such greater amount as may be required by the board of directors not to exceed 10% of the outstanding loan balance. The Board has approved a stock purchase requirement of $1,000, or 2% percent of the note amount, whichever is less, for all loans. This requirement is imposed at the member level based on the total loan amount outstanding.

Lending Limits: The Board of Directors will maintain responsibility for the establishment of appropriate voluntary lending limits within the constraints imposed by FCA. The Board will utilize hold position limits to reduce direct credit risks to a borrower or group of borrowers to effectively manage lending limits. The purpose of a hold policy is to minimize the risk to the Association by limiting the potential adverse impact from any one individual or entity, or the impact from an attributed group of individuals or entities. The hold policy has various limits in relation to the direct credit risk recognized in the loan. These policies are reviewed by the Board at least annually, and as credit conditions or risk assets change.

Patronage: As required by the Farm Credit Act, the Association operates on a cooperative basis for the mutual benefit of the stockholder-customers (collectively "members"). Pursuant to the annual obligating resolution, the Association is obligated to distribute to members annually, on a patronage basis, all or a portion of its consolidated net earnings from the business it does with or for members less a reasonable reserve. These patronage dividends lower the members' borrowing costs. The Association operates with and through its wholly-owned, federally-chartered subsidiaries, the earnings from which are consolidated with the ACA's earnings. The Board of Directors reserves the right to distribute patronage from separate pools derived from earnings generated by each of its federally-chartered subsidiaries. All patronage distributions are subject to compliance with minimum capital adequacy requirements and limitations imposed by FCA regulations.

Patronage Sourced Net Earnings: The Association shall, after paying or providing for all operating expenses, determine the amount of its consolidated net earnings or losses for such year in accordance with generally accepted accounting principles. For equitability purposes, patronage transactions priced under different loan pricing guidelines established by the Board may be grouped separately, and the Board will make an equitable allocation of expenses among any such groups. Patronage-Sourced Net Earnings excludes extraordinary changes to earnings resulting from changes in accounting standards or practices and other non-recurring events outside of scope of regular operations of the Association.

Patrons Eligible for Patronage: Patrons shall include holders of stock and participation certificates, Farm Credit Institutions, and other financial institutions & other borrowers and lessees with or for whom the Association conducts patronage business during the year and who have positively contributed to the income of the Association. However, a Patron shall not be eligible for patronage if any loan to that Patron (i) has been materially written-off (partially or wholly); or (ii) certain nonaccrual and delinquent loans.

Dividends: The Merged Association does not anticipate making dividend distributions on our common stock. Dividends on outstanding preferred stock (if issued) would be expected to be paid regularly. Dividends are subject to Board authorization at each payment date.

ACCOUNTING POLICY FOR HIGH RISK LOANS

The Associations have identical accounting policies for high risk loans, which is set forth below.

High Risk Assets Policy

It shall be the policy of the Association and its subsidiaries to consistently identify high-risk loans, determine risk exposure, and provide fairly stated reports on the financial condition of the Associations.

High-risk loans will be serviced with the objective of returning the loan to performing status whenever feasible. Loan servicing on high-risk loans shall always be performed in accordance with the Farm Credit Act of 1971, as amended by the FCA Regulations.

High-risk loans and other contracts and receivables appropriately classified as loans will be identified and categorized as nonaccrual or formally restructured or loans 90 days past due and still accruing interest, defined as follows: (and further described in FCA Regulations (12 CFR Part 621)):

<u>Nonaccrual Loans.</u> A loan shall be considered and reported as a nonaccrual loan if it meets any of the following condition:

1. Collection of any amount of outstanding principal and all past and future interest accruals, considered over the full term of the asset, is not expected; or

2. Any portion of the loan has been charged off, except where the prior charge-off was taken as part of a formal restructuring of the loan; or

3. The loan is 90 days past due and is not both adequately secured and in process of collection.

Nonaccrual loans may, at times, be maintained on a cash basis. Generally, cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which the collectability of the recorded investment in the loan is no longer in doubt.

<u>Formally restructured loans.</u> For accounting purposes, a loan is considered formally restructured if it meets the "troubled debt restructuring" definition set forth in ASC 310-40 (formerly Statement of Financial Accounting Standards No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings), as promulgated by the Financial Accounting Standards Board.

<u>Past due 90 days and still accruing interest.</u> A loan which is 90 days contractually past due, still accruing interest, and is both adequately secured and in the process of collection. A loan is considered contractually past due until it is formally restructured or until the delinquent payment, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

NUMBERS AND DOLLAR AMOUNT OF HIGH RISK ASSETS

At December 31, 2020, December 31, 2021 and March 31, 2022, high-risk loans owned by the Associations were as follows:

AgCarolina

($ in thousands)	December 31, 2020		December 31, 2021		March 31, 2022	
	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount
Nonaccrual:						
Current as to principal and interest	64	$18,681	31	$9,610	33	$9,793
Past due	47	7,076	22	1,110	18	547
Impaired Accrual Loans:						
Restructured	5	1,694	17	3,572	19	3,472
90 days or more past due	-	-	-	-	-	-
Total	116	$27,391	70	$14,292	70	$13,812
Other Property Owned	-	-	-	-	-	-

Cape Fear

($ in thousands)	December 31, 2020		December 31, 2021		March 31, 2022	
	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount
Nonaccrual:						
Current as to principal and interest	45	$3,181	40	$2,697	41	$2,847
Past due	45	5,969	34	3,243	33	3,179
Impaired Accrual Loans:						
Restructured	24	5,276	21	4,110	22	3,829
90 days or more past due	-	-	-	-	-	-
Total	114	$14,426	95	$10,050	96	$9,855
Other Property Owned	-	-	3	$236	3	$236

CERTIFICATION OF UNAUDITED FINANCIAL STATEMENTS

Each of the undersigned officers of AgCarolina Farm Credit, ACA hereby certifies as follows:

1. I have reviewed the enclosed unaudited financial statements, including pro forma statements (the "Statements");

2. the Statements have been prepared in accordance with all applicable statutory or regulatory requirements; and

3. the information contained in the Statements is true, accurate, and complete to the best of my knowledge and belief.

DATE: June 24, 2022

David W. Corum, Chief Executive Officer
AgCarolina Farm Credit, ACA

Derek Potter, Chairperson of the Board
AgCarolina Farm Credit, ACA

Matthew J. Currin, Chief Financial Officer
AgCarolina Farm Credit, ACA

CERTIFICATION OF UNAUDITED FINANCIAL STATEMENTS

Each of the undersigned officers of Cape Fear Farm Credit, ACA hereby certifies as follows:

1. I have reviewed the enclosed unaudited financial statements, including pro forma statements (the "Statements");

2. the Statements have been prepared in accordance with all applicable statutory or regulatory requirements; and

3. the information contained in the Statements is true, accurate, and complete to the best of my knowledge and belief.

DATE: June 24, 2022

Evan J. Kleinhans, Chief Executive Officer
Cape Fear Farm Credit, ACA

Nash Johnson, II, Chairman of the Board
Cape Fear Farm Credit, ACA

Charles Hester, Chief Financial Officer
Cape Fear Farm Credit, ACA

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined balance sheets as of March 31, 2022, and December 31, 2021 combine the historical consolidated balance sheets of AgCarolina Farm Credit, ACA ("AgCarolina Farm Credit"), and Cape Fear Farm Credit, ACA ("Cape Fear") and give effect to the Merger as if it had been completed on such dates. The unaudited pro forma condensed combined statements of comprehensive income for the three months ended March 31, 2022 and for the year ended December 31, 2021, combine the historical consolidated statements of comprehensive income of AgCarolina Farm Credit and Cape Fear for their respective three months ended March 31, 2022 and year ended December 31, 2021 and give effect to the Merger as if it had been completed at the beginning of the period presented. The historical consolidated financial statement information has been adjusted to give pro forma effect to events that are (i) directly attributable to the Merger, (ii) factually supportable and (iii) with respect to the statements of income, expected to have a continuing impact on the combined results. The notes to the unaudited pro forma condensed combined financial statements describe the pro forma amounts and adjustments presented below.

As described below, the Merger will be accounted for under the acquisition method of accounting. Under this method of accounting AgCarolina Farm Credit is treated as acquiring the assets and liabilities of Cape Fear at their acquisition-date fair values. The unaudited pro forma condensed combined balance sheet reflects the preliminary estimation of the fair value of the assets and liabilities of Cape Fear as of the dates of such balance sheets. Any difference between a fair value estimate of an asset or liability and its then carrying value is shown as an adjustment. The final acquisition method adjustments will be based on an analysis of Cape Fear's assets and liabilities as of the date of the Merger. As a result, the final acquisition method adjustments may be materially different from the unaudited pro forma adjustments. Following the completion of the Merger, the earnings of the combined company may reflect acquisition accounting adjustments (for example, amortization/accretion of fair value adjustments related to loans and notes).

The unaudited pro forma condensed combined financial statements were prepared in accordance with the regulatory requirements of the Farm Credit Administration and are in conformity with accounting principles generally accepted in the United States of America. They are presented for illustrative purposes only and are not necessarily indicative of the financial condition or results of operations of future periods or the financial condition or results of operations that actually would have been realized had the entities been a single company during the periods presented.

(Dollars in thousands)	Date:	Pro Forma Statement of Condition March 31, 2022			
			Adjustments		As Adjusted
	AgCarolina Farm Credit	Cape Fear Farm Credit	Dr	CR	Proforma
Assets	(1)	(1)			
Cash	4	14			18
Loans	1,233,406	1,073,663		44,986	2,262,083
Allowance for loan loss	(13,496)	(8,717)	8,717		(13,496)
Net Loans	1,219,910	1,064,946	8,717	44,986	2,248,587
Loans held for sale	-	328			328
Other Investments	-	2,563		76	2,487
Accrued interest receivable	11,988	7,420			19,408
Equity investments in other Farm Credit institutions	10,971	9,571			20,542
Premises and equipment - net	15,150	4,404	1,800		21,354
Other property owned	-	236	37		273
Accounts receivable	2,376	3,086			5,462
Other assets	4,611	220			4,831
Total assets	1,265,010	1,092,788	10,554	45,062	2,323,290
Liabilities					
Notes payable to AgFirst Farm Credit	930,369	826,246		16,194	1,772,809
Accrued interest payable	1,726	1,473			3,199
Patronage refund payable	39	292			331
Accounts payable	519	749			1,268
Advanced conditional payments	33	-			33
Other liabilities	23,011	31,216			54,227
Total liabilities	955,697	859,976	-	16,194	1,831,867
Members Equity					
Capital stock and participation certificates	46,297	2,590			48,887
Retained earnings					-
Allocated	186,657	120,233	120,233		186,657
Unallocated	76,359	110,251	110,251		76,359
Additional paid in capital		-	61,518	241,038	179,520
Accumulated other comprehensive income (loss)		(262)		262	-
Total members equity	309,313	232,812	292,002	241,300	491,423
Total liabilities and members equity	1,265,010	1,092,788	292,002	257,494	2,323,290

(1) The dollar amount of assets, liabilities, and equity reported in the columns for AgCarolina Farm Credit and Cape Fear Farm Credit are presented at amounts reported in the historical balance sheet

(Dollars in thousands)	Date:	Pro Forma Statement of Comprehensive Income March 31, 2022			
			Adjustments		**As Adjusted**
	AgCarolina Farm Credit	**Cape Fear Farm Credit**	**Dr**	**CR**	**Proforma**
Interest Income					
Loans	13,167	11,460		1,227	25,854
Investments	-	38		1	39
Total interest Income	13,167	11,498		1,228	25,893
Interest Expense					
Notes payable to AgFirst Farm Credit Bank	5,013	4,229	442		9,684
Net interest income	8,154	7,269	442	1,228	16,209
Provision for loan loss	-	199			199
Net interest income after provision for loan losses	8,154	7,070	442	1,228	16,010
Noninterest Income					
Loan fees	869	537			1,406
Fees for finanically related services	10	1			11
Patronage refunds from other Farm Credit institutions	2,040	3,330			5,370
Gains (losses) on sales of rural hme loans, net	-	-			-
Gains (losses) on sales of premises and equipment, net	1,019	31			1,050
Gains (losses) on other transactions	(163)	(7)			(170)
Other noninterest income	2	-			2
Total noninterest income	3,777	3,892	-	-	7,669
Noninterest Expense					
Salaries and employee benefits	4,152	3,055			7,207
Occupancy and equipment	285	235	46		566
Insurance Fund premiums	367	318			685
Purchased services	159	356			515
Data processing	102	32			134
(Gain) losses on other property owned, net	-	7			7
Other operating expense	989	836			1,825
Total noninterest expense	6,054	4,839	46	-	10,939
Income before income taxes	5,877	6,123	488	1,228	12,740
Provision for income taxes	2	18			20
Net Income	5,875	6,105	488	1,228	12,720
Other Comprehensive Income Net of Tax					
Employee benefit plan adjustments	-	5			5
Comprehensive Income	5,875	6,110	488	1,228	12,725

(Dollars in thousands)	Date:	Pro Forma Statement of Condition December 31, 2021				
			Adjustments		As Adjusted
	AgCarolina Farm Credit	Cape Fear Farm Credit	Dr	CR	Proforma
Assets	(1)	(1)			
Cash	6	49			55
Loans	1,280,860	1,063,198		24,985	2,319,073
Allowance for loan loss	(13,484)	(8,542)	8,542		(13,484)
Net Loans	1,267,376	1,054,656	8,542	24,985	2,305,589
Loans held for sale	-	58			58
Other Investments	-	2,584	102		2,686
Accrued interest receivable	14,535	7,696			22,231
Equity investments in other Farm Credit institutions	10,909	9,485			20,394
Premises and equipment - net	15,568	4,442	1,772		21,782
Other property owned	-	236			236
Accounts receivable	21,307	21,762			43,069
Other assets	4,567	85			4,652
Total assets	1,334,268	1,101,053	10,416	24,985	2,420,752
Liabilities					
Notes payable to AgFirst Farm Credit	1,001,022	836,955		2,929	1,840,906
Accrued interest payable	1,782	1,448			3,230
Patronage refund payable	25,555	31,051			56,606
Accounts payable	1,724	1,963			3,687
Advanced conditional payments	126	-			126
Other liabilities	10,167	2,943			13,110
Total liabilities	1,040,376	874,360		2,929	1,914,736
Members Equity					
Capital stock and participation certificates	36,457	2,581			39,038
Retained earnings					-
Allocated	177,724	118,319	118,319		177,724
Unallocated	79,711	106,060	106,060		79,711
Additional paid in capital	-	-	28,181	234,795	206,614
Accumulated other comprehensive income (loss)	-	(267)		267	-
Total members equity	293,892	226,693	252,560	235,062	503,087
Total liabilities and members equity	1,334,268	1,101,053	252,560	237,991	2,420,752

(1) The dollar amount of assets, liabilities, and equity reported in the columns for AgCarolina Farm Credit and Cape Fear Farm Credit are presented at amounts reported in the historical balance sheet

(Dollars in thousands)	Date:	Pro Forma Statement of Comprehensive Income December 31, 2021			
			Adjustments		**As Adjusted**
	AgCarolina Farm Credit	**Cape Fear Farm Credit**	**Dr**	**CR**	**Proforma**
Interest Income					
Loans	53,027	45,290		2,776	101,093
Investments	-	156	6		150
Total interest Income	53,027	45,446	6	2,776	101,243
Interest Expense					
Notes payable to AgFirst Farm Credit Bank	19,832	16,709	325		36,866
Net interest income	33,195	28,737	331	2,776	64,377
Provision for loan loss	28	(1,026)			(998)
Net interest income after provision for loan losses	33,167	29,763	331	2,776	65,375
Noninterest Income					
Loan fees	4,907	2,947			7,854
Fees for finanically related services	608	23			631
Patronage refunds from other Farm Credit institutions	21,136	21,878			43,014
Gains (losses) on sales of rural hme loans, net	-	26			26
Gains (losses) on sales of premises and equipment, net	490	74			564
Gains (losses) on other transactions	195	13			208
Other noninterest income	11	-			11
Total noninterest income	27,347	24,961	-	-	52,308
Noninterest Expense					
Salaries and employee benefits	17,616	11,867			29,483
Occupancy and equipment	1,178	860	45		2,083
Insurance Fund premiums	1,485	1,262			2,747
(Gain) losses on other property owned, net	(6)	42			36
Other operating expense	4,527	4,169			8,696
Total noninterest expense	24,800	18,200	45	-	43,045
Income before income taxes	35,714	36,524	377	2,776	74,637
Provision for income taxes	3	23			26
Net Income	35,711	36,501	377	2,776	74,611
Other Comprehensive Income Net of Tax					
Employee benefit plan adjustments	-	24			24
Comprehensive Income	35,711	36,525	377	2,776	74,635

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

(Dollars in thousands)

Note 1: The Plan of Merger

On October 4, 2022, AgCarolina Farm Credit, ACA ("AgCarolina Farm Credit") and Cape Fear Farm Credit, ACA ("Cape Fear") entered into an Agreement and Plan of Merger (the "Agreement"). Pursuant to Section 7.8 of the Farm Credit Act of 1971, as amended, the Agreement provides for the merger of Cape Fear with and into AgCarolina Farm Credit, with AgCarolina Farm Credit as the surviving legal entity. Pursuant to the Merger, all capital stock of Cape Fear will be cancelled and each holder thereof will receive capital stock in AgCarolina Farm Credit with an equal par value. Specifically, each share of outstanding voting common stock in Cape Fear will be converted into one share of voting common stock in AgCarolina Farm Credit with an equal par value and each share of non-voting common stock in Cape Fear will be converted into a share of non-voting common stock in AgCarolina Farm Credit with an equal par value. Any allocated surplus of Cape Fear will also be converted at face amount into allocated surplus (with an equal fair market value) of AgCarolina Farm Credit. Cape Fear's retained earnings will be eliminated and the acquisition-date fair value of Cape Fear's net assets will be recognized as a direct addition to paid-in capital.

Note 2: The Accounting for the Merger

The Merger contemplated by the Agreement of the merger will be accounted for under the acquisition method of accounting in accordance with Financial Accounting Standards Board ("FASB"), Accounting Standards Codification (ASC) 805 *Business Combinations* (ASC 805). In applying the acquisition method, it is necessary to identify the acquirer and the acquiree for accounting purposes. In a business combination effected through an exchange of equity interests, there are several factors in ASC 805 that must be considered to determine the acquirer. Management of the Associations considered these factors and determined that AgCarolina Farm Credit should be treated as the acquirer and that Cape Fear should be treated as the acquiree. The determination was based on the following facts as of March 31, 2022:

- AgCarolina Farm Credit is larger than Cape Fear based on gross loans, total assets, and total capital.
- AgCarolina Farm Credit has a larger number of voting stockholders.
- AgCarolina Farm Credit is the legal survivor of the Merger and its equity securities are being issued in the Merger.

As the accounting acquirer, AgCarolina Farm Credit will recognize the identifiable assets and liabilities assumed in the Merger as of the Effective Date at their respective fair values. The pro forma statements show estimates of the fair value of the acquired assets and liabilities as of March 31, 2022 and December 31, 2021. Management arrived at such estimates by directly measuring each category of acquired asset and acquired liability. This analysis included identifying and estimating the value of the intangible assets that AgCarolina Farm Credit would acquire in the Merger, none of which were determined to be material as of the statement dates.

The fair value estimates are based on various preliminary estimates using assumptions that management believes are reasonable utilizing information currently available. The differences between the fair value estimates and the carrying values as of the statement dates are shown as adjustments on the pro forma balance sheet and are described in the following notes. Use of different estimates and judgments could yield materially different results.

Note 3: Pro forma Adjustments

The following adjustments are necessary to (a) recognize Cape Fear's (the "acquiree") assets and liabilities at their respective fair values, and (b) recognize the adjusted fair value of the acquire as additional paid in capital on AgCarolina Farm Credit's statement of condition.

1. This adjustment reverses the acquiree's allowance for loan loss. ASC 805-20-30-4 states that the acquirer may not recognize a separate valuation allowance as of the acquisition date.
2. This adjustment represents the fair value adjustment for credit quality of the loan portfolio. This loan mark represents the life of loan credit allowances associated with the portfolio.
3. This adjustment represents the fair value adjustment related to interest rates for the acquiree's loan portfolio to recognize the change in fair value of loan assets since origination of the loans to the statement date based on changes to market interest rates. Current market interest rates used for this adjustment were based on the acquiree's pricing in effect for each type of loan product as of the date of the adjustment. The discount period used was based upon the remaining life to repricing or maturity for each loan and considered prepayment rates applicable for a market participant. Prepayment rates applicable to the acquired portfolio were considered using a third party source.
4. This adjustment represents the interest rate adjustment to the acquiree's direct note payable to the Bank to recognize the change in fair value of the cost of debt since the origination of the debt to the statement date based on changes to market interest rates. Current market rates used for this adjustment were based on the Bank's pricing in effect for each product offered to the Association as of the date of the adjustment. The discount period used was based on the remaining life to repricing or maturity for each loan funded by the direct note and considered prepayment rates applicable for a market participant. Prepayment rates applicable to the acquired portfolio were considered using a third party source.
5. Represents the adjustment to record Premises and Equipment at fair value. The Cape Fear administrative offices and buildings were valued using a current market evaluation by a qualified evaluator. The analyses completed indicates that the buildings are at fair value and no additional adjustments are needed based on the review of the qualified appraiser and the common level ratio method.
6. This adjustment reclassifies the acquirees' retained earnings as additional paid in capital as required by ASC 805. Per ASC 805-30-55 the acquirer is required to recognize the acquired entity's net assets as a direct addition to capital in the statement of condition.
7. Represents the amortization of the accretable credit adjustment to loans described in 2 on a straight-line basis over 10 years, which represents the weighted average life of the loan portfolio.
8. Represents the accretion of the interest rate adjustment on the loan portfolio described in 3 on a straight-line basis over 10 years, which represents the weighted average life of the loan portfolio.
9. Represents the accretion of the interest rate adjustment on the note payable to AgFirst described in 4 above on a straight-line basis over 10 years, which represents the weighted average life of the loan portfolio.

After a complete analysis, it was determined that the fair value of the net identifiable assets was substantially equal to the fair value of the equity interests to be exchanged in the merger. Accordingly, no amount of goodwill is reflected in the pro forma acquisition adjustments.

RELATIONSHIP WITH INDEPENDENT AUDITOR

AgCarolina and Cape Fear each utilize the firm of PricewaterhouseCoopers LLP ("PwC") as its independent auditor. It is expected that the Merged Association will continue to engage PwC as its independent auditor.

Cape Fear Farm Credit, ACA

FIRST QUARTER 2022

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2022 quarterly report of Cape Fear Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Nash Johnson
Chairman of the Board

Evan J. Kleinhans
Chief Executive Officer

Charles M. Hester
Chief Financial Officer

May 9, 2022

Cape Fear Farm Credit, ACA

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. This process provides 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.

Internal control over financial reporting 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 March 31, 2022. 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 March 31, 2022, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2022.

Evan J. Kleinhans
Chief Executive Officer

Charles M. Hester
Chief Financial Officer

May 9, 2022

Cape Fear Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Cape Fear Farm Credit, ACA, (Association) for the period ended March 31, 2022. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2021 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

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. The Association's loan portfolio consists of agricultural commodities in our region, including swine, poultry, tobacco, and row crop operations. The Association's loan portfolio contains a concentration of swine and poultry loans. Demand for pork, chicken, turkey as well as prices of field grains affects the price of these commodities. Other factors including but not limited to international trade policies, political risks and nuisance lawsuits could impact these industries and the Association's corresponding loan portfolio. While demand for tobacco and cotton remains weak, increasing prices for corn and soy beans have improved the outlook for many row crop producers in the Association's territory. Credit quality has improved since the fourth quarter of 2021 and remains acceptable overall.

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. Risk exposure is reduced by many of the borrowers in the region having diversified farming operations as well as varying farm size. This factor, along with the opportunities for non-farm income in the area, lessens the level of dependency on any single given commodity. Concentration risk is further mitigated by a portfolio of participation loans purchased or originated and sold. The Association also mitigates concentration risk through the use of USDA and Farmer Mac guarantees.

The gross loan volume of the Association at March 31, 2022 was $1,073,663, an increase of $10,465 or 0.98 percent as compared to $1,063,198 at December 31, 2021. When compared to the same period in 2021, gross loan volume increased by $52,989 or 5.19 percent from $1,020,674. Net loans outstanding at March 31, 2022 were $1,064,946, an increase of $10,290 or 0.98 percent as compared to $1,054,656 at December 31, 2021. When compared to the same period in 2021, net loans outstanding increased by $54,034 or 5.35 percent from $1,010,912. Net loans accounted for 97.45 percent of total assets at March 31, 2022, as compared to 95.79 percent and 97.61 percent at December 31, 2021 and March 31, 2021, respectively.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased $86 to $6,026 at March 31, 2022 from $5,940 at December 31, 2021. The increase in nonaccrual volume was primarily attributed to the transfer of several loans to nonaccrual status during the three month period. Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2022 was $8,717, which was greater than the December 31, 2021 amount of $8,542 by $175 or 2.05 percent. The increase in the overall allowance was primarily attributed to an increase in the general reserve.

Other investments consist of Rural America Bonds which come under the Farm Credit Administration's (FCA) Mission Related Investments. The objective of Rural America Bonds is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. At March 31, 2022, the Association had $2,563 in Rural America Bonds, which were all classified as investment securities, as compared to $2,584 at December 31, 2021.

Effective December 31, 2016, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

Other property owned (OPO) at March 31, 2022 was $236, which was unchanged from December 31, 2021. The

Association is actively marketing all properties classified as other property owned for resale.

RESULTS OF OPERATIONS

For the three months ended March 31, 2022

Net income for the three months ended March 31, 2022 totaled $6,105 as compared to $6,431 for the same period in 2021, a decrease of $326 or 5.07 percent.

For the three months ended March 31, 2022, net interest income increased $350 or 5.06 percent as compared to the same period in 2021. Interest income on loans increased by $647 while interest income from investment securities decreased by $1. Interest expense increased by $296 compared to the same period last year. Provision for loan losses increased by $853 in comparison to the same period in 2021. There was a provision for loan losses of $199 for the three months ended March 31, 2022, as compared to a reversal of allowance for loan losses of $654 for the same period in 2021. Nonaccrual income was $23 for the three months ended March 31, 2022, as compared to $260 for the same period in 2021 which is a decrease of $237.

Noninterest income for the three months ended March 31, 2022 totaled $3,892 as compared to $3,336 for the same period in 2021, an increase of $556 or 16.67 percent. Positive variances for the period included a $952 increase in patronage refunds from other Farm Credit institutions and a $28 increase in gains on sales of premises and equipment. The overall increase was offset by a $406 decrease in loan fee income, an $11 decrease in other gains, a $4 decrease in fees for financially related services, and a $3 decrease in gains on sales of rural home loans.

Noninterest expense for the three months ended March 31, 2022 totaled $4,839 as compared to $4,460 for the same period in 2021, an increase of $379 or 8.50 percent. Items contributing to the increase included a $297 increase in other operating expenses, a $62 increase in purchased services, a $24 increase in occupancy and equipment, a $20 increase in insurance fund premiums, a $13 increase in salaries and employee benefits, and a $3 increase in data processing. The overall increase was offset by a $40 decrease in losses on OPO.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. 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. The total notes payable to the Bank at March 31, 2022 was $826,246 as compared to $836,955 at December 31, 2021.

See Note 4 in the Notes to the Consolidated Financial Statements for information on the status of compliance with covenants under the General Financing Agreement.

CAPITAL RESOURCES

Total members' equity at March 31, 2022 increased to $232,812 from the December 31, 2021 total of $226,693. The increase is primarily due to recognition of net income retained through the first quarter.

FCA regulations require all Farm Credit institutions to maintain minimum common equity tier 1 (CET1), tier 1 capital, total capital, and permanent capital risk-based capital ratios, along with tier 1 leverage and unallocated retained earnings equivalents leverage ratios. As of March 31, 2022, all ratios were well above the regulatory minimums.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2022
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.5%	7.0%	19.45%
Tier 1 Capital	6.0%	2.5%	8.5%	19.45%
Total Capital	8.0%	2.5%	10.5%	20.20%
Permanent Capital Ratio	7.0%	0.0%	7.0%	20.52%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	20.46%
UREE Leverage Ratio	1.5%	0.0%	1.5%	20.22%

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

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.

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.

REGULATORY MATTERS

On April 14, 2022, the FCA approved a final rule that amends certain regulations to address changes in accounting principles generally accepted in the United States. Such changes reflect the Current Expected Credit Losses (CECL) methodology that will replace the incurred loss methodology upon adoption. 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. The 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. In addition, the regulation does not include an exclusion for the CECL day 1 cumulative effective adjustment from the "safe harbor" deemed prior approval provision. The final rule is effective on January 1, 2023.

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

FUTURE OF LIBOR

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

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

The Association has exposure to LIBOR arising from loans made to customers and the note payable to AgFirst Farm Credit Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

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

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2021 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the following table.

The following ASU was issued by the Financial Accounting Standards Board (FASB):

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts, at the adoption date. • The guidance is expected to be adopted January 1, 2023.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-368-5819 ext. 3262, or writing Charles M. Hester, Cape Fear Farm Credit, P. O. Box 2405, Fayetteville, NC 28302, or accessing the website, *www.capefearfarmcredit.com*. The Association prepares a 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 Association.

Cape Fear Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)		March 31, 2022		December 31, 2021
		(unaudited)		*(audited)*
Assets				
Cash	$	**14**	$	49
Investments in debt securities:				
Held to maturity (fair value of $2,486 and $2,687, respectively)		**2,563**		2,584
Loans		**1,073,663**		1,063,198
Allowance for loan losses		**(8,717)**		(8,542)
Net loans		**1,064,946**		1,054,656
Loans held for sale		**328**		58
Accrued interest receivable		**7,420**		7,696
Equity investments in other Farm Credit institutions		**9,571**		9,485
Premises and equipment, net		**4,404**		4,442
Other property owned		**236**		236
Accounts receivable		**3,086**		21,762
Other assets		**220**		85
Total assets	$	**1,092,788**	$	1,101,053
Liabilities				
Notes payable to AgFirst Farm Credit Bank	$	**826,246**	$	836,955
Accrued interest payable		**1,473**		1,448
Patronage refunds payable		**292**		31,051
Accounts payable		**749**		1,963
Other liabilities		**31,216**		2,943
Total liabilities		**859,976**		874,360
Commitments and contingencies (Note 8)				
Members' Equity				
Capital stock and participation certificates		**2,590**		2,581
Retained earnings				
Allocated		**120,233**		118,319
Unallocated		**110,251**		106,060
Accumulated other comprehensive income (loss)		**(262)**		(267)
Total members' equity		**232,812**		226,693
Total liabilities and members' equity	$	**1,092,788**	$	1,101,053

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

Cape Fear Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended March 31, 2022	2021
Interest Income		
Loans	$ **11,460**	$ 10,813
Investments	**38**	39
Total interest income	**11,498**	10,852
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**4,229**	3,933
Net interest income	**7,269**	6,919
Provision for (reversal of) allowance for loan losses	**199**	(654)
Net interest income after provision for (reversal of) allowance for loan losses	**7,070**	7,573
Noninterest Income		
Loan fees	**537**	943
Fees for financially related services	**1**	5
Patronage refunds from other Farm Credit institutions	**3,330**	2,378
Gains (losses) on sales of rural home loans, net	**—**	3
Gains (losses) on sales of premises and equipment, net	**31**	3
Gains (losses) on other transactions	**(7)**	4
Total noninterest income	**3,892**	3,336
Noninterest Expense		
Salaries and employee benefits	**3,055**	3,042
Occupancy and equipment	**235**	211
Insurance Fund premiums	**318**	298
Purchased services	**356**	294
Data processing	**32**	29
Other operating expenses	**836**	539
(Gains) losses on other property owned, net	**7**	47
Total noninterest expense	**4,839**	4,460
Income before income taxes	**6,123**	6,449
Provision for income taxes	**18**	18
Net income	$ **6,105**	$ 6,431
Other comprehensive income net of tax		
Employee benefit plans adjustments	**5**	4
Comprehensive income	$ **6,110**	$ 6,435

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

Cape Fear Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	$ 2,512	$ 116,377	$ 102,507	$ (291)	$ 221,105
Comprehensive income			6,431	4	6,435
Capital stock/participation certificates issued/(retired), net	32				32
Patronage distribution adjustment		317	(317)		—
Balance at March 31, 2021	$ 2,544	$ 116,694	$ 108,621	$ (287)	$ 227,572
Balance at December 31, 2021	**$ 2,581**	**$ 118,319**	**$ 106,060**	**$ (267)**	**$ 226,693**
Comprehensive income			**6,105**	**5**	**6,110**
Capital stock/participation certificates issued/(retired), net	**9**				**9**
Patronage distribution adjustment		**1,914**	**(1,914)**		—
Balance at March 31, 2022	**$ 2,590**	**$ 120,233**	**$ 110,251**	**$ (262)**	**$ 232,812**

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization
The accompanying financial statements include the accounts of Cape Fear Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2021, are contained in the 2021 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation
In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies
The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period and Applicable to the Association
The following ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent year-end:

- In March 2022, the FASB issued ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. This Update responds to feedback received during the Post Implementation Review process conducted by the FASB related to Topic 326.
    1. Troubled Debt Restructurings (TDRs) by Creditors
    The amendments eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan.
    2. Vintage Disclosures—Gross Writeoffs
    For public business entities, the amendments in this Update require that an entity disclose current period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.

These amendments will be implemented in conjunction with the adoption of ASU 2016-13.

ASUs Pending Effective Date
For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- 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 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.

Accounting Standards Effective During the Period
There were no changes in the accounting principles applied from the latest Annual Report.

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses 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. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. 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.

A summary of loans outstanding at period end follows:

	March 31, 2022	December 31, 2021
Real estate mortgage	$ 787,945	$ 775,094
Production and intermediate-term	198,905	207,190
Loans to cooperatives	22,465	15,905
Processing and marketing	30,891	33,126
Farm-related business	12,555	13,035
Communication	5,844	4,334
Rural residential real estate	7,426	6,402
International	3,598	3,597
Lease receivables	4,034	4,515
Total loans	$ 1,073,663	$ 1,063,198

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

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. The following tables present the principal balance of participation loans at periods ended:

	March 31, 2022							
	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	$ 20,003	$ 325,697	$ –	$ 7,355	$ 38,154	$ –	$ 58,157	$ 333,052
Production and intermediate-term	19,671	319,150	–	10,997	50	–	19,721	330,147
Loans to cooperatives	12,325	–	10,163	–	–	–	22,488	–
Processing and marketing	28,856	–	–	–	–	–	28,856	–
Farm-related business	–	896	–	3,885	–	–	–	4,781
Communication	5,862	–	–	–	–	–	5,862	–
International	3,600	–	–	–	–	–	3,600	–
Lease receivables	–	–	4,035	–	–	–	4,035	–
Total	$ 90,317	$ 645,743	$ 14,198	$ 22,237	$ 38,204	$ –	$ 142,719	$ 667,980

	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	$ 18,578	$ 328,230	$ –	$ 7,568	$ 38,797	$ –	$ 57,375	$ 335,798
Production and intermediate-term	14,467	401,913	–	10,997	68	–	14,535	412,910
Loans to cooperatives	5,741	–	10,190	–	–	–	15,931	–
Processing and marketing	30,275	–	–	–	–	–	30,275	–
Farm-related business	–	915	–	3,963	–	–	–	4,878
Communication	4,353	–	–	–	–	–	4,353	–
International	3,600	–	–	–	–	–	3,600	–
Lease receivables	–	–	4,518	–	–	–	4,518	–
Total	$ 77,014	$ 731,058	$ 14,708	$ 22,528	$ 38,865	$ –	$ 130,587	$ 753,586

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

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	March 31, 2022	December 31, 2021
Real estate mortgage:		
Acceptable	97.36%	96.34%
OAEM	2.24	3.17
Substandard/doubtful/loss	0.40	0.49
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	94.66%	95.49%
OAEM	3.66	2.90
Substandard/doubtful/loss	1.68	1.61
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	55.96%	58.02%
OAEM	0.96	–
Substandard/doubtful/loss	43.08	41.98
	100.00%	100.00%

	March 31, 2022	December 31, 2021
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	96.77%	96.18%
OAEM	2.92	3.42
Substandard/doubtful/loss	0.31	0.40
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Lease receivables:		
Acceptable	96.17%	95.74%
OAEM	2.23	2.17
Substandard/doubtful/loss	1.60	2.09
	100.00%	100.00%
Total loans:		
Acceptable	96.52%	95.90%
OAEM	2.36	2.90
Substandard/doubtful/loss	1.12	1.20
	100.00%	100.00%

The following tables provide an aging analysis of the recorded investment of past due loans as of:

	March 31, 2022				
	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	$ 486	$ 1,501	$ 1,987	$ 791,303	$ 793,290
Production and intermediate-term	230	1,528	1,758	198,944	200,702
Loans to cooperatives	–	–	–	22,499	22,499
Processing and marketing	–	–	–	30,982	30,982
Farm-related business	–	42	42	12,591	12,633
Communication	–	–	–	5,850	5,850
Rural residential real estate	108	–	108	7,355	7,463
International	–	–	–	3,606	3,606
Lease receivables	–	65	65	3,981	4,046
Total	$ 824	$ 3,136	$ 3,960	$ 1,077,111	$ 1,081,071

	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	$ 1,641	$ 1,309	$ 2,950	$ 777,150	$ 780,100
Production and intermediate-term	1,806	1,121	2,927	206,758	209,685
Loans to cooperatives	–	–	–	15,929	15,929
Processing and marketing	–	–	–	33,204	33,204
Farm-related business	–	46	46	13,031	13,077
Communication	–	–	–	4,334	4,334
Rural residential real estate	134	–	134	6,293	6,427
International	–	–	–	3,604	3,604
Lease receivables	231	–	231	4,291	4,522
Total	$ 3,812	$ 2,476	$ 6,288	$ 1,064,594	$ 1,070,882

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

	March 31, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	$ 3,768	$ 3,580
Production and intermediate-term	2,145	2,212
Farm-related business	42	46
Rural residential real estate	6	8
Lease receivables	65	94
Total	$ 6,026	$ 5,940
Accruing restructured loans:		
Real estate mortgage	$ 1,027	$ 1,674
Production and intermediate-term	2,796	2,429
Rural residential real estate	6	7
Total	$ 3,829	$ 4,110
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 9,855	$ 10,050
Other property owned	236	236
Total nonperforming assets	$ 10,091	$ 10,286
Nonaccrual loans as a percentage of total loans	0.56%	0.56%
Nonperforming assets as a percentage of total loans and other property owned	0.94%	0.97%
Nonperforming assets as a percentage of capital	4.33%	4.54%

The following table presents information related to the recorded investment of impaired loans at period end. 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.

	March 31, 2022	December 31, 2021
Impaired nonaccrual loans:		
Current as to principal and interest	$ 2,847	$ 2,697
Past due	3,179	3,243
Total	$ 6,026	$ 5,940
Impaired accrual loans:		
Restructured	$ 3,829	$ 4,110
90 days or more past due	–	–
Total	$ 3,829	$ 4,110
Total impaired loans	$ 9,855	$ 10,050
Additional commitments to lend	$ –	$ –

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

	March 31, 2022			Three Months Ended March 31, 2022	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 1,173	$ 1,295	$ 98	$ 1,163	$ 9
Production and intermediate-term	1,122	1,132	227	1,112	8
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Lease receivables	–	–	–	–	–
Total	$ 2,295	$ 2,427	$ 325	$ 2,275	$ 17
With no related allowance for credit losses:					
Real estate mortgage	$ 3,622	$ 4,311	$ –	$ 3,589	$ 26
Production and intermediate-term	3,819	4,052	–	3,786	30
Farm-related business	42	52	–	42	–
Rural residential real estate	12	92	–	11	–
Lease receivables	65	91	–	64	–
Total	$ 7,560	$ 8,598	$ –	$ 7,492	$ 56
Total impaired loans:					
Real estate mortgage	$ 4,795	$ 5,606	$ 98	$ 4,752	$ 35
Production and intermediate-term	4,941	5,184	227	4,898	38
Farm-related business	42	52	–	42	–
Rural residential real estate	12	92	–	11	–
Lease receivables	65	91	–	64	–
Total	$ 9,855	$ 11,025	$ 325	$ 9,767	$ 73

	December 31, 2021			Year Ended December 31, 2021	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 1,189	$ 1,305	$ 105	$ 1,386	$ 103
Production and intermediate-term	1,129	1,137	279	1,317	98
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Lease receivables	–	–	–	–	–
Total	$ 2,318	$ 2,442	$ 384	$ 2,703	$ 201
With no related allowance for credit losses:					
Real estate mortgage	$ 4,065	$ 4,694	$ –	$ 4,740	$ 353
Production and intermediate-term	3,512	3,771	–	4,095	305
Farm-related business	46	55	–	54	4
Rural residential real estate	15	97	–	17	1
Lease receivables	94	120	–	110	8
Total	$ 7,732	$ 8,737	$ –	$ 9,016	$ 671
Total impaired loans:					
Real estate mortgage	$ 5,254	$ 5,999	$ 105	$ 6,126	$ 456
Production and intermediate-term	4,641	4,908	279	5,412	403
Farm-related business	46	55	–	54	4
Rural residential real estate	15	97	–	17	1
Lease receivables	94	120	–	110	8
Total	$ 10,050	$ 11,179	$ 384	$ 11,719	$ 872

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit losses:									
Balance at December 31, 2021	$ 5,113	$ 3,019	$ 272	$ 30	$ 3	$ 45	$ 30	$ 30	$ 8,542
Charge-offs	(26)	–	(1)	–	–	–	–	–	(27)
Recoveries	–	3	–	–	–	–	–	–	3
Provision for loan losses	163	23	9	1	–	1	1	1	199
Balance at March 31, 2022	$ 5,250	$ 3,045	$ 280	$ 31	$ 3	$ 46	$ 31	$ 31	$ 8,717
Balance at December 31, 2020	$ 6,122	$ 3,581	$ 313	$ 35	$ 3	$ 52	$ 34	$ 92	$ 10,232
Charge-offs	(22)	(8)	(1)	–	–	–	–	–	(31)
Recoveries	16	47	152	–	–	–	–	–	215
Provision for loan losses	(377)	(41)	(169)	(2)	–	(3)	(2)	(60)	(654)
Balance at March 31, 2021	$ 5,739	$ 3,579	$ 295	$ 33	$ 3	$ 49	$ 32	$ 32	$ 9,762
Allowance on loans evaluated for impairment:									
Individually	$ 98	$ 227	$ –	$ –	$ –	$ –	$ –	$ –	$ 325
Collectively	5,152	2,818	280	31	3	46	31	31	8,392
Balance at March 31, 2022	$ 5,250	$ 3,045	$ 280	$ 31	$ 3	$ 46	$ 31	$ 31	$ 8,717
Individually	$ 105	$ 279	$ –	$ –	$ –	$ –	$ –	$ –	$ 384
Collectively	5,008	2,740	272	30	3	45	30	30	8,158
Balance at December 31, 2021	$ 5,113	$ 3,019	$ 272	$ 30	$ 3	$ 45	$ 30	$ 30	$ 8,542
Recorded investment in loans evaluated for impairment:									
Individually	$ 4,382	$ 4,578	$ 42	$ –	$ –	$ 11	$ –	$ 65	$ 9,078
Collectively	788,908	196,124	66,072	5,850	–	7,452	3,606	3,981	1,071,993
Balance at March 31, 2022	$ 793,290	$ 200,702	$ 66,114	$ 5,850	$ -	$ 7,463	$ 3,606	$ 4,046	$ 1,081,071
Individually	$ 5,173	$ 4,641	$ 46	$ –	$ –	$ 15	$ –	$ 94	$ 9,969
Collectively	774,927	205,044	62,164	4,334	–	6,412	3,604	4,428	1,060,913
Balance at December 31, 2021	$ 780,100	$ 209,685	$ 62,210	$ 4,334	$ –	$ 6,427	$ 3,604	$ 4,522	$ 1,070,882

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

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

	Three Months Ended March 31, 2022				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 276	$ –	$ 276	
Production and intermediate-term	–	417	–	417	
Total	$ –	$ 693	$ –	$ 693	
Post-modification:					
Real estate mortgage	$ –	$ 276	$ –	$ 276	$ –
Production and intermediate-term	–	417	–	417	–
Total	$ –	$ 693	$ –	$ 693	$ –

	Three Months Ended March 31, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 31	$ –	$ 31	
Total	$ –	$ 31	$ –	$ 31	
Post-modification:					
Real estate mortgage	$ –	$ 19	$ –	$ 19	$ (12)
Total	$ –	$ 19	$ –	$ 19	$ (12)

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

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

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2022	December 31, 2021	March 31, 2022	December 31, 2021
Real estate mortgage	$ 2,026	$ 2,701	$ 999	$ 1,027
Production and intermediate-term	3,843	3,516	1,047	1,087
Rural residential real estate	6	7	–	–
Total loans	$ 5,875	$ 6,224	$ 2,046	$ 2,114
Additional commitments to lend	$ –	$ –		

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At March 31, 2022, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

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

	March 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 2,563	$ –	$ (77)	$ 2,486	5.95%

	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 2,584	$ 103	$ –	$ 2,687	5.95%

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

	March 31, 2022		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	2,563	2,486	5.95
Total	$ 2,563	$ 2,486	5.95%

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

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. The Association had no investments that were in a continuous unrealized loss position at December 31, 2021.

	March 31, 2022			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 2,486	$ (77)	$ –	$ –

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

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

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

Equity Investments in Other Farm Credit System 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.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 3.46 percent of the issued stock of the Bank as of March 31, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled $39.1 billion and shareholders' equity totaled $2.0 billion. The Bank's earnings were $113 million for the first three months of 2022. In addition, the Association held $681 in investments related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component *(a)*	
	Three Months Ended March 31,	
	2022	2021
Employee Benefit Plans:		
Balance at beginning of period	$ (267)	$ (291)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	5	4
Net current period other comprehensive income	5	4
Balance at end of period	$ (262)	$ (287)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*		
	Three Months Ended March 31,		
	2022	2021	Income Statement Line Item
Defined Benefit Pension Plans:			
Periodic pension costs	$ (5)	$ (4)	See Note 7.
Net amounts reclassified	$ (5)	$ (4)	

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

Note 6 — 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.

The classifications within the fair value hierarchy are as follows:

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

Level 2 inputs 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 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 the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or 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.

	March 31, 2022				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 74	$ 74	$ –	$ –	$ 74
Recurring Assets	$ 74	$ 74	$ –	$ –	$ 74
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,970	$ –	$ –	$ 1,970	$ 1,970
Other property owned	236	–	–	274	274
Nonrecurring Assets	$ 2,206	$ –	$ –	$ 2,244	$ 2,244
Other Financial Instruments					
Assets:					
Cash	$ 14	$ 14	$ –	$ –	$ 14
Investments in debt securities, held-to-maturity	2,563	–	–	2,486	2,486
Loans	1,063,304	–	–	1,019,506	1,019,506
Other Financial Assets	$ 1,065,881	$ 14	$ –	$ 1,021,992	$ 1,022,006
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 826,246	$ –	$ –	$ 792,189	$ 792,189
Other Financial Liabilities	$ 826,246	$ –	$ –	$ 792,189	$ 792,189

	December 31, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 77	$ 77	$ –	$ –	$ 77
Recurring Assets	$ 77	$ 77	$ –	$ –	$ 77
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,934	$ –	$ –	$ 1,934	$ 1,934
Other property owned	236	–	–	274	274
Nonrecurring Assets	$ 2,170	$ –	$ –	$ 2,208	$ 2,208
Other Financial Instruments					
Assets:					
Cash	$ 49	$ 49	$ –	$ –	$ 49
Investments in debt securities, held-to-maturity	2,584	–	–	2,687	2,687
Loans	1,052,780	–	–	1,039,051	1,039,051
Other Financial Assets	$ 1,055,413	$ 49	$ –	$ 1,041,738	$ 1,041,787
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 836,955	$ –	$ –	$ 825,461	$ 825,461
Other Financial Liabilities	$ 836,955	$ –	$ –	$ 825,461	$ 825,461

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

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

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

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

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements
With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

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
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 7 — Employee Benefit Plans

The following is a table of retirement and other postretirement benefit expenses for the Association:

	Three Months Ended March 31,	
	2022	2021
Pension	$ 134	$ 378
401(k)	201	177
Other postretirement benefits	77	87
Total	$ 412	$ 642

Expenses in the above table are computed using allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2022.

Further details regarding employee benefit plans are contained in the 2021 Annual Report to Shareholders.

Note 8 — Commitments and Contingent Liabilities

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 remote 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.

Note 9 — Merger Activity

On April 11, 2022, the Board of Directors of the Association and AgCarolina Farm Credit, ACA signed a letter of intent to merge the two Associations. The merger is subject to AgFirst, FCA and shareholder approval. If approved by all required parties, the merger is expected to take effect upon the commencement of business on January 1, 2023.

Note 10 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through May 9, 2022, which was the date the financial statements were issued.

On April 11, 2022, the boards of AgCarolina Farm Credit, ACA and Cape Fear Farm Credit, ACA announced intentions to pursue a merger. See further discussion in Note 9, *Merger Activity*.

AgCarolina Farm Credit, ACA

FIRST QUARTER 2022

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2022 quarterly report of AgCarolina Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

B. Derek Potter
Chairman of the Board

David W. Corum
President
Chief Executive Officer

Matthew J. Currin
Senior Vice President
Chief Financial Officer

May 9, 2022

AgCarolina Farm Credit, ACA

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. This process provides 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.

Internal control over financial reporting 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 March 31, 2022. 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 March 31, 2022, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2022.

David W. Corum

David W. Corum
President
Chief Executive Officer

Matthew Currin

Matthew J. Currin
Senior Vice President
Chief Financial Officer

May 9, 2022

AgCarolina Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgCarolina Farm Credit, ACA (Association) for the nine months ended March 31, 2022. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2021 annual report of the Association.

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. The five predominant commodities in the portfolio are forestry, tobacco, rural rental real estate, corn, and poultry, which constitute $620,072 or 50.27 percent, of the net loan portfolio as of March 31, 2022. Other major farm commodities include soybeans, sweet potatoes, and cotton. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on a given commodity.

The net loan volume of the Association as of March 31, 2022 was $1,219,910, a decrease of $47,466 or 3.75 percent as compared to $1,267,376 at December 31, 2021. Net loans accounted for 96.43 percent of total assets at March 31, 2022 as compared to 94.99 percent of total assets at December 31, 2021. The decrease in net loan volume during the reporting period is primarily attributed to seasonal lending. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak in August and declines in the fall and winter months as farm commodities are marketed and proceeds are applied to the operating loans.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans decreased from $10,720 at December 31, 2021 to $10,340 on March 31, 2022. The balance has decreased due to payments being collected on larger loans and transfers back to accrual status.

Association management maintains an allowance for loan losses at a level considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2022 was $13,496, as compared to $13,484 at December 31, 2021, an increase of $12. The main reason for this increase was an increase in general reserves. The ratio of the allowance for loan losses to total loans at March 31, 2022 was 1.09 percent, which was slightly higher than the prior year end. The allowance was considered by management to be adequate to cover possible losses.

Other property owned was zero as of March 31, 2022, which was consistent when compared to the balance at December 31, 2021.

RESULTS OF OPERATIONS

For the three months ended March 31, 2022

Net income for the three months ended March 31, 2022 totaled $5,875, an increase of $1,434 or 32.29 percent, as compared to the same period of 2021. The primary reason for the increase in net income as compared to the previous period is due to an increase in net interest income and an increase in noninterest income.

For the three months ended March 31, 2022, total interest income increased by $1,050 compared to the same period of 2021. The increase in interest income is due to an increase in accrual interest income as a result of increased loan volume. Interest income from nonaccrual loans was $140 for the three months ended March 31, 2022, a decrease of $93 from the same period of 2021. Interest expense increased $491 for the three months ended March 31, 2022, as compared to the same period of 2021. The increase in interest expense is mainly attributed to an increase in loan volume.

Noninterest income for the three months ended March 31, 2022 totaled $3,777 as compared to $2,977 for the same period of 2021, an increase of $800. The overall increase is primarily due to an increase in net gains related to a large fixed asset disposition. Loan fees and fees for financially related services decreased a combined $224 for the period as compared to the prior year.

Noninterest expense for the three months ended March 31, 2022 was $6,054, a decrease of $77, or 1.26 percent as compared to the same period of 2021. This decrease is mostly due to a decrease in salaries and employee benefit expenses.

LIQUIDITY AND FUNDING SOURCES

Liquidity

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 AgFirst Farm Credit Bank (Bank) and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

Funding Sources

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. 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.

The total notes payable to the Bank at March 31, 2022 was $930,369 as compared to $1,001,022 at December 31, 2021. The 7.06 percent decrease during the period was a result of a decrease in loan volume.

The Association has no lines of credit outstanding with third parties as of March 31, 2022.

CAPITAL RESOURCES

Total members' equity at March 31, 2022, increased 5.25 percent to $309,313 from the December 31, 2021, total of $293,892. The increase is attributed to the net of an increase in retained earnings related to net income and an increase in preferred stock. Preferred stock was $42,207 as of March 31, 2022, as compared to $32,426 on December 31, 2021, for an increase of 30.16 percent.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum capital ratios, which are shown in the table below. As of March 31, 2022, all capital ratios were well above the minimum regulatory requirements.

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 following sets forth the regulatory capital ratios, which were effective January 1, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2022
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	20.14%
Tier 1 Capital	6.0%	0.625%	6.625%	20.14%
Total Capital	8.0%	0.625%	8.625%	20.21%
Permanent Capital Ratio	7.0%	0.0%	7.0%	23.48%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	20.25%
UREE Leverage Ratio	1.5%	0.0%	1.5%	19.93%

** The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020. Risk-adjusted ratio minimums will increase 0.625% each year until fully phased in. There is no phase-in period for the tier 1 leverage ratio.*

REGULATORY MATTERS

On April 14, 2022, the FCA approved a final rule that amends certain regulations to address changes in accounting principles generally accepted in the United States. Such changes reflect the Current Expected Credit Losses (CECL) methodology that will replace the incurred loss methodology upon adoption. 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. The 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. In addition, the regulation does not include an exclusion for the CECL day 1 cumulative effective adjustment from the "safe harbor" deemed prior approval provision. The final rule is effective on January 1, 2023.

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

Future of LIBOR

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

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

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

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

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

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

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

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

The following is a summary of outstanding variable-rate financial instruments tied to LIBOR at March 31, 2022:

(dollars in thousands)	Due in 2022	Due in 2023 (On or Before June 30)	Due After June 20, 2023	Total
Loans	$ 2	$ 3	$ 32	$ 37
Total	$ 2	$ 3	$ 32	$ 37
Note Payable to AgFirst Farm Credit Bank	$ 2	$ 2	$ 24	$ 28
Total	$ 2	$ 2	$ 24	$ 28

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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2020 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the table below.

The following ASU was issued by the Financial Accounting Standards Board (FASB):

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted January 1, 2023.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-919-250-9500, writing Matthew J. Currin, AgCarolina Farm Credit, ACA, P. O. Box 14789, Raleigh, NC 27620, or accessing the website, *www.agcarolina.com*. The Association prepares a 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.

AgCarolina Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2022 *(unaudited)*	December 31, 2021 *(audited)*
Assets		
Cash	$ **4**	$ 6
Loans	**1,233,406**	1,280,860
Allowance for loan losses	**(13,496)**	(13,484)
Net loans	**1,219,910**	1,267,376
Accrued interest receivable	**11,988**	14,535
Equity investments in other Farm Credit institutions	**10,971**	10,909
Premises and equipment, net	**15,150**	15,568
Accounts receivable	**2,376**	21,307
Other assets	**4,611**	4,567
Total assets	$ **1,265,010**	$ 1,334,268
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ **930,369**	$ 1,001,022
Accrued interest payable	**1,726**	1,782
Patronage refunds payable	**39**	25,555
Accounts payable	**519**	1,724
Advanced conditional payments	**33**	126
Other liabilities	**23,011**	10,167
Total liabilities	**955,697**	1,040,376
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	**46,297**	36,457
Retained earnings		
Allocated	**186,657**	177,724
Unallocated	**76,359**	79,711
Total members' equity	**309,313**	293,892
Total liabilities and members' equity	$ **1,265,010**	$ 1,334,268

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

AgCarolina Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended March 31, 2022	2021
Interest Income		
Loans	$ **13,167**	$ 12,117
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**5,013**	4,522
Net interest income	**8,154**	7,595
Provision for loan losses	**—**	—
Net interest income after provision for loan losses	**8,154**	7,595
Noninterest Income		
Loan fees	**869**	1,053
Fees for financially related services	**10**	50
Patronage refunds from other Farm Credit institutions	**2,040**	1,800
Gains (losses) on sales of premises and equipment, net	**1,019**	57
Gains (losses) on other transactions	**(163)**	17
Other noninterest income	**2**	—
Total noninterest income	**3,777**	2,977
Noninterest Expense		
Salaries and employee benefits	**4,152**	4,495
Occupancy and equipment	**285**	228
Insurance Fund premiums	**367**	341
Purchased services	**159**	194
Data processing	**102**	109
Other operating expenses	**989**	763
(Gains) losses on other property owned, net	**—**	1
Total noninterest expense	**6,054**	6,131
Income before income taxes	**5,877**	4,441
Provision for income taxes	**2**	—
Net income	$ **5,875**	$ 4,441
Other comprehensive income	**—**	—
Comprehensive income	$ **5,875**	$ 4,441

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

AgCarolina Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2020	$ 33,400	$ 177,724	$ 69,718	$ 280,842
Comprehensive income			4,441	4,441
Capital stock/participation certificates issued/(retired), net	9,757			9,757
Dividends declared/paid	46		(46)	—
Balance at March 31, 2021	$ 43,203	$ 177,724	$ 74,113	$ 295,040
Balance at December 31, 2021	**$ 36,457**	**$ 177,724**	**$ 79,711**	**$ 293,892**
Comprehensive income			**5,875**	**5,875**
Capital stock/participation certificates issued/(retired), net	**9,802**			**9,802**
Dividends declared/paid	**38**		**(38)**	**—**
Patronage distribution adjustment		**8,933**	**(9,189)**	**(256)**
Balance at March 31, 2022	**$ 46,297**	**$ 186,657**	**$ 76,359**	**$ 309,313**

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

AgCarolina Farm Credit, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization
The accompanying financial statements include the accounts of AgCarolina Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A full description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2021, are contained in the 2021 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation
In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies
The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 5, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period and Applicable to the Association
The following ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent year-end:

- In March 2022, the FASB issued ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. This Update responds to feedback received during the Post Implementation Review process conducted by the FASB related to Topic 326.
    1. Troubled Debt Restructurings (TDRs) by Creditors
       The amendments eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan.
    2. Vintage Disclosures—Gross Writeoffs
       For public business entities, the amendments in this Update require that an entity disclose current period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.

These amendments will be implemented in conjunction with the adoption of ASU 2016-13.

ASUs Pending Effective Date
For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- 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 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.

Accounting Standards Effective During the Period

There were no changes in the accounting principles applied from the latest Annual Report.

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses 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. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. 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.

A summary of loans outstanding at period end follows:

	March 31, 2022	December 31, 2021
Real estate mortgage	$ 751,060	$ 755,579
Production and intermediate-term	373,816	423,382
Loans to cooperatives	3,500	2,595
Processing and marketing	53,582	50,684
Farm-related business	15,950	14,760
Communication	(2)	(2)
Power and water/waste disposal	311	310
Rural residential real estate	35,189	33,552
Total loans	$ 1,233,406	$ 1,280,860

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

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. The following tables present the principal balance of participation loans at periods ended:

	March 31, 2022							
	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	$ 12,557	$ 33,610	$ –	$ –	$ –	$ –	$ 12,557	$ 33,610
Production and intermediate-term	22,019	52,991	4,270	171,220	–	–	26,289	224,211
Loans to cooperatives	3,505	–	–	–	–	–	3,505	–
Processing and marketing	16,006	42,295	1,116	–	–	–	17,122	42,295
Farm-related business	264	27	101	–	–	–	365	27
Power and water/waste disposal	312	–	–	–	–	–	312	–
Total	$ 54,663	$ 128,923	$ 5,487	$ 171,220	$ –	$ –	$ 60,150	$ 300,143

	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	$ 10,807	$ 27,923	$ –	$ –	$ –	$ –	$ 10,807	$ 27,923
Production and intermediate-term	22,423	53,892	3,947	163,038	–	–	26,370	216,930
Loans to cooperatives	2,601	–	–	–	–	–	2,601	–
Processing and marketing	16,251	25,573	1,116	–	–	–	17,367	25,573
Farm-related business	268	27	118	–	–	–	386	27
Power and water/waste disposal	311	–	–	–	–	–	311	–
Total	$ 52,661	$ 107,415	$ 5,181	$ 163,038	$ –	$ –	$ 57,842	$ 270,453

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

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	March 31, 2022	December 31, 2021
Real estate mortgage:		
Acceptable	95.58%	93.31%
OAEM	2.91	4.62
Substandard/doubtful/loss	1.51	2.07
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	93.07%	91.34%
OAEM	4.08	5.78
Substandard/doubtful/loss	2.85	2.88
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	95.15%	94.85%
OAEM	1.74	1.85
Substandard/doubtful/loss	3.11	3.30
	100.00%	100.00%

	March 31, 2022	December 31, 2021
Farm-related business:		
Acceptable	99.69%	99.61%
OAEM	0.31	0.39
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Power and water/waste disposal		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.93%	98.52%
OAEM	1.06	1.47
Substandard/doubtful/loss	0.01	0.01
	100.00%	100.00%
Total loans:		
Acceptable	94.96%	92.94%
OAEM	3.12	4.75
Substandard/doubtful/loss	1.92	2.31
	100.00%	100.00%

The following tables provide an aging analysis of the recorded investment of past due loans as of:

	March 31, 2022				
	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	$ 2,555	$ 360	$ 2,915	$ 755,820	$ 758,735
Production and intermediate-term	1,304	90	1,394	376,324	377,718
Loans to cooperatives	–	–	–	3,502	3,502
Processing and marketing	–	–	–	53,798	53,798
Farm-related business	–	–	–	16,022	16,022
Communication	–	–	–	(2)	(2)
Power and water/waste disposal	–	–	–	312	312
Rural residential real estate	2	–	2	35,307	35,309
Total	$ 3,861	$ 450	$ 4,311	$ 1,241,083	$ 1,245,394

	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	$ 829	$ 771	$ 1,600	$ 762,763	$ 764,363
Production and intermediate-term	625	222	847	427,884	428,731
Loans to cooperatives	–	–	–	2,597	2,597
Processing and marketing	–	–	–	50,895	50,895
Farm-related business	43	–	43	14,790	14,833
Communication	–	–	–	(2)	(2)
Power and water/waste disposal	–	–	–	310	310
Rural residential real estate	–	–	–	33,668	33,668
Total	$ 1,497	$ 993	$ 2,490	$ 1,292,905	$ 1,295,395

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

	March 31, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	$ 2,784	$ 3,260
Production and intermediate-term	5,879	5,775
Processing and marketing	1,675	1,680
Rural residential real estate	2	5
Total	$ 10,340	$ 10,720
Accruing restructured loans:		
Real estate mortgage	$ 2,881	$ 2,932
Production and intermediate-term	591	640
Total	$ 3,472	$ 3,572
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 13,812	$ 14,292
Other property owned	–	–
Nonperforming assets	$ 13,812	$ 14,292
Nonaccrual loans as a percentage of total loans	0.84%	0.84%
Nonperforming assets as a percentage of total loans and other property owned	1.12%	1.12%
Nonperforming assets as a percentage of capital	4.47%	4.86%

The following table presents information related to the recorded investment of impaired loans at period end. 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.

	March 31, 2022	December 31, 2021
Impaired nonaccrual loans:		
Current as to principal and interest	$ 9,793	$ 9,610
Past due	547	1,110
Total	$ 10,340	$ 10,720
Impaired accrual loans:		
Restructured	$ 3,472	$ 3,572
90 days or more past due	–	–
Total	$ 3,472	$ 3,572
Total impaired loans	$ 13,812	$ 14,292
Additional commitments to lend	$ 1,202	$ 4,300

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

	March 31, 2022			Three Months Ended March 31, 2022	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	5,401	7,124	1,963	5,471	71
Processing and marketing	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 5,401	$ 7,124	$ 1,963	$ 5,471	$ 71
With no related allowance for credit losses:					
Real estate mortgage	$ 5,665	$ 7,425	$ –	$ 5,738	$ 75
Production and intermediate-term	1,069	2,228	–	1,082	15
Processing and marketing	1,675	1,700	–	1,697	22
Rural residential real estate	2	103	–	2	–
Total	$ 8,411	$ 11,456	$ –	$ 8,519	$ 112
Total impaired loans:					
Real estate mortgage	$ 5,665	$ 7,425	$ –	$ 5,738	$ 75
Production and intermediate-term	6,470	9,352	1,963	6,553	86
Processing and marketing	1,675	1,700	–	1,697	22
Rural residential real estate	2	103	–	2	–
Total	$ 13,812	$ 18,580	$ 1,963	$ 13,990	$ 183

	December 31, 2021			Year Ended December 31, 2021	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	5,237	6,826	1,659	8,247	573
Processing and marketing	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 5,237	$ 6,826	$ 1,659	$ 8,247	$ 573
With no related allowance for credit losses:					
Real estate mortgage	$ 6,192	$ 7,924	$ –	$ 9,752	$ 677
Production and intermediate-term	1,178	2,338	–	1,855	128
Processing and marketing	1,680	1,700	–	2,646	184
Rural residential real estate	5	104	–	7	1
Total	$ 9,055	$ 12,066	$ –	$ 14,260	$ 990
Total impaired loans:					
Real estate mortgage	$ 6,192	$ 7,924	$ –	$ 9,752	$ 677
Production and intermediate-term	6,415	9,164	1,659	10,102	701
Processing and marketing	1,680	1,700	–	2,646	184
Rural residential real estate	5	104	–	7	1
Total	$ 14,292	$ 18,892	$ 1,659	$ 22,507	$ 1,563

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:							
Balance at December 31, 2021	$ 6,977	$ 5,573	$ 624	$ –	$ 3	$ 307	$ 13,484
Charge-offs	–	(1)	–	–	–	–	(1)
Recoveries	12	1	–	–	–	–	13
Provision for loan losses	37	(112)	55	–	–	20	–
Balance at March 31, 2022	$ 7,026	$ 5,461	$ 679	$ –	$ 3	$ 327	$ 13,496
Balance at December 31, 2020	$ 6,942	$ 6,193	$ 594	$ 17	$ –	$ 325	$ 14,071
Charge-offs	(3)	(5)	–	–	–	–	(8)
Recoveries	12	63	–	–	–	–	75
Provision for loan losses	654	(763)	89	1	–	19	–
Balance at March 31, 2021	$ 7,605	$ 5,488	$ 683	$ 18	$ –	$ 344	$ 14,138
Allowance on loans evaluated for impairment:							
Individually	$ –	$ 1,963	$ –	$ –	$ –	$ –	$ 1,963
Collectively	7,026	3,498	679	–	3	327	11,533
Balance at March 31, 2022	$ 7,026	$ 5,461	$ 679	$ –	$ 3	$ 327	$ 13,496
Individually	$ –	$ 1,659	$ –	$ –	$ –	$ –	$ 1,659
Collectively	6,977	3,914	624	–	3	307	11,825
Balance at December 31, 2021	$ 6,977	$ 5,573	$ 624	$ –	$ 3	$ 307	$ 13,484
Recorded investment in loans evaluated for impairment:							
Individually	$ 5,665	$ 6,470	$ 1,675	$ –	$ –	$ 2	$ 13,812
Collectively	753,070	371,248	71,647	(2)	312	35,307	1,231,582
Balance at March 31, 2022	$ 758,735	$ 377,718	$ 73,322	$ (2)	$ 312	$ 35,309	$ 1,245,394
Individually	$ 6,192	$ 6,415	$ 1,680	$ –	$ –	$ 5	$ 14,292
Collectively	758,171	422,316	66,645	(2)	310	33,663	1,281,103
Balance at December 31, 2021	$ 764,363	$ 428,731	$ 68,325	$ (2)	$ 310	$ 33,668	$ 1,295,395

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

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

	Three Months Ended March 31, 2022				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 32	$ –	$ –	$ 32	
Production and intermediate-term	–	5,247	–	5,247	
Total	$ 32	$ 5,247	$ –	$ 5,279	
Post-modification:					
Real estate mortgage	$ 32	$ –	$ –	$ 32	$ –
Production and intermediate-term	–	5,247	–	5,247	–
Total	$ 32	$ 5,247	$ –	$ 5,279	$ –

	Three Months Ended March 31, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ –	$ 776	$ 776	
Total	$ –	$ –	$ 776	$ 776	
Post-modification:					
Real estate mortgage	$ –	$ –	$ 776	$ 776	$ (5)
Total	$ –	$ –	$ 776	$ 776	$ (5)

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

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

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2022	December 31, 2021	March 31, 2022	December 31, 2021
Real estate mortgage	$ 3,651	$ 3,748	$ 770	$ 816
Production and intermediate-term	5,810	5,996	5,219	5,356
Total loans	$ 9,461	$ 9,744	$ 5,989	$ 6,172
Additional commitments to lend	$ –	$ 2,000		

Note 3 — Investments

Equity Investments in Other Farm Credit System 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.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 3.99 percent of the issued stock of the Bank as of March 31, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled $39.1 billion and shareholders' equity totaled $2.0 billion. The Bank's earnings were $113 million for the first three months of 2022. In addition, the Association held investments of $728 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — 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.

The classifications within the fair value hierarchy are as follows:

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

Level 2 inputs 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 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 could also include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or 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.

March 31, 2022	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets held in trust funds	$ 4,492	$ 4,492	$ –	$ –	$ 4,492
Recurring Assets	$ 4,492	$ 4,492	$ –	$ –	$ 4,492
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans*	$ 3,463	$ –	$ –	$ 3,463	$ 3,463
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 3,463	$ –	$ –	$ 3,463	$ 3,463
Other Financial Instruments					
Assets:					
Cash	$ 4	$ 4	$ –	$ –	$ 4
Loans	1,216,447	–	–	1,164,408	1,164,408
Accounts receivable	2,376	2,376	–	–	2,376
Other Financial Assets	$ 1,218,827	$ 2,380	$ –	$ 1.164,408	$ 1,166,788
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 930,369	$ –	$ –	$ 897,446	$ 897,446
Other Financial Liabilities	$ 930,369	$ –	$ –	$ 897,446	$ 897,446

December 31, 2021	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 4,436	$ 4,436	$ –	$ –	$ 4,436
Recurring Assets	$ 4,436	$ 4,436	$ –	$ –	$ 4,436
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans**	$ 3,778	$ –	$ –	$ 3,778	$ 3,778
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 3,778	$ –	$ –	$ 3,778	$ 3,778
Other Financial Instruments					
Assets:					
Cash	$ 6	$ 6	$ –	$ –	$ 6
Loans	1,263,598	–	–	1,245,703	1,245,703
Accounts receivable	21,307	21,307	–	–	21,307
Other Financial Assets	$ 1,284,911	$ 21,313	$ –	$ 1,245,703	$ 1,267,016
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,001,022	$ –	$ –	$ 991,411	$ 991,411
Other Financial Liabilities	$ 1,001,022	$ –	$ –	$ 991,411	$ 991,411

**Carrying value of impaired loans is the balance of loans with a related specific reserve ($5,401) less related specific reserves ($1,963) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($25).*

***Carrying value of impaired loans is the balance of loans with a related specific reserve ($5,237) less related specific reserves ($1,659) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($200).*

Uncertainty in Measurements of Fair Value

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

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

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements
With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

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
Accounts receivable	Carrying value	Par/principal
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 6 — Employee Benefit Plans

The following is a table of retirement and other postretirement benefit expenses for the Association:

	Three Months Ended March 31,	
	2022	2021
Pension	$ 223	$ 523
401(k)	334	303
Other postretirement benefits	78	96
Total	$ 635	$ 922

Expenses in the above table are computed using allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2022.

Further details regarding employee benefit plans are contained in the 2021 Annual Report to Shareholders.

Note 7 — Commitments and Contingent Liabilities

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 remote the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 8 — Merger Activity

On April 11, 2022, the Board of Directors of the Association and Cape Fear Farm Credit, ACA signed a letter of intent to merge the two Associations. The merger is subject to AgFirst, FCA and shareholder approval. If approved by all required parties, the merger is expected to take effect upon the commencement of business on January 1, 2023.

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through May 9, 2022, which was the date the financial statements were issued.

On April 11, 2022, the boards of AgCarolina Farm Credit, ACA and Cape Fear Farm Credit, ACA announced intentions to pursue a merger. See further discussion in Note 8, *Merger Activity*.

Cape Fear Farm Credit, ACA

2021 Annual Report

Contents

Report of Management

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

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all consolidated 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 Cape Fear Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Nash Johnson
Chairman of the Board

Evan J. Kleinhans
Chief Executive Officer

Charles M. Hester
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.

Evan J. Kleinhans
Chief Executive Officer

Charles M. Hester
Chief Financial Officer

March 10, 2022

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2021	2020	December 31, 2019	2018	2017
Balance Sheet Data					
Cash	$ 49	$ 1	$ 2,043	$ 2,543	$ 2,606
Investments in debt securities	2,584	2,663	3,490	3,738	3,978
Loans	1,063,198	1,025,728	958,185	928,304	933,424
Allowance for loan losses	(8,542)	(10,232)	(9,954)	(13,528)	(7,911)
Net loans	1,054,656	1,015,496	948,231	914,776	925,513
Equity investments in other Farm Credit institutions	9,485	10,168	10,677	10,673	10,257
Other property owned	236	—	477	366	1,167
Other assets	34,043	28,342	24,242	26,447	25,506
Total assets	$ 1,101,053	$1,056,670	$ 989,160	$ 958,543	$ 969,027
Notes payable to AgFirst Farm Credit Bank*	$ 836,955	$ 801,307	$ 747,905	$ 742,744	$ 746,548
Accrued interest payable and other liabilities with maturities of less than one year	37,405	34,258	26,779	12,280	23,145
Total liabilities	874,360	835,565	774,684	755,024	769,693
Protected borrower stock	—	—	3	3	3
Capital stock and participation certificates	2,581	2,512	2,450	2,464	2,507
Retained earnings					
Allocated	118,319	116,377	112,361	103,116	100,298
Unallocated	106,060	102,507	99,950	98,205	96,833
Accumulated other comprehensive income (loss)	(267)	(291)	(288)	(269)	(307)
Total members' equity	226,693	221,105	214,476	203,519	199,334
Total liabilities and members' equity	$ 1,101,053	$1,056,670	$ 989,160	$ 958,543	$ 969,027
Statement of Income Data					
Net interest income	$ 28,737	$ 28,757	$ 29,062	$ 26,816	$ 25,786
Provision for (reversal of allowance for) loan losses	(1,026)	963	(2,969)	6,022	787
Noninterest income (expense), net	6,738	4,279	(1,039)	(603)	1,624
Net income	$ 36,501	$ 32,073	$ 30,992	$ 20,191	$ 26,623
Key Financial Ratios					
Rate of return on average:					
Total assets	3.44%	3.16%	3.25%	2.15%	2.91%
Total members' equity	15.62%	14.25%	14.29%	9.79%	13.55%
Net interest income as a percentage of average earning assets	2.75%	2.88%	3.10%	2.92%	2.89%
Net (chargeoffs) recoveries to average loans	(0.064)%	(0.069)%	(0.065)%	(0.044)%	(0.069)%
Total members' equity to total assets	20.59%	20.92%	21.68%	21.23%	20.57%
Debt to members' equity (:1)	3.86	3.78	3.61	3.71	3.86
Allowance for loan losses to loans	0.80%	1.00%	1.04%	1.46%	0.85%
Permanent capital ratio	20.33%	20.57%	21.60%	20.35%	20.53%
Common equity tier 1 capital ratio	20.18%	20.36%	21.36%	20.07%	20.35%
Tier 1 capital ratio	20.18%	20.36%	21.36%	20.07%	20.35%
Total regulatory capital ratio	20.93%	21.38%	22.47%	21.15%	21.22%
Tier 1 leverage ratio	21.18%	21.19%	21.87%	20.56%	20.45%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	21.37%	21.45%	22.14%	20.80%	20.66%
Net Income Distribution					
Estimated patronage refunds:					
Cash	$ 31,000	$ 25,500	$ 20,000	$ 16,000	$ 15,000
Nonqualified retained earnings	1,625	3,956	8,915	2,187	9,473

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

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for 105 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 Southeastern North Carolina. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

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

Copies of the Association's Annual and unaudited Quarterly Reports are available upon request free of charge on the Association's website, ***www.capefearfarmcredit.com***, or by calling 1-800-368-5819, extension 3262, or writing Charles M. Hester, Chief Financial Officer, Cape Fear Farm Credit, P.O. Box 2405, Fayetteville, NC, 28302. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly Report, which is available on the website, within 40 days after the end of each fiscal quarter, except that no report need 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 which impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned the vast majority of its employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. The Association has returned to pre-pandemic working conditions but continues to allow some contingent of staff to work remotely.

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

COVID-19 Support Programs

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

The farm sector and farm households were among those impacted and were provided financial assistance through the U.S. Department of Agriculture (USDA) and other government agency programs. Among the many programs was the Paycheck Protection Program (PPP). The PPP provided support to small businesses to cover payroll and certain other expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States government. As of December 31, 2021, the Association had $1.35 million of these loans outstanding. In addition, through December 31, 2021, the volume of such loans that have received forgiveness from the SBA since the start of the program was $8.77 million.

AGRICULTURAL OUTLOOK

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

The following USDA analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data for the Association.

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

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

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

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

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

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and 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

North Carolina's economy continues to trend upward as labor markets have strengthened, household conditions have improved, and housing market indicators have moved in a positive direction. The Cape Fear region continues to have slower economic growth in comparison to other parts of the state and country. North Carolina's December 2021 unemployment rate decreased from 6.2% in December of 2020 to 3.7%, and is below the national rate of 3.9%. The unemployment rate in Southeastern North Carolina is higher than the state average. Of the 12 counties in Southeastern North Carolina that the Association serves, 67% are ranked by the North Carolina Department of Commerce as Tier 1, or most distressed in terms of economic wellbeing, 8% are ranked as Tier 2, or moderately distressed, and 25% are ranked as Tier 3, or least distressed.

Overall, the farm sector profitability is expected to decrease in 2022 caused by higher input costs and labor changes. Additionally, COVID-19, slower global economic growth, and unprecedented government support has injected volatility into the outlook. Liquidity in the balance sheet has eroded for many farmers and has created the need for debt restructuring and additional borrowing by some. Many farmers are being supported by government payments designed to offset impacts of trade policy, COVID-19, and other atypical events.

The swine and poultry segments, the largest commodity exposures in our portfolio, remain profitable due to lower feed costs, but face headwinds due to rising facility costs. The swine industry faces more certainty than in previous years, after support for the North Carolina Right to Farm Act remained intact. Significant poultry sector expansion has slowed in the Cape Fear region. Disease outbreaks have slowed for livestock farmers and are being managed by proper biosecurity; however, continued diligence is needed. Production levels have created large supplies of hogs and poultry. A strong US dollar and trade policy pose as potential threats as the export market plays a significant role in maintaining current price levels.

Crop production, the third largest portion of the loan portfolio, has rebounded under favorable weather conditions and increases in commodity prices. Input costs remain high for most crops. Commodity prices are forecast to remain stable in the near term. Tobacco production has seen further contraction and a subset of farmers are exiting as a result.

Farm real estate values increased during 2020-2021; continued shortages of quality farm land and used equipment will have the potential to continue to push asset values higher in 2022.

Credit quality reflects the challenging lending environment with 95.90% rated acceptable, which is an increase from last year. Loans classified as other assets especially mentioned, currently collectible but exhibiting some potential weakness, decreased from last year to 2.90%. Loans classified as substandard, those exhibiting serious weaknesses in repayment capacity, equity and/or loan performance, increased from last year to 1.20%. Management expects credit quality to remain strong in most segments during 2022 as Cape Fear Farm Credit's financial performance continues to be strong.

Our Association's loan officers, with the support and direction of our senior leadership team, have successfully navigated the challenges of operating in difficult economic conditions. We continue to adhere to our mission to be the lender of choice to all of agriculture and our rural communities. Our expertise in agricultural and rural lending allows us to help our customer-owners through the fluctuations and uncertainties that are prevalent in the agricultural industry today.

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.

	December 31,					
Loan Type	**2021**		**2020**		**2019**	
	(dollars in thousands)					
Real estate mortgage	$ 775,094	72.90%	$ 770,944	75.16%	$ 692,542	72.28%
Production and intermediate-term	207,190	19.49	189,799	18.50	214,463	22.38
Processing and marketing	33,126	3.11	29,014	2.83	19,508	2.04
Loans to cooperatives	15,905	1.50	7,266	0.71	6,293	0.66
Farm-related business	13,035	1.23	13,706	1.34	11,551	1.20
Rural residential real estate	6,402	0.60	5,523	0.54	4,679	0.49
Lease receivables	4,515	0.42	1,629	0.16	2,722	0.28
Communication	4,334	0.41	4,251	0.41	1,228	0.13
International	3,597	0.34	3,596	0.35	3,594	0.37
Power and water/waste disposal	–	–	–	–	1,605	0.17
	$ 1,063,198	100.00%	$ 1,025,728	100.00%	$ 958,185	100.00%

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

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

Branch/State	December 31, 2021	2020	2019
Burgaw	5.00%	4.68%	4.83%
Clinton	16.20	15.46	15.03
Elizabethtown	9.22	8.57	8.88
Fayetteville	–	3.11	3.09
Harnett County	8.07	7.21	8.19
Kenansville	24.59	23.78	23.98
Lumberton	5.08	4.19	4.70
Raeford	8.22	7.23	6.26
Whiteville	4.00	3.83	3.88
Capital Markets	11.37	11.15	9.64
Commercial	7.69	9.85	9.86
Special Asset Management	0.56	0.94	1.66
	100.00%	100.00%	100.00%

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

The major commodities in the Association's loan portfolio are shown below. The predominant commodities are Chickens, Swine, and Field & Row Crops, which constitute 67% of the entire portfolio.

Commodity Group	December 31, 2021		2020 (dollars in thousands)		2019	
Chickens	$ 326,146	31%	$ 317,832	31%	$ 269,271	28%
Swine	285,290	27	298,781	29	291,591	30
Field & Row Crops	96,024	9	89,070	9	86,249	9
Fruits, Vegetables & Nuts	62,912	6	49,896	5	48,900	5
Timber, Sawmills & Paper	60,375	6	60,429	6	55,649	6
Landlords	56,148	5	47,695	4	47,915	5
Other	41,958	4	37,841	4	30,485	3
Livestock	40,747	4	27,939	3	22,654	2
Turkeys	38,218	3	35,464	3	34,894	4
Tobacco	25,956	2	34,983	3	42,004	4
Cotton	14,419	1	12,458	1	15,332	2
Non-Farm & Miscellaneous	8,740	1	8,194	1	7,480	1
Rural Home	6,265	1	5,146	1	5,761	1
Total	$ 1,063,198	100%	$ 1,025,728	100%	$ 958,185	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 chicken, swine, and field & row crop producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Demand for pork and chicken, prices of field grains, and international trade are some of the factors affecting the price of these commodities. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The Association had a 13.38% increase in gross accruing loan volume for the twelve months ended December 31, 2021, in comparison with the same period of 2020. Purchased accruing loans decreased by $12,652 or 8.86% in 2021 from 2020. The Association had a $172,065 or 30.02% increase in sold volume, which equated to a 4.00% increase in net accruing loan volume in 2021 in comparison with 2020.

During 2021, the Association continued activity in the selling of loan participations within the System. Selling participation loans provides a means for the Association to spread credit concentration risk and realize interest and fee income which may strengthen our capital position. The Association continued strict guidelines for purchases in 2021.

Loan Participations:	December 31, 2021	2020 (dollars in thousands)	2019
Participations Purchased – FCS Institutions	$ 91,722	$ 73,522	$ 52,086
Participations Purchased – Non-FCS Institutions	38,865	69,575	46,437
Participations Sold	(753,586)	(581,460)	(467,829)
Total	$ (622,999)	$ (438,363)	$ (369,306)

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 continued to sell qualified long-term mortgage loans into the secondary market in 2021. For the period ended December 31, 2021, the Association originated loans for resale totaling $645, which was a decrease of $137 or 17.43% from the 2020 amount of $782 originated. Of the $645 originated in 2021, $587 was sold into the secondary market and $58 in loans were held for sale at year end waiting processing and funding. The Association originated $782 loans for resale in 2020, $642 were sold into the secondary market and $140 in loans were held for sale at year end waiting processing and funding. The Association originated $1,883 loans for resale in 2019, all of which were sold into the secondary market and no loans were held for sale at year end waiting processing and funding.

MISSION RELATED INVESTMENTS

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

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program was to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds are classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. At December 31, 2021, the Association had $2,584 in Rural America Bonds as compared to $2,663 and $3,490 at December 31, 2020 and December 31, 2019, respectively. For the three years presented, all were classified as investment securities.

Effective December 31, 2016, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

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. 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	98.80%	99.11%	97.78%
Substandard	1.20%	0.89%	2.22%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

The Association monitors and manages risk concentrations to safeguard the investment of its stockholders. Risk concentrations can arise from:

- the collective exposure of loan(s) to a single obligor or group of obligors;
- a group of loans in which the primary repayment source is dependent upon a common affiliated party such as a livestock integrator, a marketing cooperative, a specialized buying station, etc.;
- a group of loans whose primary repayment source is dependent upon a specific commodity or industry;
- financial entities failing to meet their contractual obligations to the Association, referred to as financial counterparty risk.

The tools for managing these risks include financial monitoring of the risk source, proper reserve and capital levels, loan participations and cooperative lending, government guarantees, standby loan guarantees issued by other financial institutions, and periodic stress testing of the Association's portfolio.

The Association maintains a standby loan guarantee agreement with Farmer Mac, a separate entity of the Farm Credit System, to guarantee pools of loans. Under the terms of the agreement that was established in 2011, Farmer Mac is obligated to purchase loans that default and limit the Association's maximum loss potential to $4,000 within this guarantee pool. In 2021, the Association modified the agreement with Farmer Mac and established another pool of loans which have no loss share and are 100 percent guaranteed. At December 31, 2021, the principal balance of loans guaranteed by Farmer Mac was $34,833. The balance of loans guaranteed for years ended 2020 and 2019 was $8,430 and $12,712, respectively. No losses have been recognized on the Farmer Mac pool in 2021, 2020 or 2019.

The Association also utilizes government guarantees to help reduce risk on individual loan relationships and to help manage concentration risk. At December 31, 2021, the balance of loans secured by a government guarantee was $38,314. The balance of loans secured by a government guarantee for the years ended 2020 and 2019 was $41,616 and $45,403, respectively.

Nonperforming Assets

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

High-Risk Assets	2021	December 31, 2020	2019
		(dollars in thousands)	
Nonaccrual loans	$ 5,940	$ 9,150	$ 15,802
Accruing restructured loans	4,110	5,276	3,481
Accruing bankruptcy loans	–	–	–
Accruing loans 90 days past due	–	–	–
Total high-risk loans	10,050	14,426	19,283
Other property owned	236	–	477
Total high-risk assets	$ 10,286	$ 14,426	$ 19,760
Ratios			
Nonaccrual loans to total loans	0.56%	0.89%	1.65%
High-risk assets to total assets	0.93%	1.37%	2.00%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $3,210 or 35.08% in 2021 in comparison with 2020. The contraction in nonaccrual volume was primarily attributed to several liquidations, charge off activities and paydowns of nonaccrual balances during the twelve month period. Of the $5,940 in nonaccrual volume at December 31, 2021, $2,698 or 45.42%, compared to $3,181 or 34.76% and $8,913 or 56.40% 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:	2021	Year Ended December 31, 2020	2019
		(dollars in thousands)	
Balance at beginning of year	$ 10,232	$ 9,954	$ 13,528
Charge-offs:			
Real estate mortgage	(368)	(22)	(489)
Production and intermediate-term	(644)	(295)	(597)
Agribusiness*	(4)	(455)	–
Power and water/waste disposal	–	–	(1)
Rural residential real estate	–	–	(75)
Lease receivables	–	(7)	–
Total charge-offs	(1,016)	(779)	(1,162)
Recoveries:			
Real estate mortgage	20	–	3
Production and intermediate-term	162	89	503
Agribusiness*	170	1	49
Power and water/waste disposal	–	–	1
Rural residential real estate	–	–	1
Lease receivables	–	4	–
Total recoveries	352	94	557
Net (charge-offs) recoveries	(664)	(685)	(605)
Provision for (reversal of allowance for) loan losses	(1,026)	963	(2,969)
Balance at end of year	$ 8,542	$ 10,232	$ 9,954
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.064)%	(0.069)%	(0.065)%

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

The allowance for loan losses decreased by $1,690 in 2021 compared to 2020. The decrease in allowance was attributed to decreases in both the general and specific 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
	(dollars in thousands)		
Real estate mortgage	$ 5,113	$ 6,122	$ 5,635
Production and intermediate-term	3,019	3,581	3,823
Agribusiness*	272	313	274
Communication	30	35	31
Power and water/waste disposal	3	3	3
Rural residential real estate	45	52	45
International	30	34	30
Lease receivables	30	92	113
Total allowance	$ 8,542	$ 10,232	$ 9,954

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	0.80%	1.00%	1.04%
Nonperforming loans	85.00%	70.93%	51.62%
Nonaccrual loans	143.80%	111.82%	62.99%

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 $28.7 million, $28.8 million, and $29.1 million for the years ended 2021, 2020 and 2019, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
	(dollars in thousands)			
12/31/21 - 12/31/20				
Interest income	$ 1,874	$ (3,548)	$ (804)	$ (2,478)
Interest expense	807	(3,265)	–	(2,458)
Change in net interest income	$ 1,067	$ (283)	$ (804)	$ (20)
12/31/20 - 12/31/19				
Interest income	$ 3,297	$ (7,499)	$ (585)	$ (4,787)
Interest expense	1,682	(6,164)	–	(4,482)
Change in net interest income	$ 1,615	$ (1,335)	$ (585)	$ (305)

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

Noninterest Income

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

Noninterest Income	For the Year Ended December 31, 2021	2020	2019	Percentage Increase/(Decrease) 2021/2020	2020/2019
	(dollars in thousands)				
Loan fees	$ 2,947	$ 2,136	$ 1,987	37.97 %	7.50 %
Fees for financially related services	23	9	11	155.56	(18.18)
Patronage refunds from other Farm Credit institutions	21,878	18,003	12,059	21.52	49.29
Other noninterest income	113	255	779	(55.69)	(67.27)
Total noninterest income	$ 24,961	$ 20,403	$ 14,836	22.34 %	37.52 %

Noninterest income for the year ended 2021 increased $4,558 or 22.34% compared to the year ended 2020. The increase was attributed to a $3,875 increase in patronage refunds from other Farm Credit institutions, an $811 increase in loan fees, and a $14 increase in fees for financially related services. The overall increase was offset by a $142 decrease in other noninterest income that was largely driven by a decrease in insurance funds refunds.

Noninterest income for the year ended 2020 increased $5,567 or 37.52% compared to the year ended 2019. The increase was attributed to a $5,944 increase in patronage refunds from other Farm Credit institutions and a $149 increase in loan fees. The overall increase was offset by a $524 decrease in other noninterest income that was largely driven by a decrease in gains on sales of premises and equipment and a $2 decrease in fees for financially related services.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2021	2020	2019	Percentage Increase/(Decrease) 2021/2020	2020/2019
	(dollars in thousands)				
Salaries and employee benefits	$ 11,867	$ 10,808	$ 10,146	9.80 %	6.52 %
Occupancy and equipment	860	875	941	(1.71)	(7.01)
Insurance Fund premiums	1,262	727	642	73.59	13.24
(Gains) losses on other property owned, net	42	(14)	19	(400.00)	(173.68)
Other operating expenses	4,169	3,816	4,053	9.25	(5.85)
Total noninterest expense	$ 18,200	$ 16,212	$ 15,801	12.26 %	2.60 %

Noninterest expense for the year ended 2021 increased $1,988 or 12.26% compared to the year ended 2020. The increase was attributed to a $1,059 increase in salaries and employee benefits and a $535 increase in insurance fund premiums. The FCSIC increased the rate on adjusted insured debt outstanding to 16 basis points for 2021. In addition, there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. Furthermore, there was a $353 increase in other operating expenses and a $56 increase in losses on other property owned. The overall increase was offset by a $15 decrease in occupancy and equipment.

Noninterest expense for the year ended 2020 increased $411 or 2.60% compared to the year ended 2019. The increase was attributed to a $662 increase in salaries and employee benefits and an $85 increase in insurance funds premiums. The overall increase was offset by a $237 decrease in other operating expenses, a $66 decrease in occupancy and equipment, and a $33 increase in gains on other property owned.

Income Taxes

The Association recorded a provision for income taxes of $23 for the year ended 2021 as compared to a benefit of $88 for 2020 and a provision of $74 for 2019. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *Income Taxes* of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/21	12/31/20	12/31/19
Return on average assets	3.44%	3.16%	3.25%
Return on average members' equity	15.62%	14.25%	14.29%
Net interest income as a percentage of average earning assets	2.75%	2.88%	3.10%
Net (charge-offs) recoveries to average loans	(0.064)%	(0.069)%	(0.065)%

Cape Fear Farm Credit has enjoyed robust earnings in recent years with strong interest income as well as noninterest income. The Association has experienced moderate loan volume growth over the last three years. Net charge-offs as a percentage of average loans have remained less than (1.0)% over the last three years, and the Association's net interest margin has remained strong.

Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. We also seek to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2021, was $836,955 as compared to $801,307 at December 31, 2020 and $747,905 at December 31, 2019. The increase of 4.45% and 7.14% compared to December 31, 2020 and December 31, 2019, respectively, was attributed to an increase in loan volume year over year. The average volume of outstanding notes payable to the Bank was $814,598 for the year ended December 31, 2021. For the years ended December 31, 2020 and 2019, the average volume of outstanding notes payable to the Bank was $778,790 and $729,749, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. 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 available 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 30 or 90-day London Interbank Offered Rate (LIBOR). A discussion on the LIBOR reference rate reform is detailed in the "Future of LIBOR" section of this Management's Discussion and Analysis. Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

Relationship with the Bank

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

The Bank's ability to access capital of the Association is discussed in Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements.

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

CAPITAL RESOURCES

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

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

Total members' equity at December 31, 2021, increased 2.53% to $226,693 from the December 31, 2020 total of $221,105. At December 31, 2020, total members' equity increased 3.09% from the December 31, 2019 total of $214,476. The increases were primarily due to net income retained for 2021 and 2020.

Total capital stock and participation certificates were $2,581 on December 31, 2021, compared to $2,512 on December 31, 2020, and $2,453 on December 31, 2019.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. For all periods represented, the Association exceeded minimum regulatory standards for all 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%	20.18%	20.36%	21.36%
Tier 1 Capital Ratio	6.0%	2.50%	8.50%	20.18%	20.36%	21.36%
Total Capital Ratio	8.0%	2.50%	10.50%	20.93%	21.38%	22.47%
Permanent Capital Ratio	7.0%	0.00%	7.00%	20.33%	20.57%	21.60%
Non-risk-adjusted:						
Tier 1 Leverage Ratio	4.0%	1.00%	5.00%	21.18%	21.19%	21.87%
UREE Leverage Ratio	1.5%	0.00%	1.50%	21.37%	21.45%	22.14%

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

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.

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

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

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This program includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $31,000 in 2021, $25,500 in 2020, and $20,000 in 2019.

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

The Association's mission is to be the lender of choice to agriculture and our rural communities, which includes providing credit to Young*, Beginning** and Small*** farmers. We recognize these farmers are vital to the future growth of the Association, its ability to succeed at its mission, and the economic health of Southeastern North Carolina. Demographic data indicates that the average age of a farmer is increasing, making it even more important for the Association to be committed to attracting, growing and retaining young, beginning and small farmer/ranchers.

For these reasons, the Association has established annual business goals to ensure we meet the financial needs of these farmers and increase our market share of loans to these farmers. Our business goals include both specific marketing plans to target these groups and designated resources to help ensure YBS borrowers have access to a stable source of credit. The Association will continue to strive to build its YBS portfolio.

The following table outlines the loan volume and number of YBS loans originated by the Association in 2021.

	As of December 31, 2021	
	Number of Loans	Amount of Loans
Young	314	$77,433
Beginning	420	$112,535
Small	555	$48,053

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. Dollar figures are in thousands.

The 2017 USDA Ag census data has been used as a benchmark to measure the Association's market share to this group of farmers. The census indicated there were 8,529 farmers within the Association's chartered territory (counties). Of these reported farmers, the following were classified as Young, Beginning or Small Farmers:

- 674 or 8.6% of the total – Young;
- 2,249 or 27.9% of the total – Beginning; and
- 6,102 or 75.9% of the total – Small.

The Ag census does not collect data on how many of these farmers borrow money thus a fair comparison of market percentage is not possible; however, as of December 31, 2021, the demographics of the Association's agricultural portfolio contained 5,045 loans to farmers. Of that total, the following were classified as Young, Beginning or Small Farmers:

- 826 or 16.37% of the total were Young Farmers;
- 1,152 or 22.83% of the total were Beginning Farmers; and
- 1,814 or 35.95% of the total were to Small Farmers.

The Association recognizes that these farmers have unique credit and business needs to be successful. Through marketing, outreach and financial support programs, we maintain a multi-pronged program to help young, beginning and small farmers. These initiatives and outreach programs included:

- Support of 4-H, FFA, and young farmer organizations through sponsorships, donations and fundraisers.
- Involvement of at least one Young, Beginning, or Small (YBS) Farmer on each Branch Advisory Committee.
- Implementation of streamlined loans with reduced cost.
- Sponsorship of a program called Ag Biz Planner – an e-learning course focused on helping young, beginning, small, minority or veteran farmers develop a business plan and learn to be successful business owners. At the conclusion of the online portion, all participants come together for a day and a half conference to hear expert speakers and engage in network activities to put in practice the principles learned in the course.
- Sponsorship of an Emerging Entrepreneurs' Conference – a three day conference focused on young, beginning, small, minority and veteran farmers. Topics include farm transition, farm management, issues facing agriculture, and strategic planning all delivered by expert speaker(s). The conference is designed to create an interactive environment for emerging entrepreneurs to network and share ideas.
- Advertising, including social media and use of the Association's internet site, to reach YBS Farmers.

The Chief Credit Officer coordinates the Association's YBS efforts. The Association includes YBS goals in the annual strategic plan, and reports on those goals and achievements to the Board of Directors on a quarterly basis.

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

* 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 thousand in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

REGULATORY MATTERS

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

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

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

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

FUTURE OF LIBOR

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

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

The Association has exposure to LIBOR arising from loans made to customers and the note payable to AgFirst Farm Credit Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

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

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

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

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

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

The following is a summary of Association outstanding variable-rate financial instruments tied to LIBOR at December 31, 2021:

(dollars in millions)	Due in 2022	Due in 2023 (On or Before June 30)	Due After June 30, 2023	Total
Loans	$ 3,738	$ 626	$ 65,618	$ 69,982
Total	$ 3,738	$ 626	$ 65,618	$ 69,982
Note Payable to AgFirst Farm Credit Bank	$ 2,871	$ 481	$ 50,400	$ 53,572
Total	$ 2,871	$ 481	$ 50,400	$ 53,572

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, 86.16% of total loans maturing after June 30, 2023 contain fallback language.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2023.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Unincorporated Business Entities

The Association holds an equity ownership in the following Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC). The LLCs were organized for the stated purpose of acquiring and managing unusual or complex collateral associated with former loans until such time as the assets may be sold or otherwise disposed of pursuant to the terms of the Operating Agreements of the respective LLCs.

Entity Name	Entity Type	Entity Purpose
Cape Fear Acquisitions	LLC	Manage Acquired Property
A1 Sequatchie Point	LLC	Manage Acquired Property
Pickens County Properties	LLC	Manage Acquired Property

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity as of 12/31/21, all of which are located in North Carolina:

Location	Description	Form of Ownership
333 East Russell Street Fayetteville	Administrative	Leased
2919 Breezewood Avenue Suite 400 Fayetteville	Administrative	Owned
322 North Main Street Kenansville	Branch	Leased
400 West Broad Street Dunn	Branch	Owned
1780 Southeast Boulevard Clinton	Branch	Owned
127 Beasley Street Kenansville	Branch	Owned
811 South Walker Street Burgaw	Branch	Owned
108 North Polar Street Elizabethtown	Branch	Owned
331 South Main Street Raeford	Branch	Owned
1902 North Cedar Street Lumberton	Branch	Owned
300 Liberty Street Whiteville	Branch	Owned

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

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

Senior Officer	Position & Other Business Interests
Evan J. Kleinhans	*President / Chief Executive Officer* since September 2019. He previously served as Chief Financial Officer for eight years. Member of the Board of Directors for the North Carolina Foundation for Soil and Water Conservation. Member of the Board of Directors for the North Carolina's Southeast Regional Economic Development Partnership.
Janna C. Bass	*Senior Vice President / Marketing and Financial Services Manager* since August 2019. She previously served as Marketing Manager for two years. Prior, she served as Coordinator of Special Projects at Sampson Community College. Member of the College of Agriculture and Environmental Sciences Advisory Board for NC A&T State University.
Mark A. Cochran	*Senior Vice President / Director of Information Technology* from June 2018 to December 2021. He previously served as an Executive Director of Business Technology Operations for 15 years at Healthways, Inc.
Brook H. Gillis	*Senior Vice President / Chief Sales Officer* since January 2020. She previously served as a Regional Manager for the Southern Region of Cape Fear Farm Credit's territory. Prior, she served as a Relationship Manager in the Capital Markets Department. She also has more than ten years of lending experience having been a Loan Officer and Branch Manager in the Elizabethtown Branch.
Charles M. Hester	*Senior Vice President / Chief Financial Officer* since December 2019. He previously served as Controller for five years.
Geoffrey J. Manderewicz	*Senior Vice President / Chief Operating and Chief Credit Officer* since January 2020. He previously served as Chief Credit Officer for three years and as Credit Analysis Manager at AgChoice Farm Credit for six years. Prior, he served as a Loan Officer and Branch Manager for Northwest Savings Bank for eight years.
Johnathan O. Patterson	*Senior Vice President / Chief Relationship Officer* since January 2020. He previously served as a Regional Manager for the Northern Region of Cape Fear Farm Credit's territory. Prior, he served as Credit Portfolio Manager and Special Assets Manager. He also has more than 13 years of lending experience having been a Loan Officer and Branch Manager at Carolina Farm Credit and Cape Fear Farm Credit.
Courtney R. Stewart	*Senior Vice President / Director of Risk Management* since April 2020. She previously served as a Consumer Loan Officer, the Compliance Officer, and also the Credit Operations Manager for 11 years.
Sarah B. Temple	*Senior Vice President / Human Resources Manager* since August 2019. She previously served as Senior Human Resources Administrator for three years and as Credit Analyst for five years.
Gerald B. Wilson	*Senior Vice President / Commercial Loan Manager* since April 2019. He previously served as Branch Manager in the Kenansville Branch.

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

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value*	Perq/ Other**	Total
Evan J. Kleinhans	2021	$ 320,134	$ 57,954	$ –	$ –	$ 15,960	$ 394,048
Evan J. Kleinhans	2020	$ 300,012	$ 56,702	$ –	$ –	$ 15,810	$ 372,524
Evan J. Kleinhans	2019	$ 203,966	$ 40,000	$ –	$ –	$ 7,494	$ 251,460
Bradford Cornelius	2019	$ 160,636	$ –	$ –	$ 55,309	$ 15,162	$ 231,107
9	2021	$ 1,197,108	$ 208,475	$ –	$ 120,678	$ 96,168	$ 1,622,428
9	2020	$ 1,130,441	$ 210,985	$ –	$ 490,162	$ 101,717	$ 1,933,305
7	2019	$ 857,412	$ 158,305	$ –	$ 505,704	$ 52,149	$ 1,573,570

All amounts are in actual dollars

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

*** The Perquisites/Other amount in the above chart may include automobile allowance, employer-match/employer-paid 401(k) contributions, life insurance, relocation reimbursement, and other compensation.*

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

Amounts in the above table classified as Perquisites include travel incentives, group life insurance, automobile compensation, purchased automobile, spousal travel, relocation and tuition reimbursement. Amounts in the above table classified as Other include amounts contributed by the Association on behalf of the senior officer to a defined contribution plan unless the plan is made available to all employees on the same basis.

In addition to a base salary, senior officers earn additional compensation under an incentive plan. The Association's incentive plan is designed to motivate employees to maximize the return to Association stockholders. The incentive plan has positive and negative adjustments for factors, including but not limited to, loan volume growth, earnings, efficiencies, and credit quality. All Association employees are covered by the plan. Bonuses shown in previous years are shown in the year earned which may be different than the year of payment. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

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
Senior Officers and Highly Compensated Employees:					
2 Officers	2021	AgFirst Retirement Plan	23.59*	$ 2,016,885	$ –
				$ 2,016,885	$ –

All amounts are in actual dollars
**Represents the average years of credited service for the group*

Retirement and Deferred Compensation Plans

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

Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85." Upon retirement, annual payout is equal to 2 percent of the highest three years average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees hired on or after January 1, 2003 participated in the AgFirst Farm Credit Cash Balance Retirement Plan (CB Plan). The CB Plan was closed to new participants effective as of December 31, 2014, which affected employees hired on or after November 4, 2014, and employer contributions were discontinued effective as of January 1, 2015. All participants who were not already fully vested in the CB Plan became fully vested as of December 31, 2014. The CB Plan was terminated effective as of December 31, 2016, and as a result of the termination, vested benefits were distributed to participants in 2017. Beginning on January 1, 2015, for participants in the CB Plan and eligible employees hired on or after November 4, 2014, additional employer contributions are made to the 401(k) Plan equal to 3.00 percent of the participants' eligible compensation.

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

Senior officers and other highly compensated employees may participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan that allows certain key employees to defer compensation and which restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions to be made by the Association.

Chief Executive Officer

Mr. Kleinhans does not participate in the AgFirst Farm Credit Retirement Plan. Mr. Cornelius participated in the AgFirst Farm Credit Retirement Plan.

Mr. Kleinhans participates in the Farm Credit Benefits Alliance 401(k) Plan. Mr. Cornelius participated in the Farm Credit Benefits Alliance 401(k) Plan.

Mr. Kleinhans does not participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan. Mr. Cornelius did not participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan.

Directors

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

DIRECTOR & TITLE*	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION**	TOTAL COMP. PAID DURING 2021
Nash Johnson II, *Chairman*	2017	2025	$ 28,393
Adrian B. Locklear, *Vice Chairman*	2016	2024	27,500
Alton D. Bain (1), *Outside Director*	2014	2021	4,500
Jennifer B. Daniels	2021	2025	18,269
David R. Gooden (2)	2014	2022	25,000
Anthony T. Grant, *Outside Director*	2013	2023	31,429
Gary A. Hendrix	2007	2022	25,000
Dean C. Hilton	2019	2023	25,000
F. A. Lowrey	2021	2024	26,571
Paul M. Maguire	2014	2022	25,000
T. Morris Murphy	2016	2024	25,000
Jonathan A. Pope (3)	2009	2021	8,159
Gary L. Rouse, *Outside Director*	2014	2025	30,000
Michael T. (Bo) Stone (4)	2015	2023	27,500
Total			$ 327,321

All amounts are in actual dollars

** Position Title as of 12/31/2021*
*** Term expires on the Annual Meeting Date of corresponding year unless otherwise noted*

(1)Mr. Alton D. Bain's term expired in 2021
(2)Mr. David R. Gooden previously served from 2005-2008
(3)Mr. Jonathan A. Pope's term expired in 2021
(4)Mr. Michael T. Stone previously served from 2007-2014

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

***Mr. Nash Johnson II**, Chairman,* is a swine, poultry, timber, row crop, cattle and hay farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Johnson also serves as a member manager of Ten Js, LLC, a commercial real estate company. Additionally, Mr. Johnson serves as President of Deca J. Farms, Inc., an agricultural services company, and as an advisory committee member for the Clinton-Sampson Airport Authority.

***Mr. Adrian B. Locklear**, Vice Chairman,* is a row crop, rapeseed, sweet corn and yellow field pea farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Locklear also serves on the board of the North Carolina Soybean Producers Association.

Mr. Alton D. Bain was appointed as an Association outside director in 2014. He is a Partner in Bain & McRae, LLP, a law firm. His principal occupation and employment for the past five years was practicing law with Bain & McRae, LLP. Mr. Bain also serves as President of the Harnett County Historical Society and as an elder at Lillington Presbyterian Church. *Mr. Bain completed his term as an outside director February 23, 2021.*

Ms. Jennifer B. Daniels is a swine, poultry, sweet potato, tobacco and row crop farmer as well as a North Carolina sweet potato certified seed grower. Her principal occupation and employment for the past five years was self-employed farming. Ms. Daniels also serves on the board of the North Carolina Pork Council and as a member of the Tobacco Trust Fund Commission.

Mr. David R. Gooden is a row crop, hay, strawberry, cattle, timber, swine, poultry and sweet corn farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Gooden also serves as President of the Bladen County Livestock Association.

Mr. Anthony T. Grant was appointed as an Association outside director in 2013. He is the CEO and owner of Grant Business Advisors, a financial advisory and business strategies firm. His principal occupation and employment for the past five years was as a business consultant with Grant Business Advisors and Grant Business Strategies. Mr. Grant also serves as Chairman of the USDA Farm Service Agency State Committee for South Carolina and on the board of the Columbia Urban League.

Mr. Gary A. Hendrix is a row crop, cotton, and peanut farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Hendrix also serves on the boards of FCI, an agricultural services company, the North Carolina Soybean Growers Association and the Hoke County Soil & Water Conservation District.

Mr. Dean C. Hilton is a swine and poultry farmer. He is the co-owner of Hilton Auction and Realty, a full service real estate brokerage company, and President of The Hilton Companies. His principal occupation and employment for the past five years was as a broker, developer, and auctioneer with Hilton Auction and Realty. Mr. Hilton also serves on the Town of White Lake Board of Commissioners and as director at Emerau Charter School. In addition, Mr. Hilton serves on the boards of the North Carolina Rural Infrastructure Authority and the Bladen Community College Foundation.

Mr. F.A. Lowrey was appointed as an Association outside director in 2021. His principal occupation and employment for the past five years was as a board consultant. Mr. Lowrey retired as the CEO of AgFirst Farm Credit Bank in 2012 and now serves on the boards of the South Carolina Jobs & Economic Development Authority, a SC statewide conduit bond issuer, and the Business Partnership Foundation of the Darla Moore School of Business at the University of South Carolina, an educational institution. He also serves as an elder at Eastminister Presbyterian Church, a religious organization.

Mr. Paul M. Maguire is a cattle, poultry, hay and timber farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Maguire also serves on the Cumberland County Extension Advisory Board and as an officer of the Cumberland County Livestock Association.

Mr. T. Morris Murphy is a timber, corn, soybeans, cotton, sweet potatoes, cucumbers, hay, swine and poultry farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Murphy also serves on the board of the North Carolina Pork Council and as assistant treasurer at Friendship F.W.B. Church.

***Mr. Jonathan (Jon) A. Pope**, Chairman through February 23, 2021,* is a row crop, cattle, contract poultry and hay farmer.

His principal occupation and employment for the past five years was self-employed farming. Mr. Pope also serves on the boards of the Harnett County Farm Bureau, the Harnett County Board of Adjustment and the Coats Area Chamber of Commerce. *Mr. Pope completed his elected term as director February 23, 2021.*

Mr. Gary L. Rouse was appointed as an Association outside director in 2014. He is the President, Stockholder and Firm Manager of Rouse & Peterson, P.A, a public accounting firm. His principal occupation and employment for the past five years was practicing as a Certified Public Accountant at Rouse & Peterson, P.A.

Mr. Michael T. (Bo) Stone is a row crop, hay, cattle, contract swine, produce and strawberry farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Stone also serves on the boards of Southeastern Regional Medical Center, The Farm Credit Council Services, The Farm Credit Council, and AgFirst Farm Credit Bank.

Subject to approval by the board, the Association may allow the outside Directors a quarterly retainer of $7,500, elected Directors a quarterly retainer of $6,250, Board Chairman a $1,250 quarterly stipend, and other Committee Chairs a $625 quarterly stipend. Total compensation paid to directors as a group during 2021 was $327,321.

The following chart details the number of meetings and other activities as well as committee assignments during 2021 for each director:

	Days Served		
Name of Director	**Regular Board Meetings**	**Other Official Activities***	**Committee Assignments****
Nash Johnson II, *Chairman (1)*	11	10	Compensation, Governance
Adrian B. Locklear *(4)*, *Vice Chairman*	12	10	Governance, Compensation
Alton D. Bain, *Outside Director*	1	–	
Jennifer B. Daniels	7	7	Audit
David R. Gooden	11	1	Risk Management
Anthony T. Grant, *Outside Director*	12	6	Compensation
Gary A. Hendrix	11	13	Risk Management, Governance
Dean C. Hilton	12	1	Audit
F. A. Lowrey *(2)*	11	8	Risk Management, Governance
Paul M. Maguire	12	–	Risk Management
T. Morris Murphy	11	–	Compensation
Jonathan A. Pope	4	3	
Gary L. Rouse, *Outside Director*	11	4	Audit
Michael T. (Bo) Stone *(3)*	12	14	Audit, Governance

** Includes board committee meetings and other board activities other than regular board meetings including training.*
*** Committee Assignments as of 12/31/2021*

(1) Chairman of the Governance Committee
(2) Chairman of the Risk Management Committee
(3) Chairman of the Audit Committee
(4) Chairman of the Compensation Committee

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 $23,822 for 2021, $90,098 for 2020, and $115,439 for 2019.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

There were no changes in or material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period. Aggregate fees paid by the Association for services rendered by its independent auditors for the year ended December 31, 2021 were as follows:

		2021
Independent Auditors		
Pricewaterhouse Coopers LLP		
Audit services	$	85,260
Total	$	85,260

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

Consolidated Financial Statements

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

Copies of the Association's Annual and unaudited Quarterly Reports are available upon request free of charge on the Association's website, ***www.capefearfarmcredit.com***, or by calling 1-800-368-5819, extension 3262, or writing Charles M. Hester, Chief Financial Officer, Cape Fear Farm Credit, P.O. Box 2405, Fayetteville, NC, 28302. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly Report, which is available on the website, within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly Reports are available upon request free of charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report need 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 Cape Fear Farm Credit (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited consolidated financial statements with management, which has primary responsibility for the consolidated 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 consolidated 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 Cape Fear Farm Credit. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited consolidated 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:

Bo Stone
Chairman of the Audit Committee

Members of Audit Committee

Jennifer B. Daniels
Dean C. Hilton
Gary L. Rouse

March 10, 2022

pwc

Report of Independent Auditors

To the Board of Directors and Management of Cape Fear Farm Credit, ACA

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

PricewaterhouseCoopers LLP, *1075 Peachtree Street NE, Suite 2600, Atlanta, GA 30309*
T: (678) 419 1000, F: (678) 419 1239, www.pwc.com/us

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

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

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

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2021 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 10, 2022

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2021	2020	2019
Assets			
Cash	$ 49	$ 1	$ 2,043
Investments in debt securities:			
Held to maturity (fair value of $2,687, $2,888, and $3,498, respectively)	2,584	2,663	3,490
Loans	1,063,198	1,025,728	958,185
Allowance for loan losses	(8,542)	(10,232)	(9,954)
Net loans	1,054,656	1,015,496	948,231
Loans held for sale	58	140	—
Accrued interest receivable	7,696	7,623	9,151
Equity investments in other Farm Credit institutions	9,485	10,168	10,677
Premises and equipment, net	4,442	2,372	2,326
Other property owned	236	—	477
Accounts receivable	21,762	17,845	12,097
Other assets	85	362	668
Total assets	$ 1,101,053	$ 1,056,670	$ 989,160
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 836,955	$ 801,307	$ 747,905
Accrued interest payable	1,448	1,421	1,923
Patronage refunds payable	31,051	25,532	20,065
Accounts payable	1,963	972	1,310
Advanced conditional payments	—	—	11
Other liabilities	2,943	6,333	3,470
Total liabilities	874,360	835,565	774,684
Commitments and contingencies (Note 11)			
Members' Equity			
Protected borrower stock	—	—	3
Capital stock and participation certificates	2,581	2,512	2,450
Retained earnings			
Allocated	118,319	116,377	112,361
Unallocated	106,060	102,507	99,950
Accumulated other comprehensive income (loss)	(267)	(291)	(288)
Total members' equity	226,693	221,105	214,476
Total liabilities and members' equity	$ 1,101,053	$ 1,056,670	$ 989,160

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2021	2020	2019
Interest Income			
Loans	$ **45,290**	$ 47,753	$ 52,531
Investments	**156**	171	180
Total interest income	**45,446**	47,924	52,711
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**16,709**	19,167	23,649
Net interest income	**28,737**	28,757	29,062
Provision for (reversal of allowance for) loan losses	**(1,026)**	963	(2,969)
Net interest income after provision for (reversal of allowance for) loan losses	**29,763**	27,794	32,031
Noninterest Income			
Loan fees	**2,947**	2,136	1,987
Fees for financially related services	**23**	9	11
Patronage refunds from other Farm Credit institutions	**21,878**	18,003	12,059
Gains (losses) on sales of rural home loans, net	**26**	18	56
Gains (losses) on sales of premises and equipment, net	**74**	49	520
Gains (losses) on other transactions	**13**	6	9
Insurance Fund refunds	**—**	182	194
Total noninterest income	**24,961**	20,403	14,836
Noninterest Expense			
Salaries and employee benefits	**11,867**	10,808	10,146
Occupancy and equipment	**860**	875	941
Insurance Fund premiums	**1,262**	727	642
(Gains) losses on other property owned, net	**42**	(14)	19
Other operating expenses	**4,169**	3,816	4,053
Total noninterest expense	**18,200**	16,212	15,801
Income before income taxes	**36,524**	31,985	31,066
Provision (benefit) for income taxes	**23**	(88)	74
Net income	$ **36,501**	$ 32,073	$ 30,992
Other comprehensive income net of tax			
Employee benefit plans adjustments	**24**	(3)	(19)
Comprehensive income	$ **36,525**	$ 32,070	$ 30,973

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2018	$ 3	$ 2,464	$ 103,116	$ 98,205	$ (269)	$ 203,519
Cumulative effect of change in accounting principle				1		1
Comprehensive income				30,992	(19)	30,973
Capital stock/participation certificates issued/(retired), net		(14)				(14)
Patronage distribution						
Cash				(20,000)		(20,000)
Nonqualified retained earnings			8,915	(8,915)		—
Patronage distribution adjustment			330	(333)		(3)
Balance at December 31, 2019	$ 3	$ 2,450	$ 112,361	$ 99,950	$ (288)	$ 214,476
Comprehensive income				32,073	(3)	32,070
Protected borrower stock issued/(retired), net	(3)					(3)
Capital stock/participation certificates issued/(retired), net		62				62
Patronage distribution						
Cash				(25,500)		(25,500)
Nonqualified retained earnings			3,956	(3,956)		—
Patronage distribution adjustment			60	(60)		—
Balance at December 31, 2020	$ —	$ 2,512	$ 116,377	$ 102,507	$ (291)	$ 221,105
Comprehensive income				**36,501**	**24**	**36,525**
Capital stock/participation certificates issued/(retired), net		**69**				**69**
Patronage distribution						
Cash				**(31,000)**		**(31,000)**
Nonqualified retained earnings			**1,625**	**(1,625)**		**—**
Patronage distribution adjustment			**317**	**(323)**		**(6)**
Balance at December 31, 2021	**$ —**	**$ 2,581**	**$ 118,319**	**$ 106,060**	**$ (267)**	**$ 226,693**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2021	2020	2019
Cash flows from operating activities:			
Net income	$ **36,501**	$ 32,073	$ 30,992
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**447**	355	390
Amortization (accretion) of net deferred loan costs (fees)	**(116)**	(140)	(42)
Provision for (reversal of allowance for) loan losses	**(1,026)**	963	(2,969)
(Gains) losses on other property owned	**11**	(32)	(10)
(Gains) losses on sales of premises and equipment, net	**(74)**	(49)	(520)
(Gains) losses on sales of rural home loans, net	**(26)**	(18)	(56)
(Gains) losses on other transactions	**(13)**	(6)	(9)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(646)**	(782)	(1,883)
Proceeds from sales of loans held for sale, net	**754**	660	2,030
(Increase) decrease in accrued interest receivable	**(73)**	1,528	437
(Increase) decrease in accounts receivable	**(3,917)**	(5,748)	1,164
(Increase) decrease in other assets	**277**	306	(437)
Increase (decrease) in accrued interest payable	**27**	(502)	(49)
Increase (decrease) in accounts payable	**991**	(338)	(13)
Increase (decrease) in other liabilities	**(3,353)**	2,866	(140)
Total adjustments	**(6,737)**	(937)	(2,107)
Net cash provided by (used in) operating activities	**29,764**	31,136	28,885
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	**79**	827	248
Net (increase) decrease in loans	**(38,353)**	(67,959)	(30,623)
(Increase) decrease in equity investments in other Farm Credit institutions	**683**	509	(4)
Purchases of premises and equipment	**(2,521)**	(413)	(440)
Proceeds from sales of premises and equipment	**78**	61	1,521
Proceeds from sales of other property owned	**88**	380	78
Net cash provided by (used in) investing activities	**(39,946)**	(66,595)	(29,220)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**35,648**	53,402	5,161
Net increase (decrease) in advanced conditional payments	**—**	(11)	11
Protected borrower stock retired	**—**	(3)	—
Capital stock and participation certificates issued/(retired), net	**69**	62	(14)
Patronage refunds and dividends paid	**(25,487)**	(20,033)	(5,323)
Net cash provided by (used in) financing activities	**10,230**	33,417	(165)
Net increase (decrease) in cash	**48**	(2,042)	(500)
Cash, beginning of period	**1**	2,043	2,543
Cash, end of period	$ **49**	$ 1	$ 2,043
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	$ **109**	$ 129	$ —
Receipt of property in settlement of loans	**444**	—	179
Estimated cash dividends or patronage distributions declared or payable	**31,000**	25,500	20,000
Employee benefit plans adjustments (Note 9)	**(24)**	3	19
Supplemental information:			
Interest paid	$ **16,682**	$ 19,669	$ 23,698
Taxes (refunded) paid, net	**32**	51	70

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:** Cape Fear Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Bladen, Brunswick, Columbus, Cumberland, Duplin, Harnett, Hoke, New Hanover, Pender, Robeson, Sampson, and Scotland in the state of North Carolina.

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

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

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

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

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

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable 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 in Debt Securities

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

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

Other Equity Investments

Any equity securities with a readily determinable fair value are carried at fair value with unrealized gains and losses included in earnings. Equity securities without a readily determinable fair value are carried at cost less any impairment.

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

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

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

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

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

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

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

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

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

Additional information may be found in Note 9.

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

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

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

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

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

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

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

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

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

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

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

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

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

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

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

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

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

   Additional information may be found in Note 8.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.

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

A summary of loans outstanding at period end follows:

	December 31,		
	2021	2020	2019
Real estate mortgage	$ 775,094	$ 770,944	$ 692,542
Production and intermediate-term	207,190	189,799	214,463
Loans to cooperatives	15,905	7,266	6,293
Processing and marketing	33,126	29,014	19,508
Farm-related business	13,035	13,706	11,551
Communication	4,334	4,251	1,228
Power and water/waste disposal	–	–	1,605
Rural residential real estate	6,402	5,523	4,679
International	3,597	3,596	3,594
Lease receivables	4,515	1,629	2,722
Total loans	$ 1,063,198	$ 1,025,728	$ 958,185

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	$ 18,578	$ 328,230	$ –	$ 7,568	$ 38,797	$ –	$ 57,375	$ 335,798
Production and intermediate-term	14,467	401,913	–	10,997	68	–	14,535	412,910
Loans to cooperatives	5,741	–	10,190	–	–	–	15,931	–
Processing and marketing	30,275	–	–	–	–	–	30,275	–
Farm-related business	–	915	–	3,963	–	–	–	4,878
Communication	4,353	–	–	–	–	–	4,353	–
International	3,600	–	–	–	–	–	3,600	–
Lease receivables	–	–	4,518	–	–	–	4,518	–
Total	$ 77,014	$ 731,058	$ 14,708	$ 22,528	$ 38,865	$ –	$ 130,587	$ 753,586

	December 31, 2020							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 17,696	$ 250,616	$ –	$ –	$ 43,301	$ –	$ 60,997	$ 250,616
Production and intermediate-term	16,025	276,870	–	10,999	26,274	–	42,299	287,869
Loans to cooperatives	4,803	–	2,473	–	–	–	7,276	–
Processing and marketing	23,032	36,865	–	–	–	–	23,032	36,865
Farm-related business	–	1,156	–	4,954	–	–	–	6,110
Communication	4,261	–	–	–	–	–	4,261	–
International	3,600	–	–	–	–	–	3,600	–
Lease receivables	–	–	1,632	–	–	–	1,632	–
Total	$ 69,417	$ 565,507	$ 4,105	$ 15,953	$ 69,575	$ –	$ 143,097	$ 581,460

	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	$ 10,023	$ 254,637	$ –	$ –	$ 45,535	$ 1,190	$ 55,558	$ 255,827
Production and intermediate-term	13,402	150,769	–	–	902	–	14,304	150,769
Loans to cooperatives	3,805	–	2,500	–	–	–	6,305	–
Processing and marketing	13,185	40,648	–	–	–	–	13,185	40,648
Farm-related business	–	3,860	–	16,725	–	–	–	20,585
Communication	1,230	–	–	–	–	–	1,230	–
Power and water/waste disposal	1,615	–	–	–	–	–	1,615	–
International	3,600	–	–	–	–	–	3,600	–
Lease receivables	–	–	2,726	–	–	–	2,726	–
Total	$ 46,860	$ 449,914	$ 5,226	$ 16,725	$ 46,437	$ 1,190	$ 98,523	$ 467,829

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

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

	December 31, 2021	December 31, 2020	December 31, 2019
Real estate mortgage:			
Acceptable	96.34%	93.78%	95.16%
OAEM	3.17	5.46	3.43
Substandard/doubtful/loss	0.49	0.76	1.41
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	95.49%	91.72%	91.49%
OAEM	2.90	6.72	3.34
Substandard/doubtful/loss	1.61	1.56	5.17
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	100.00%	96.21%
OAEM	–	–	3.79
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	58.02%	55.93%	98.50%
OAEM	–	43.47	1.50
Substandard/doubtful/loss	41.98	0.60	–
	100.00%	100.00%	100.00%

	December 31, 2021	December 31, 2020	December 31, 2019
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	–%	–%	–%
OAEM	–	–	100.00
Substandard/doubtful/loss	–	–	–
	–%	–%	100.00%
Rural residential real estate:			
Acceptable	96.18%	93.98%	92.24%
OAEM	3.42	4.12	5.60
Substandard/doubtful/loss	0.40	1.90	2.16
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Lease receivables:			
Acceptable	95.74%	85.61%	90.13%
OAEM	2.17	6.77	0.25
Substandard/doubtful/loss	2.09	7.62	9.62
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	95.90%	93.15%	94.26%
OAEM	2.90	5.96	3.52
Substandard/doubtful/loss	1.20	0.89	2.22
	100.00%	100.00%	100.00%

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

December 31, 2021	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 1,641	$ 1,309	$ 2,950	$ 777,150	$ 780,100
Production and intermediate-term	1,806	1,121	2,927	206,758	209,685
Loans to cooperatives	–	–	–	15,929	15,929
Processing and marketing	–	–	–	33,204	33,204
Farm-related business	–	46	46	13,031	13,077
Communication	–	–	–	4,334	4,334
Rural residential real estate	134	–	134	6,293	6,427
International	–	–	–	3,604	3,604
Lease receivables	231	–	231	4,291	4,522
Total	$ 3,812	$ 2,476	$ 6,288	$ 1,064,594	$ 1,070,882

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	$ 937	$ 2,640	$ 3,577	$ 772,429	$ 776,006
Production and intermediate-term	1,406	2,706	4,112	188,079	192,191
Loans to cooperatives	–	–	–	7,269	7,269
Processing and marketing	–	–	–	29,062	29,062
Farm-related business	82	–	82	13,682	13,764
Communication	–	–	–	4,251	4,251
Rural residential real estate	93	58	151	5,393	5,544
International	–	–	–	3,603	3,603
Lease receivables	207	–	207	1,442	1,649
Total	$ 2,725	$ 5,404	$ 8,129	$ 1,025,210	$ 1,033,339

	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	$ 2,311	$ 1,897	$ 4,208	$ 694,282	$ 698,490
Production and intermediate-term	1,291	3,648	4,939	212,546	217,485
Loans to cooperatives	–	–	–	6,303	6,303
Processing and marketing	–	–	–	19,580	19,580
Farm-related business	868	–	868	10,737	11,605
Communication	–	–	–	1,228	1,228
Power and water/waste disposal	–	–	–	1,606	1,606
Rural residential real estate	80	3	83	4,608	4,691
International	–	–	–	3,607	3,607
Lease receivables	–	–	–	2,733	2,733
Total	$ 4,550	$ 5,548	$ 10,098	$ 957,230	$ 967,328

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

	December 31, 2021	2020	2019
Nonaccrual loans:			
Real estate mortgage	$ 3,580	$ 4,899	$ 7,071
Production and intermediate-term	2,212	3,960	8,367
Farm-related business	46	82	–
Rural residential real estate	8	83	101
Lease receivables	94	126	263
Total	$ 5,940	$ 9,150	$ 15,802
Accruing restructured loans:			
Real estate mortgage	$ 1,674	$ 1,849	$ 2,120
Production and intermediate-term	2,429	3,417	893
Processing and marketing	–	–	468
Rural residential real estate	7	10	–
Total	$ 4,110	$ 5,276	$ 3,481
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 10,050	$ 14,426	$ 19,283
Other property owned	236	–	477
Total nonperforming assets	$ 10,286	$ 14,426	$ 19,760
Nonaccrual loans as a percentage of total loans	0.56%	0.89%	1.65%
Nonperforming assets as a percentage of total loans and other property owned	0.97%	1.41%	2.06%
Nonperforming assets as a percentage of capital	4.54%	6.52%	9.21%

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

	December 31, 2021	2020	2019
Impaired nonaccrual loans:			
Current as to principal and interest	$ 2,697	$ 3,181	$ 8,913
Past due	3,243	5,969	6,889
Total	$ 5,940	$ 9,150	$ 15,802
Impaired accrual loans:			
Restructured	$ 4,110	$ 5,276	$ 3,481
90 days or more past due	–	–	–
Total	$ 4,110	$ 5,276	$ 3,481
Total impaired loans	$ 10,050	$ 14,426	$ 19,283
Additional commitments to lend	$ –	$ –	$ 1

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

	December 31, 2021			Year Ended December 31, 2021	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 1,189	$ 1,305	$ 105	$ 1,386	$ 103
Production and intermediate-term	1,129	1,137	279	1,317	98
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Lease receivables	–	–	–	–	–
Total	$ 2,318	$ 2,442	$ 384	$ 2,703	$ 201
With no related allowance for credit losses:					
Real estate mortgage	$ 4,065	$ 4,694	$ –	$ 4,740	$ 353
Production and intermediate-term	3,512	3,771	–	4,095	305
Farm-related business	46	55	–	54	4
Rural residential real estate	15	97	–	17	1
Lease receivables	94	120	–	110	8
Total	$ 7,732	$ 8,737	$ –	$ 9,016	$ 671
Total impaired loans:					
Real estate mortgage	$ 5,254	$ 5,999	$ 105	$ 6,126	$ 456
Production and intermediate-term	4,641	4,908	279	5,412	403
Farm-related business	46	55	–	54	4
Rural residential real estate	15	97	–	17	1
Lease receivables	94	120	–	110	8
Total	$ 10,050	$ 11,179	$ 384	$ 11,719	$ 872

	December 31, 2020			Year Ended December 31, 2020	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 1,634	$ 1,863	$ 359	$ 2,113	$ 189
Production and intermediate-term	1,860	2,006	428	2,406	215
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Lease receivables	126	126	58	162	15
Total	$ 3,620	$ 3,995	$ 845	$ 4,681	$ 419
With no related allowance for credit losses:					
Real estate mortgage	$ 5,114	$ 5,629	$ –	$ 6,613	$ 592
Production and intermediate-term	5,517	5,566	–	7,134	639
Farm-related business	82	85	–	106	9
Rural residential real estate	93	176	–	121	11
Lease receivables	–	–	–	–	–
Total	$ 10,806	$ 11,456	$ –	$ 13,974	$ 1,251
Total impaired loans:					
Real estate mortgage	$ 6,748	$ 7,492	$ 359	$ 8,726	$ 781
Production and intermediate-term	7,377	7,572	428	9,540	854
Farm-related business	82	85	–	106	9
Rural residential real estate	93	176	–	121	11
Lease receivables	126	126	58	162	15
Total	$ 14,426	$ 15,451	$ 845	$ 18,655	$ 1,670

Impaired loans:	Recorded Investment (December 31, 2019)	Unpaid Principal Balance (December 31, 2019)	Related Allowance (December 31, 2019)	Average Impaired Loans (Year Ended December 31, 2019)	Interest Income Recognized on Impaired Loans (Year Ended December 31, 2019)
With a related allowance for credit losses:					
Real estate mortgage	$ 3,051	$ 3,332	$ 580	$ 3,329	$ 351
Production and intermediate-term	4,656	5,011	1,057	5,081	536
Processing and marketing	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Lease receivables	155	156	83	170	18
Total	$ 7,862	$ 8,499	$ 1,720	$ 8,580	$ 905
With no related allowance for credit losses:					
Real estate mortgage	$ 6,140	$ 6,597	$ –	$ 6,701	$ 707
Production and intermediate-term	4,604	5,218	–	5,024	530
Processing and marketing	468	457	–	511	54
Rural residential real estate	101	185	–	111	12
Lease receivables	108	107	–	117	12
Total	$ 11,421	$ 12,564	$ –	$ 12,464	$ 1,315
Total impaired loans:					
Real estate mortgage	$ 9,191	$ 9,929	$ 580	$ 10,030	$ 1,058
Production and intermediate-term	9,260	10,229	1,057	10,105	1,066
Processing and marketing	468	457	–	511	54
Rural residential real estate	101	185	–	111	12
Lease receivables	263	263	83	287	30
Total	$ 19,283	$ 21,063	$ 1,720	$ 21,044	$ 2,220

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit losses:									
Balance at December 31, 2020	$ 6,122	$ 3,581	$ 313	$ 35	$ 3	$ 52	$ 34	$ 92	$ 10,232
Charge-offs	(368)	(644)	(4)	–	–	–	–	–	(1,016)
Recoveries	20	162	170	–	–	–	–	–	352
Provision for loan losses	(661)	(80)	(207)	(5)	–	(7)	(4)	(62)	(1,026)
Balance at December 31, 2021	$ 5,113	$ 3,019	$ 272	$ 30	$ 3	$ 45	$ 30	$ 30	$ 8,542
Balance at December 31, 2019	$ 5,635	$ 3,823	$ 274	$ 31	$ 3	$ 45	$ 30	$ 113	$ 9,954
Charge-offs	(22)	(295)	(455)	–	–	–	–	(7)	(779)
Recoveries	–	89	1	–	–	–	–	4	94
Provision for loan losses	509	(36)	493	4	–	7	4	(18)	963
Balance at December 31, 2020	$ 6,122	$ 3,581	$ 313	$ 35	$ 3	$ 52	$ 34	$ 92	$ 10,232
Balance at December 31, 2018	$ 6,332	$ 6,660	$ 284	$ 32	$ 3	$ 47	$ 31	$ 139	$ 13,528
Charge-offs	(489)	(597)	–	–	(1)	(75)	–	–	(1,162)
Recoveries	3	503	49	–	1	1	–	–	557
Provision for loan losses	(211)	(2,743)	(59)	(1)	–	72	(1)	(26)	(2,969)
Balance at December 31, 2019	$ 5,635	$ 3,823	$ 274	$ 31	$ 3	$ 45	$ 30	$ 113	$ 9,954
Allowance on loans evaluated for impairment:									
Individually	$ 105	$ 279	$ –	$ –	$ –	$ –	$ –	$ –	$ 384
Collectively	5,008	2,740	272	30	3	45	30	30	8,158
Balance at December 31, 2021	$ 5,113	$ 3,019	$ 272	$ 30	$ 3	$ 45	$ 30	$ 30	$ 8,542
Individually	$ 359	$ 428	$ –	$ –	$ –	$ –	$ –	$ 58	$ 845
Collectively	5,763	3,153	313	35	3	52	34	34	9,387
Balance at December 31, 2020	$ 6,122	$ 3,581	$ 313	$ 35	$ 3	$ 52	$ 34	$ 92	$ 10,232
Individually	$ 580	$ 1,057	$ –	$ –	$ –	$ –	$ –	$ 83	$ 1,720
Collectively	5,055	2,766	274	31	3	45	30	30	8,234
Balance at December 31, 2019	$ 5,635	$ 3,823	$ 274	$ 31	$ 3	$ 45	$ 30	$ 113	$ 9,954
Recorded investment in loans evaluated for impairment:									
Individually	$ 5,173	$ 4,641	$ 46	$ –	$ –	$ 15	$ –	$ 94	$ 9,969
Collectively	774,927	205,044	62,164	4,334	–	6,412	3,604	4,428	1,060,913
Balance at December 31, 2021	$ 780,100	$ 209,685	$ 62,210	$ 4,334	$ –	$ 6,427	$ 3,604	$ 4,522	$ 1,070,882
Individually	$ 7,007	$ 6,354	$ 184	$ –	$ –	$ 93	$ –	$ 219	$ 13,857
Collectively	768,999	185,837	49,911	4,251	–	5,451	3,603	1,430	1,019,482
Balance at December 31, 2020	$ 776,006	$ 192,191	$ 50,095	$ 4,251	$ –	$ 5,544	$ 3,603	$ 1,649	$ 1,033,339
Individually	$ 7,959	$ 9,402	$ 468	$ –	$ –	$ 102	$ –	$ 263	$ 18,194
Collectively	690,531	208,083	37,020	1,228	1,606	4,589	3,607	2,470	949,134
Balance at December 31, 2019	$ 698,490	$ 217,485	$ 37,488	$ 1,228	$ 1,606	$ 4,691	$ 3,607	$ 2,733	$ 967,328

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

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

	Year Ended December 31, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 84	$ –	$ 84	
Total	$ –	$ 84	$ –	$ 84	
Post-modification:					
Real estate mortgage	$ –	$ 72	$ –	$ 72	$ (12)
Total	$ –	$ 72	$ –	$ 72	$ (12)

	Year Ended December 31, 2020				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 100	$ 7	$ 107	
Production and intermediate-term	–	271	–	271	
Total	$ –	$ 371	$ 7	$ 378	
Post-modification:					
Real estate mortgage	$ –	$ 113	$ 7	$ 120	$ –
Production and intermediate-term	–	271	–	271	–
Total	$ –	$ 384	$ 7	$ 391	$ –

	Year Ended December 31, 2019				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 1,140	$ 507	$ 1,647	
Production and intermediate-term	–	1,466	2,214	3,680	
Total	$ –	$ 2,606	$ 2,721	$ 5,327	
Post-modification:					
Real estate mortgage	$ –	$ 1,127	$ 531	$ 1,658	$ –
Production and intermediate-term	–	1,466	2,214	3,680	(14)
Total	$ –	$ 2,593	$ 2,745	$ 5,338	$ (14)

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

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

	Year Ended December 31,		
Defaulted troubled debt restructurings	**2021**	**2020**	**2019**
Production and intermediate-term	$ –	$ –	$ 142
Total	$ –	$ –	$ 142

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

	Total TDRs December 31,			Nonaccrual TDRs December 31,		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
Real estate mortgage	$ 2,701	$ 2,849	$ 3,274	$ 1,027	$ 1,000	$ 1,154
Production and intermediate-term	3,516	4,252	4,035	1,087	835	3,142
Processing and marketing	–	–	468	–	–	–
Rural residential real estate	7	19	23	–	9	23
Total loans	$ 6,224	$ 7,120	$ 7,800	$ 2,114	$ 1,844	$ 4,319
Additional commitments to lend	$ –	$ –	$ –			

Note 4 — Investments

Investments in Debt Securities

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

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

	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 2,584	$ 103	$ –	$ 2,687	5.95%

	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 2,663	$ 225	$ –	$ 2,888	5.95%

	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 3,490	$ 18	$ (10)	$ 3,498	5.20%

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

	December 31, 2021		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	2,584	2,687	5.95
Total	$ 2,584	$ 2,687	5.95%

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

An investment is considered impaired if its fair value is less than its cost. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. There were no investments in a continuous unrealized loss position at December 31, 2021 and 2020.

	December 31, 2019			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 742	$ (10)

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

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

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

Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $8,890 for 2021, $9,587 for 2020 and $10,149 for 2019. The Association owned 3.46 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 $595 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	$ 693	$ 693	$ 676
Buildings and improvements	4,949	2,848	2,785
Furniture and equipment	3,213	3,050	3,120
	8,855	6,591	6,581
Less: accumulated depreciation	4,413	4,219	4,255
Total	$ 4,442	$ 2,372	$ 2,326

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

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

The weighted average interest rates on the variable rate advances were 1.44 percent for LIBOR-based loans, 1.41 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 1.55 percent for Prime-based loans, and the weighted average remaining maturities were 3.8 years, 4.4 years, and 4.4 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 2.18 percent, and the weighted average remaining maturity was 10.0 years at December 31, 2021. The weighted-average interest rate on all interest-bearing notes payable was 2.06 percent and the weighted-average remaining maturity was 8.9 years at December 31, 2021. Gross notes payable consist of approximately 17.83 percent variable rate and 82.17 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 include 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. **Protected Borrower Stock:** Protection of certain borrower stock is provided under the Farm Credit Act which requires the Association, when retiring protected borrower stock, to retire such stock at par or stated value regardless of its book value. Protected borrower stock includes capital stock and participation certificates which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower stock at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to 200 shares ($1,000.00) or one (1) share for each $250.00 (or fraction thereof) of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

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

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

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

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

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

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to 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%	20.18%	20.36%	21.36%
Tier 1 Capital	6.0%	2.5%	8.5%	20.18%	20.36%	21.36%
Total Capital	8.0%	2.5%	10.5%	20.93%	21.38%	22.47%
Permanent Capital	7.0%	0.0%	7.0%	20.33%	20.57%	21.60%
Non-risk-adjusted ratios:						
Tier 1 Leverage**	4.0%	1.0%	5.0%	21.18%	21.19%	21.87%
URE and UREE Leverage	1.5%	0.0%	1.5%	21.37%	21.45%	22.14%

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

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

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

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

Class	Protected	Shares Outstanding Number	Aggregate Par Value
B Common/Nonvoting	Yes	78	$ –
C Common/Voting	No	492,008	2,460
C Participation Certificates/Nonvoting	No	24,147	121
Total Capital Stock and Participation Certificates		516,233	$ 2,581

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

Retained Earnings

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

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

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

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

At December 31, 2021, allocated members' equity consisted of $118,319 of nonqualified retained surplus.

Dividends

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

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

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

Patronage Distributions

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

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

Transfer

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

Impairment

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

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

Impairments shall be considered as being applied pro rata to each share and/or unit outstanding in the class.

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:

(a) ***First,*** to the holders of Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders;
(b) ***Second,*** to the holders of Class A Common, Class B Common, Class C Common, Class B Participation Certificates and Class C Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
(c) ***Third,*** to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;
(d) ***Fourth,*** to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed; and
(e) ***Fifth,*** any remaining assets of the Association after such distributions shall be distributed to past and present Patrons on a patronage basis, to the extent practicable.

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

	Changes in Accumulated Other Comprehensive income by Component *(a)* For the Year Ended December 31, 2021	2020	2019
Employee Benefit Plans:			
Balance at beginning of period	$ (291)	$ (288)	$ (269)
Other comprehensive income before reclassifications	5	(20)	(35)
Amounts reclassified from AOCI	19	17	16
Net current period OCI	24	(3)	(19)
Balance at end of period	$ (267)	$ (291)	$ (288)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)* For the Year Ended December 31, 2021	2020	2019	Income Statement Line Item
Defined Benefit Pension Plans:				
Periodic pension costs	$ (19)	$ (17)	$ (16)	See Note 9.
Amounts reclassified	$ (19)	$ (17)	$ (16)	

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

Note 8 — Fair Value Measurement

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

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

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

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

Level 1
Assets held in trust funds related to deferred compensation plans are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. Additional information for the above may be found in the Notes to the Annual Information Statement of the Farm Credit System.

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

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

Level 3
Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and

interest rates reflecting appropriate credit risk are separately determined for each individual pool.

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

For investments in debt securities held to maturity, which consists of RABs, fair value is determined by discounting the expected future cash flows using prevailing rates for similar assets.

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

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

	December 31, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 77	$ 77	$ –	$ –	$ 77
Recurring Assets	$ 77	$ 77	$ –	$ –	$ 77
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,934	$ –	$ –	$ 1,934	$ 1,934
Other property owned	236	–	–	274	274
Nonrecurring Assets	$ 2,170	$ –	$ –	$ 2,208	$ 2,208
Other Financial Instruments					
Assets:					
Cash	$ 49	$ 49	$ –	$ –	$ 49
Investments in debt securities, held-to-maturity	2,584	–	–	2,687	2,687
Loans	1,052,780	–	–	1,039,051	1,039,051
Other Financial Assets	$ 1,055,413	$ 49	$ –	$ 1,041,738	$ 1,041,787
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 836,955	$ –	$ –	$ 825,461	$ 825,461
Other Financial Liabilities	$ 836,955	$ –	$ –	$ 825,461	$ 825,461

	December 31, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 79	$ 79	$ –	$ –	$ 79
Recurring Assets	$ 79	$ 79	$ –	$ –	$ 79
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 2,775	$ –	$ –	$ 2,775	$ 2,775
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 2,775	$ –	$ –	$ 2,775	$ 2,775
Other Financial Instruments					
Assets:					
Cash	$ 1	$ 1	$ –	$ –	$ 1
Investments in debt securities, held-to-maturity	2,663	–	–	2,888	2,888
Loans	1,012,861	–	–	1,018,023	1,018,023
Other Financial Assets	$ 1,015,525	$ 1	$ –	$ 1,020,911	$ 1,020,912
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 801,307	$ –	$ –	$ 806,808	$ 806,808
Other Financial Liabilities	$ 801,307	$ –	$ –	$ 806,808	$ 806,808

	December 31, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 102	$ 102	$ –	$ –	$ 102
Recurring Assets	$ 102	$ 102	$ –	$ –	$ 102
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 6,142	$ –	$ –	$ 6,142	$ 6,142
Other property owned	477	–	–	524	524
Nonrecurring Assets	$ 6,619	$ –	$ –	$ 6,666	$ 6,666
Other Financial Instruments					
Assets:					
Cash	$ 2,043	$ 2,043	$ –	$ –	$ 2,043
Investments in debt securities, held-to-maturity	3,490	–	–	3,498	3,498
Loans	942,089	–	–	938,601	938,601
Other Financial Assets	$ 947,622	$ 2,043	$ –	$ 942,099	$ 944,142
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 747,905	$ –	$ –	$ 747,671	$ 747,671
Other Financial Liabilities	$ 747,905	$ –	$ –	$ 747,671	$ 747,671

Uncertainty in Measurements of Fair Value

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

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

Investments in Debt Securities

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

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the repayment input were to increase (decrease).

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 2,208	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
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 9 — Employee Benefit Plans

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

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

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

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

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Comprehensive Income were $1,481 for 2021, $1,121 for 2020, and $1,284 for 2019. At December 31, 2021, 2020, and 2019, the total liability balance for the FAP Plan was

$39,135, $114,449, and $129,713, respectively. The FAP Plan was 96.17 percent, 89.63 percent, and 87.55 percent funded to the projected benefit obligation as of December 31, 2021, 2020, and 2019, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Comprehensive Income were $333 for 2021, $315 for 2020, and $319 for 2019. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $209,599, $219,990, and $209,531 at December 31, 2021, 2020, and 2019, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $548, $494, and $423 for the years ended December 31, 2021, 2020, and 2019, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2021, 2020, and 2019, $24, $(3), and $(19), respectively, has been recognized as a net credit, a net debit, and a net debit to AOCI to reflect these elements.

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

The supplemental retirement plan is unfunded and had a projected benefit obligation of $380 and a net under-funded status of $380 at December 31, 2021. Expenses of the nonqualified plan included in noninterest expenses were $29, $30, and $31 for 2021, 2020, and 2019, respectively. Assumptions used to determine the projected benefit obligation as of December 31, 2021 included a discount rate of 2.90 percent.

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

Total loans to such persons at December 31, 2021 amounted to $33,611. During 2021, $15,696 of new loans were made and repayments totaled $13,879. In the opinion of management, none of these loans outstanding at December 31, 2021 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

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

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

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated 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, $188,009 of commitments to extend credit and $3 of commercial letters of credit were outstanding. There was no 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 $575 with expiration dates ranging from January 1, 2022 to August 19, 2026. The maximum potential amount of future payments that may be required under these guarantees was $575.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31, 2021	2020	2019
Current:			
Federal	$ 23	$ (88)	$ 84
State	–	–	(10)
Total provision (benefit) for income taxes	$ 23	$ (88)	$ 74

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	$ 7,670	$ 6,717	$ 6,524
State tax, net	–	–	(8)
Non-pat tax	187	45	119
Patronage distributions	(6,510)	(5,355)	(4,200)
Tax-exempt FLCA earnings	(409)	(1,465)	(2,324)
Change in valuation allowance	(564)	97	117
Adjustment to deferred-prior period	–	–	–
Adjustment for lower statutory rate	–	–	–
Other	(351)	(127)	(154)
Provision (benefit) for income taxes	$ 23	$ (88)	$ 74

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

	December 31, 2021	2020	2019
Deferred income tax assets:			
Allowance for loan losses	$ 976	$ 1,545	$ 1,594
Net operating loss – carryforward	2,333	2,305	2,069
Nonaccrual loan interest	125	201	292
Gross deferred tax assets	3,434	4,051	3,955
Less: valuation allowance	(3,434)	(4,051)	(3,955)
Gross deferred tax assets, net of valuation allowance	–	–	–
Deferred income tax liabilities:			
Future Bank equity redemption	–	–	–
Loan fees	–	–	–
Gross deferred tax liability	–	–	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2021, deferred income taxes have not been provided by the Association on approximately $3.6 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

At December 31, 2021, the Association has federal loss carryforwards totaling approximately $10.2 million that expire in varying amounts beginning in 2032. Any portion of the Federal loss carryforwards generated post 2017 does not expire. The Association also has state loss carryforwards totaling approximately $5.9 million that expire in varying amounts beginning in 2029. The valuation allowance at December 31, 2021 was primarily related to federal and state loss carryforwards that, in the judgement of management, are more likely than not to expire before realized. In evaluating the Association's ability to recover its deferred income tax assets, it considers all available evidence, both positive and negative, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis.

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

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

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2021 First	Second	Third	Fourth	Total
Net interest income	$ 6,919	$ 7,224	$ 7,261	$ 7,333	$ 28,737
Provision for (reversal of allowance for) loan losses	(654)	(651)	132	147	(1,026)
Noninterest income (expense), net	(1,142)	(249)	(1,591)	9,720	6,738
Net income	$ 6,431	$ 7,626	$ 5,538	$ 16,906	$ 36,501

	2020				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,891	$ 6,716	$ 6,935	$ 8,215	$ 28,757
Provision for (reversal of allowance for) loan losses	192	376	491	(96)	963
Noninterest income (expense), net	(1,084)	(1,137)	(1,360)	7,860	4,279
Net income	$ 5,615	$ 5,203	$ 5,084	$ 16,171	$ 32,073

	2019				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,546	$ 6,923	$ 8,139	$ 7,454	$ 29,062
Provision for (reversal of allowance for) loan losses	(2,464)	(697)	704	(512)	(2,969)
Noninterest income (expense), net	(1,050)	(1,148)	(1,572)	2,731	(1,039)
Net income	$ 7,960	$ 6,472	$ 5,863	$ 10,697	$ 30,992

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.

AgCarolina Farm Credit, ACA

2021 Annual Report

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Report of Management

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

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the cost 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 and the results of operations of the Association. The undersigned certify that we have reviewed the 2021 Annual Report of AgCarolina Farm Credit, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

B. Derek Potter
Chairman of the Board

David W. Corum
President and Chief Executive Officer

Matthew J. Currin
Senior Vice President and 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 disposition 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. This annual report does not include an attestation report of the Association's external accounting firm regarding internal control over financial reporting as none was required.

David W. Corum

David W. Corum
President and Chief Executive Officer

Matthew J. Currin

Matthew J. Currin
Senior Vice President and Chief Financial Officer

March 10, 2022

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2021	2020	2019	2018	2017
Balance Sheet Data					
Cash	**$ 6**	$ 4	$ 3,325	$ 3,029	$ 5,853
Loans	**1,280,860**	1,192,556	1,149,313	1,159,962	1,132,771
Allowance for loan losses	**(13,484)**	(14,071)	(14,678)	(14,516)	(12,271)
Net loans	**1,267,376**	1,178,485	1,134,635	1,145,446	1,120,500
Equity investments in other Farm Credit institutions	**10,909**	11,981	13,481	13,118	12,950
Other property owned	—	—	966	986	108
Other assets	**55,977**	48,518	44,419	48,057	46,201
Total assets	**$ 1,334,268**	$1,238,988	$1,196,826	$1,210,636	$1,185,612
Notes payable to AgFirst Farm Credit Bank*	**$ 1,001,022**	$ 915,503	$ 893,705	$ 917,038	$ 885,588
Accrued interest payable and other liabilities with maturities of less than one year	**39,354**	42,643	29,529	29,980	37,475
Total liabilities	**1,040,376**	958,146	923,234	947,018	923,063
Capital stock and participation certificates	**36,457**	33,400	30,162	27,306	35,474
Retained earnings					
Allocated	**177,724**	177,724	174,551	167,917	159,279
Unallocated	**79,711**	69,718	68,879	68,395	67,796
Total members' equity	**293,892**	280,842	273,592	263,618	262,549
Total liabilities and members' equity	**$ 1,334,268**	$1,238,988	$1,196,826	$1,210,636	$1,185,612
Statement of Income Data					
Net interest income	**$ 33,195**	$ 32,796	$ 32,134	$ 33,449	$ 29,534
Provision for (reversal of allowance for) loan losses	**28**	(45)	339	1,759	654
Noninterest income (expense), net	**2,544**	(271)	(6,230)	(3,020)	1,606
Net income	**$ 35,711**	$ 32,570	$ 25,565	$ 28,670	$ 30,486
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.85%**	2.73%	2.16%	2.43%	2.64%
Total members' equity	**11.81%**	11.18%	9.18%	10.45%	11.49%
Net interest income as a percentage of average earning assets	**2.72%**	2.82%	2.80%	2.92%	2.64%
Net (chargeoffs) recoveries to average loans	**(0.050)%**	(0.048)%	(0.015)%	0.042%	(0.047)%
Total members' equity to total assets	**22.03%**	22.67%	22.86%	21.78%	22.14%
Debt to members' equity (:1)	**3.54**	3.41	3.37	3.59	3.52
Allowance for loan losses to loans	**1.05%**	1.18%	1.28%	1.25%	1.08%
Permanent capital ratio	**22.73%**	23.36%	23.03%	21.70%	21.99%
Common equity tier 1 capital ratio	**19.47%**	20.27%	20.08%	19.20%	18.92%
Tier 1 capital ratio	**19.47%**	20.27%	20.08%	19.20%	18.92%
Total regulatory capital ratio	**20.58%**	21.52%	21.33%	20.32%	20.03%
Tier 1 leverage ratio	**19.62%**	20.46%	20.23%	19.35%	19.08%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**19.64%**	20.62%	20.40%	19.50%	19.18%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 25,554**	$ 28,087	$ 17,916	$ 19,000	$ 20,376
Nonqualified retained earnings	—	3,121	5,972	8,487	8,726

**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 AgCarolina Farm Credit, ACA, (Association) for the year ended December 31, 2021 with comparisons to the years ended December 31, 2020 and December 31, 2019. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements, and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" included 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 North Carolina. 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 extensive agricultural experience and knowledge of the market has been a contributing factor to our success.

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, *www.AgCarolina.com*, or by calling 1-800-951-3276, or writing Matt Currin, AgCarolina Farm Credit, P.O. Box 14789, Raleigh, NC 27620. 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 is prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

The following USDA analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data for the Association.

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

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

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

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

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

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

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

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

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

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

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

COVID-19 OVERVIEW

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

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 education 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. For the period ended December 31, 2021, the Association made approximately $16 million in loans and recorded $2 million in loan-related fee income. For 2020, the Association made approximately $6 million in loans and $282 thousand in fee income. At December 31, 2021, the Bank had purchased approximately $6 million of these loans, and $6 million as of December 31, 2020.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Significant accounting policies, including GAAP, are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

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

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations, and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and 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.

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.

	December 31,		
Loan Type	**2021**	**2020**	**2019**
Real estate mortgage	59.00%	57.28%	55.56%
Production and intermediate term	33.05	34.52	36.54
Loans to cooperatives	.20	.38	.33
Processing and marketing	3.96	3.98	3.56
Farm-related business	1.15	.84	.85
Communication	–	.15	.15
Power and water/waste disposal	.02	–	–
Rural residential real estate	2.62	2.85	3.01
Total	100.00%	100.00%	100.00%

See Note 3, *Loans and Allowance for Loan Losses*, of the Consolidated Financial Statements, for further information concerning reclassification of loan types for all years presented.

While loans and financially related services are provided to qualified borrowers in the agricultural and rural sectors and to certain related entities, the loan portfolio is diversified.

The geographic distribution of the loan volume by branch in the 34 county territory for the past three years is as follows:

Region	12/31/21	12/31/20	12/31/19
Greenville	14.3%	13.3%	13.1%
Smithfield	10.4	11.3	11.8
Williamston	10.1	8.4	9.0
Elizabeth City	9.6	9.9	10.5
Rocky Mount	9.3	10.2	10.3
La Grange	9.0	8.2	9.0
Louisburg	7.2	7.4	7.5
Swan Quarter	6.0	6.5	5.8
New Bern	5.7	5.4	5.1
Raleigh	5.4	5.6	4.7
Ahoskie	4.5	4.0	3.6
Halifax	3.7	4.1	4.1
Other	4.8	5.7	5.5
Total	100.0%	100.0%	100.0%

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 five predominant commodities are forestry, corn, tobacco, soybeans, and rural rental real estate, which constitute 51 percent of the 2021 loan portfolio.

	Percent of Portfolio		
Commodity Group	**2021**	**2020**	**2019**
Forestry	11%	11%	10%
Corn	11	10	10
Tobacco	10	12	13
Soybeans	9	8	8
Rural Rental Real Estate	9	9	8
Poultry	9	8	8
Cotton	8	8	9
Sweet Potatoes	8	8	7
Swine	6	7	7
Farm Services	4	4	4
Livestock	4	4	4
Home Loans	3	3	4
Vegetables/Fruits	2	2	2
Horticulture	1	1	2
Peanuts	1	1	1
Other	4	4	3
Total	100%	100%	100%

Repayment ability is closely related to the profitability of commodities produced by borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a relatively large concentration of tobacco, forestry, corn, poultry, and soybean producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified beyond a single crop or enterprise, which reduces overall risk exposure. Consumer demand, expected production, and international trade are some of the factors affecting the price of these commodities.

The Association has experienced an increase in the concentration of large loans over the past several years; however the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

Gross loan volume as of December 31, 2021 was $1,280,860, a 7.40 percent increase from the same period in 2020. Net loan volume was $1,267,376 as of December 31, 2021, for a 7.54 percent increase from the previous year. The increase in gross and net loan volume during the reporting period is primarily attributed to an increase in member borrowing during 2021. During 2021, the Association targeted certain segments of our business with hopes of increasing market share. Continued efforts are being made to expand services, increase public knowledge of our services, and streamline current delivery of products to enhance and grow the loan portfolio.

The Association loan portfolio is significantly impacted by loan seasonality. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and declines in the fall months as commodities are marketed and proceeds are applied to repay operating loans.

Participation loans provide a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which can strengthen the capital position.

Loan Participations	2021	2020	2019
Participations Purchased – FCS Institutions	$ 57,842	$ 59,237	$ 53,273
Participations Purchased – Non-FCS Institutions	–	–	–
Participations Sold	(270,453)	(301,899)	(274,141)
Total	$ (212,611)	$ (242,662)	$ (220,868)

The Association did not have any loans that were 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 also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2021, the Association had no loans outstanding which were 100 percent guaranteed by Farmer Mac. The Association additionally has portions of loans that are guaranteed by the Farm Service Agency. These guarantees are made for the purpose of reducing credit risk. At December 31, 2021, the balance of these guarantees was $24,734, compared to $22,017 at December 31, 2020 and $22,016 at December 31, 2019.

MISSION RELATED INVESTMENTS

Effective December 31, 2021, the FCA will conclude each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs are concluding, the FCA can consider future requests on a case-by-case basis.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association, and annually reviews the investment portfolio of every Association that it funds. A typical investment securities portfolio held by a Farm Credit Association would consist of asset-backed securities and mortgage-backed securities. Due to the potential risks involved in holding such investments, the Association does not hold a portfolio of investment securities. Refer to Note 2, *Summary of Significant Accounting Policies,* item F, *Investments*, for further information concerning investment securities.

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 financial 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 $1 million. 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 Farm Credit Administration Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

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

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

Credit Quality	2021	2020	2019
Acceptable & OAEM	97.69%	94.21%	94.20%
Substandard	2.31%	5.79%	5.80%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

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

Nonperforming Assets	December 31, 2021	2020	2019
Nonaccrual loans	$ 10,720	$ 25,697	$ 26,771
Restructured loans	3,572	1,694	2,288
Accruing loans 90 days or more past due	–	–	–
Total nonperforming loans	14,292	27,391	29,059
Other property owned	–	–	966
Total nonperforming assets	$ 14,292	$ 27,391	$ 30,025
Ratios			
Nonaccrual loans to total loans	.84%	2.15%	2.33%
Nonperforming assets to total loans and other property owned	1.12%	2.30%	2.61%
Nonperforming assets to capital	4.86%	9.75%	10.97%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $14,977 or 58.28 percent in 2021 and the ratio of nonaccrual loans to total loans was 0.84 percent as of December 31, 2021. The decrease in nonaccrual loans during the year is primarily due to liquidations and payments collected on nonaccrual loans in excess of new transfers to nonaccrual.

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
Balance at beginning of year	$ 14,071	$ 14,678	$ 14,516
Charge-offs			
Rural Residential Real Estate	–	–	–
Real estate mortgage	(877)	(554)	(44)
Production and intermediate term	(55)	(116)	(329)
Total charge-offs	(932)	(670)	(373)
Recoveries			
Real estate mortgage	161	53	54
Production and intermediate term	156	55	142
Total recoveries	317	108	196
Net (charge-offs) recoveries	(615)	(562)	(177)
Provision for loan losses	28	(45)	339
Balance at end of year	$ 13,484	$ 14,071	$ 14,678
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.050)%	(0.047)%	(0.015)%

The net loan charge-offs were associated with various crops and industries. The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31, 2021	2020	2019
Real estate mortgage	$ 6,977	$ 6,943	$ 6,504
Production and intermediate term	5,573	6,193	7,297
Agribusiness	624	594	527
Communication	–	16	17
Power and water/waste disposal	3	–	–
Rural residential real estate	307	325	333
Total loans	$ 13,484	$ 14,071	$ 14,678

See Note 3, *Loans and Allowance for Loan Losses*, of the Consolidated Financial Statements, for further information concerning reclassification of loan types for all years presented.

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

Allowance for Loan Losses as a Percentage of:	December 31, 2021	2020	2019
Total loans	1.05%	1.18%	1.28%
Nonperforming loans	94.35%	51.37%	50.51%
Nonaccrual loans	125.78%	54.76%	54.83%

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

RESULTS OF OPERATIONS

Net Income

Net income for the year ended December 31, 2021, totaled $35,711, an increase of $3,142 or 9.65 percent, as compared to $32,570 for the same period of 2020. The increase in net income during 2021 when compared to 2020 resulted primarily from a $2,421 increase in special patronage, a $399 increase in net interest income, and a $1,779 increase in fee income. The increase in net interest income was mainly due to a reduction in interest expense as a result of a reduction in the direct note rate from repricing. Fee income increased due to PPP loan activity.

Noninterest expense increased $1,799 mainly due to increased personnel and Farm Credit System Insurance Corporation (FCSIC) premiums in 2021. Major components of the changes in net income for the past two years are outlined in the following table:

Changes in Net Income:

	2021-2020	2020-2019
Net income (prior year)	$ 32,570	$ 25,565
Increase (decrease) in net income due to:		
Interest income	(1,423)	(6,347)
Interest expense	(1,822)	(7,009)
Net interest income	399	662
Provision for loan losses	(73)	384
Noninterest income	4,617	5,889
Noninterest expense	(1,799)	69
Provision for income taxes	(3)	1
Total changes in income	3,141	7,005
Net income	$ 35,711	$ 32,570

Net Interest Income

Net interest income was $33.2 million, $32.8 million, and $32.1 million 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 two years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Total
12/31/20 - 12/31/21			
Interest income	$ 5,113	$ (6,536)	$ (1,423)
Interest expense	1,693	(3,515)	(1,822)
Change in net interest income	$ 3,420	$ (3,021)	$ 399
12/31/19 - 12/31/20			
Interest income	$ 265	$ (6,612)	$ (6,347)
Interest expense	572	(7,581)	(7,009)
Change in net interest income	$ (307)	$ 969	$ 662

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

Noninterest Income

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Income	**2021**	**2020**	**2019**	**2021/ 2020**	**2020/ 2019**
Loan fees	$ 4,907	$ 3,129	$ 2,495	56.82 %	25.41 %
Fees for financially related services	608	525	284	15.81	84.86
Patronage refund from other Farm Credit Institutions	21,136	18,345	12,946	15.21	41.70
Gains (losses) from sales of premises and equipment, net	490	130	141	276.92	(7.80)
Gains (losses) on other transactions	195	369	717	(47.15)	(48.54)
Other noninterest income	11	232	258	(95.26)	(10.08)
Total noninterest income	$ 27,347	$ 22,730	$ 16,841	20.31 %	34.97 %

The Patronage refund from other Farm Credit Institutions increased. The Bank distributed $12,846 in special patronage to the Association in 2021. This distribution was due to increased earnings at the Bank level that was distributed to all Associations in the district. The amount distributed to each Association was based on each institution's level of borrowing from the Bank. While significant special patronage has been provided in the past few years, the Association recognizes that special patronage is subject to the financial performance and condition of the Bank and, if provided in future years, will fluctuate based on current conditions.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2021	2020	2019	Percentage Increase/(Decrease) 2021/ 2020	2020/ 2019
Salaries and employee benefits	$ 14,254	$ 14,000	$ 13,583	1.81 %	3.070 %
Postretirement benefits	3,362	2,959	2,835	13.62	4.37
Occupancy and equipment expense	1,178	1,093	1,170	7.78	(6.58)
Insurance Fund premium	1,485	858	817	73.08	5.02
(Gains) losses on other property owned, net	(6)	168	10	(103.57)	1,580.00
Other operating expense	4,527	3,923	4,655	15.40	(15.73)
Total noninterest expense	$ 24,800	$ 23,001	$ 23,070	7.82 %	(0.30)%

Salaries and employee benefits increased $254 in 2021, as compared with 2020, resulting in an increase of 1.81 percent. The increase is related to additional salary expense due to additional hiring and increased incentive payments in 2021. Postretirement benefits increased by $403, as a result of increased pension expenses.

Insurance Fund premiums increased by 73.08 percent for the twelve months ended December 31, 2021, compared to the same period of 2020. The FCSIC set premiums at an average of 16 basis points on adjusted insured debt outstanding in 2021, up from the amount charged during 2020. The increase in premiums was mainly attributable to an increase in loan volume. For 2022, the FCSIC has indicated that the premium will be approximately 16 basis points based on expected System loan growth in 2021.

Occupancy and equipment expense increased by 7.78 percent while other operating expense increased by 15.40 percent for the twelve months ended December 31, 2021. The increase in occupancy and equipment expense is due to an increase in depreciation expense. The increase in other operating expense is primarily due to increases in expenses related to data processing and purchased services in 2021.

Income Taxes

The Association recorded a $3 provision for income tax for the year ended December 31, 2021, as compared none for 2020 and $1 for 2019. Refer to Note 2, *Summary of Significant Accounting Policies,(item K - Income Taxes)*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/21	12/31/20	12/31/19
Return on average assets	2.85%	2.73%	2.16%
Return on average members' equity	11.81%	11.18%	9.18%
Net interest income as a percentage of average earning assets	2.72%	2.82%	2.80%
Net (charge-offs) recoveries to average loans	(0.050)%	(0.048)%	(0.016)%

The 2021 return on average assets (ROA) increased from 2020 by 12 basis points and return on average member's equity (ROE) increased by 63 basis points from 2020. The primary reason for the increase in ROA was the fact that there was an increase in net earnings in 2021. ROE also increased due to increased earnings. Net interest income as a percentage of average earning assets, or net interest margin, decreased by 10 basis points from 2020 to 2021. The increase was primarily a result of a decrease in nonaccrual loan recoveries in 2021.

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. 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 be strong 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 GFA has a one year term and is renewable each year. The current agreement expires on December 31, 2021, and the Association has no reason to believe the GFA will not be renewed upon expiration. 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."

As of December 31, 2021 the Association had $319,177 in loanable funds outstanding. The Association is able to effectively deploy these funds as working capital to boost profitability and patronage refunds. Through AgFirst's direct note pricing accounting for the calculation of interest expense, the Association is given an interest rate credit for loanable funds based on the prevailing average direct note rate of the Association's entire portfolio.

Total notes payable to the Bank at December 31, 2021, was $1,001,022 as compared to $915,503 at December 31, 2020 and $893,705 at December 31, 2019. The increase in 2021 of 9.34 percent as compared to December 31, 2020 was attributable to an increase in Association loan volume. The average volume of outstanding notes payable to the Bank was $934,039 and $889,205 for the years ended December 31, 2021 and 2020, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in the Farmer Mac Long-Term Standby program, investments, and preferred stock program 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, 90-day London Interbank Offered Rate (LIBOR), or the 30-day LIBOR rate. Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

Relationship with the Bank

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

CAPITAL RESOURCES

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

The Association's Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2021 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings. During 2010, the Association's Board approved use of financial parameters or guidelines to assist in capital planning and in determining the appropriate level of patronage to distribute. These patronage parameters were also included in the 2021 capital adequacy plan.

Total members' equity at December 31, 2021, increased 4.65 percent to $293,892 from the December 31, 2020, total of $280,842. At December 31, 2020, total members' equity decreased 2.65 percent from the December 31, 2019 total of $273,592. The increase in 2021 was mainly due to net income earned during the year, offset by patronage refunds to customers, and an increase in preferred stock. The increase in 2020 was mainly due to net income earned during the year, offset by patronage refunds to customers and a decrease in preferred stock.

Preferred stock was $32,426 as of December 31, 2021, an increase of 9.77 percent over the December 31, 2020 level of $29,541. The majority of this increase was related to increased purchases of preferred stock. This preferred stock is a non-voting, at-risk class of stock that is only available to Association stockholders. Dividends are paid quarterly on outstanding shares of preferred stock, and for the year ended December 31, 2021, $163 in dividends were declared and paid in shares of stock, as compared to $310 for the same period in 2020. The average dividend rate paid on shares of preferred stock during 2021 was 0.43 percent, which was 51 basis points less than 2020. Member stock and participation certificates were $4,030 on December 31, 2021, compared to $3,859 on December 31, 2020. The increase is attributed to a growth in the number of loans outstanding.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum capital ratios, and as of December 31, 2021, all capital ratios were well above the minimum regulatory requirements as illustrated in the chart shown below. 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. The Association is currently not prohibited from retiring stock or distributing earnings by statutory and regulatory restrictions, nor knows of any reason such prohibitions may apply for the foreseeable future.

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

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%	19.47%	20.27%	20.08%
Tier 1 Capital Ratio	6.0%	2.50%	8.50%	19.47%	20.27%	20.08%
Total Capital Ratio	8.0%	2.50%	10.50%	20.58%	21.52%	21.33%
Permanent Capital Ratio	7.0%	–%	7.00%	22.73%	23.36%	23.03%
Non-risk-adjusted:						
Tier 1 Leverage Ratio	4.0%	1.00%	5.00%	19.62%	20.46%	20.23%
UREE Leverage Ratio	1.5%	–%	1.50%	19.64%	20.62%	20.40%

** The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020. Risk-adjusted ratio minimums will increase 0.625% each year until fully phased in. There is no phase-in period for the tier 1 leverage ratio.*

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.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to non-patronage sourced business the remaining consolidated net earnings are eligible for allocation to borrower\patrons. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $25,554 in 2021, $28,087 in 2020, and $17,916 in 2019.

REGULATORY MATTERS

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

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

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

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

System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ended on November 22, 2019.

Future of LIBOR

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

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

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

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

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

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

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

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

The following is a summary of outstanding variable-rate financial instruments tied to LIBOR at December 31, 2021:

(dollars in thousands)	Due in 2022	Due in 2023 (On or Before June 30)	Due After June 20, 2023	Total
Loans	$ 1	$ 3	$ 37	$ 41
Total	$ 1	$ 3	$ 37	$ 41
Note Payable to				
AgFirst Farm Credit Bank	$ 1	$ 2	$ 28	$ 31
Total	$ 1	$ 2	$ 28	$ 31

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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2023.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Unincorporated Business Entities

The Association is the sole shareholder/owner of an Unincorporated Business Entity (UBE) as defined by FCA regulations. The UBE, ACF Acquisitions, LLC (ACF), is a wholly owned limited liability company organized in the state of North Carolina. ACF was organized to acquire real estate subsequent to Association foreclosure proceedings and ACF acquires and holds the Association's real estate acquired property.

Description of Property

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

Location	Description	Form of Ownership
408 NC Hwy 561 W Ahoskie	Branch	Owned
101 Impact Boulevard Elizabeth City	Branch	Owned
636 Rock Spring Road Greenville	Branch/ Administrative	Owned
419 S. King Street Halifax	Branch	Owned
7900 Hwy 70 West La Grange	Branch	Owned
1654 NC Hwy 39 N Louisburg	Branch	Owned
1309 S. Glenburnie Road New Bern	Branch	Owned
2472 Woodruff Road Rocky Mount	Branch	Owned
2850 US Hwy 70 Business East Smithfield	Branch	Owned
13191 U.S. Hwy 264 Swan Quarter	Branch	Owned

Location	Branch Description	Form of Ownership
1105 Garrett Road Williamston	Branch	Owned
4000 Poole Road Raleigh	Branch/ Administrative	Owned
4109 Old Poole Road Raleigh	Vacant lot	Owned
5201 Old Poole Road, Ste. 114 Raleigh	Agribusiness	Leased*

**Lease term is through October 2022. Lease payments are $2,956 per month.*

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. The president and CEO and all other senior officers of the Association, together with their length of service at their present position, as well as positions held during the last five years, are as follows:

Name and Title	Time in Position	Prior Experience	Other Business Interests
David W. Corum, *President and CEO*	10 years	Director of Financial Analysis and Systems at Farm Credit Services of Mid America from 1986 to 1993. Executive Vice President and Chief Financial Officer with AgCarolina Farm Credit from 1993 to March 2012. Total of 40 years of employment in the Farm Credit System, including 28 years with AgCarolina Farm Credit.	He serves on the AgFirst/FCBT Plan Fiduciary Committee and is a member of the North Carolina State University Ag Foundation Board, the North Carolina State University Agricultural Institute Advisory Board, the board of the North Carolina Foundation for Soil and Water Conservation, the board of the North Carolina Agribusiness Council, and the University of Mount Olive Agricultural Advisory Board.
Matthew J. Currin *Senior Vice President and Chief Financial Officer*	10 years	Senior Vice President and Chief Financial Officer with Cape Fear Farm Credit from 2006 until 2011 and Associate with a local accounting firm from November 2011 to April 2012. A total of 17 years of employment in the Farm Credit System including 10 years with AgCarolina Farm Credit.	
Anthony S. (Scott) Jackson *Senior Vice President and Chief Credit Officer*	1 year	Vice President – Credit Risk Management from 2013 to January 2020 and Chief Risk Officer from February 2020 to June 2021. Total of 11 years of employment with the Farm Credit System, all with AgCarolina Farm Credit.	
Roy P. Robertson, Jr., *Senior Vice President - Corporate Lending Division*	10 years	Senior Vice President Financial Services from 2008 until 2011 and Executive Vice President and Chief Lending Officer from 2011 to March 2012. Total of 22 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	
Arthur R. (Buck) Spruill, III, *Senior Vice President –Branch Lending East Region*	7 years	Loan officer with AgCarolina Farm Credit from 1989 to 1993. Agribusiness Executive with two commercial banks from 1993 to 2013. Agribusiness Loan Officer from 2013 to 2015. Total of 12 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	He is a co-owner of a closely held family farming operation and also serves as a board member of Coastal Carolina Cotton Gin, a cotton processing facility.
Timothy M. Pace, *Senior Vice President –Branch Lending West Region*	10 years	Financial Services Officer from 1999 to 2008 and Senior Vice President Financial Services from 2008 to March 2012. Total of 23 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	
Laura S. (Skipper) Jones *Senior Vice President – Marketing and Communications*	5 years	Marketing Manager from 2008 to 2014 and Senior Vice President – Administrative Officer from 2014 to 2017 with Cape Fear Farm Credit. Total of 14 years of employment in the Farm Credit System, including five years with AgCarolina Farm Credit.	She serves as an advisory board member of the North Carolina Agricultural and Technical University College of Agricultural and Environmental Sciences, serves on the North Carolina State University NCALS Research Foundation Board and also serves as a member of the North Carolina FFA Advisory Board.

The total amount of compensation (in whole dollars) earned by the CEO and other 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	Year	Received Compensation: Salary	Bonus	Total Received Compensation (a)
David W. Corum	2021	$ 337,415	$ 119,068	$ 456,483
David W. Corum	2020	$ 322,512	$ 106,128	$ 428,640
David W. Corum	2019	$ 311,679	$ 99,712	$ 411,391
6 Officers	2021	$ 948,820	$ 337,509	$ 1,286,329
7 Officers	2020	$ 1,091,213	$ 356,764	$ 1,447,977
6 Officers	2019	$ 1,111,230	$ 308,948	$ 1,420,178

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.

Perquisites and Noncash Compensation

Name of Individual or Number in Group	Year	Change in Pension*	Perquisites	Other	Total Perquisites and Noncash (b)	Total Received and Noncash Compensation (a+b)
David W. Corum	2021	$ (173,425)	$ 13,266	$ 60,000	$ (100,158)	$ 356,325
David W. Corum	2020	$ 292,634	$ 12,570	$ 57,000	$ 362,204	$ 790,844
David W. Corum	2019	$ 512,815	$ 10,230	$ 47,500	$ 570,545	$ 981,936
6 Officers	2021	$ 135,116	$ 44,897	$ 120,000	$ 300,013	$ 1,586,342
7 Officers	2020	$ 676,141	$ 45,896	$ 140,000	$ 862,037	$ 2,310,014
6 Officers**	2019	$ 1,264,628	$ 81,606	$ 120,000	$ 1,466,234	$ 2,886,412

** This figure is a third party actuarial determination of the change in the present value of the estimated pension cash flows for employees as of December 31, 2021. 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.*

***Perquisites for 2019 includes payment of accrued annual leave in the amount of $40,385 upon the retirement of one officer. Due to this payout, this officer was included in the totals, whereas they were not in the preceding years shown.*

The table below illustrates the present value of pension benefits for the CEO and other officers presented. This value represents the third party actuarial determination of the present value of the estimated pension cash flows for employees as of December 31, 2021. This does not represent any actual cash compensation provided to any employee but is simply a calculation that is affected by a number of assumptions and inputs. Actual funds received can differ based on how actual events compare to assumptions used in the calculation.

Pension Benefits Table
As of December 31, 2021

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2021
CEO:					
David W. Corum	2021	AgFirst Retirement Plan	42.75	$ 3,461,695	$ –
			Total	$ 3,461,695	$ –
Officers					
2 Officers, excluding the CEO	2021	AgFirst Retirement Plan	23.25*	$ 2,616,426	$ –
			Total	$ 2,616,426	$ –

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

In addition to a base salary, employees earn additional compensation under a bonus or incentive plan. The Association incentive plan is designed to motivate employees to exceed business goals during the fiscal year. Each region or business unit's incentive plan is tailored to meet the specific goals of that unit. These goals typically include loan volume, financially related services income, fee income, credit quality, credit administration, net earnings, and other key measurements. All employees in good standing are included for incentive plan eligibility. The incentive bonus is earned over the twelve-month calendar year period and is normally paid in the first quarter of the following year. In addition to the year-end incentive bonus plan described above, certain employees involved in the direct lending function are eligible for a quarterly sales incentive bonus. The sales incentive bonus is paid on new loan volume generated each quarter after a threshold amount of new loan volume is met. The President and Senior Vice Presidents do not participate in the sales incentive bonus.

The amounts included under the column heading "Change in Pension" represents the amount of year over year change in the present value of senior officers' *Actuarial Value of Accumulated Benefits,* also known as the pension accumulated benefit obligation (ABO). The ABO is an estimate of the present value of the employee's future cash flows associated with their pension, which assumes that the employee ceases to work for the company at the time the estimation is made. The ABO is unique to each participant in the plan and is calculated using a number of factors and assumptions including, but not limited to, the number of years of service in the plan, the discount rate used in the present value calculation, retirement eligibility, life expectancy of the participant, the participant's compensation basis and changes in beneficiary elections by the participant. These assumptions will almost certainly change from year to year depending on the information present at a given measurement date. The amount of the change in pension for Mr. Corum was $(100,518) and the amount of the change in pension value for the remaining officers presented above is $135,116. The main reason for the decrease in Mr. Corum's ABO amount was due to the increase in the discount rate for calculating the present value of benefits and the passage of time, which reduces the estimated time in retirement. This was slightly offset by the increase in the future benefits calculation. The main reason for the other officers increase in their ABO amounts was related to an additional year of service accrual, which was offset by the increase in the discount rate. The overall ABO amount decreased as a result of the increase in the discount rate from 2.65% in 2020 to 2.95% in 2021. The increase in this interest rate assumption inherently increases the ABO present value calculation for all participants in the plan.

The amounts included under the column "Perquisites" include group life insurance, spousal travel, service awards, and the unreimbursed portion of the value of the personal use of an Association provided vehicle.

The amounts included under the column heading "Other" are funds that have been invested in a nonqualified long-term deferred compensation program for certain Association employees. The program provides deferred compensation benefits to encourage focus on strategies that are in the long-term best interest of the Association and its shareholders. Under the program the funds are placed in a Trust owned by the Association. Compensation is deferred until a later date upon which the employee meets certain vesting guidelines and employment is terminated. All current and future assets used by the Association to fund this program will remain general assets of the Association until payment or distribution is made.

Amounts disclosed in the *Pension Benefits Table* represent the retirement plan(s) which CEO and other senior officers participate in and details about certain aspects of the plan(s). As illustrated, the CEO and four senior officers participate in the AgFirst Retirement Plan and three senior officers do not participate in a defined benefit pension plan. See *Note 9, Employee Benefit Plans* for further information. The number of years of credited service for the Association's CEO is 42.75 years. The average of the two officers in the AgFirst Retirement Plan, exclusive of the CEO, is shown at 23.25 years, with a range of credited service within the plan from 22 to 24 years.

The "Actuarial Present Value of Accumulated Benefits" column in the *Pension Benefits Table* represents the present value of the future cash flows related to the pension plans for the CEO and other senior officers as a group (exclusive of the CEO), also known as the ABO. The ABO is affected by a number of factors and assumptions, as described earlier. The ABO amount represents a point-in-time valuation and the actual amounts paid in retirement could be considerably less if all assumptions made in the calculation are not realized.

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

Directors

The following chart details the number of meetings, other activities, current committee assignments, the current term, additional compensation paid for other activities (if applicable), and total cash compensation paid for each director (all amounts are in whole dollars):

Name of Director	Year of Original Election/ Appointment	Days Served: Regular Board Meetings	Days Served: Other Official Activities	2019 Committee Assignments	Current Term (a)	Comp. Paid for other Activities (b)	Total Comp. Paid During 2021
B. Derek Potter, *Chairman*	2009	5	22	Executive, Governance	2022-2025	$15,400	$24,900
S. Stuart Pierce, *Vice Chairman*	2005	5	26	Credit, Executive, Governance	2021-2024	18,200	27,700
Dr. A. Blake Brown	2020	5	17	Audit, Credit	2020-2023	11,900	21,400
Paul A. Drake	2007	5	23	Credit, Executive, Governance	2019-2022	16,100	25,600
Jack E. Finley **(c)**	2006	2	6	Audit	2020-2021	4,200	8,600
Bundy H. Lane	2008	5	7	Audit	2020-2023	4,900	14,400
Audie M. Murphy	2006	5	27	Audit, Compensation, Governance	2022-2025	18,900	28,400
Rodney D. Smith	2012	5	4	Compensation	2021-2024	2,800	12,300
Ellis W. Taylor	2007	5	23	Audit, Governance	2019-2022	16,800	26,300
Jackie E. Thompson, Sr.	2016	5	9	Compensation	2020-2023	6,300	15,800
Robert E. Turner, Jr.	2019	5	13	Credit, Compensation	2019-2022	9,100	18,600
Mark A. Wellons	2021	5	12	Credit	2021-2024	7,700	17,200
TOTAL						$132,300	$241,200

(a) All directors elected in 2020 officially began their current term January 1, 2021 and will complete their current term on December 31, 2024.
(b) Includes board committee meetings and other board activities other than regular board meetings, including Director training and participation in conferences.
(c) Mr. Finley served as an outside director until his passing in June 2021.

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

The aggregate amount (in whole dollars) of reimbursement for travel, subsistence and other related expenses for all directors as a group was $67,613 for 2021, $74,809 for 2020 and $129,793 for 2019. Subject to approval by the board, the Association may provide payment to directors of $700 per day for attendance at meetings, committee meetings, or special assignments. In addition to the per day payment, directors are paid a quarterly retainer fee of $1,500. Total compensation paid to directors as a group was $241,200. Association directors also benefited from non-cash compensation related to premiums that were paid on their behalf for accidental death and dismemberment insurance for Association related travel and business. Total non-cash compensation for directors as a group was $1,034 during 2021.

The following sets forth certain information regarding the directors of the Association who served during 2021 and their principal occupation for the past five years:

***B. Derek Potter**, Chairman,* is a row crop farmer in Pamlico County who also serves on the board of a closely held farming corporation, the United Soybean Board, the North Carolina Soybean Board, the Pamlico County Soil & Water Board, the NC Soil and Water Commission, the Pamlico County Voluntary Ag District and the Pamlico County Extension Advisory Committee.

S. Stuart Pierce, *Vice Chairman,* is a row crop farmer in Hertford County who also serves on the board of Producers Gin of Murfreesboro, manages Ahoskie Fertilizer Co, Inc., is currently serving as President of the Hertford County Farm Bureau and serves on the North Carolina Farm Bureau Board and the board of the North Carolina Farmland Preservation Trust Fund, a land preservation trust.

Dr. Alvin B. (Blake) Brown, Outside Director, is the Hugh C. Kiger Professor of Agricultural and Resource Economics at North Carolina State University. Dr. Brown previously served as the senior economist for the Council of Economic Advisers in the Executive Office of the President of the United States, where he focused on national agricultural policy.

Paul A. Drake is a row crop and livestock farmer in Edgecombe County who also serves on the boards of Edgecombe Volunteer Ag District and the board of several closely held family farming entities. He also serves as a director and as treasurer of the East Carolina Livestock Arena, Inc.

Jack E. Finley, Outside Director, is a former Banking Industry Senior Advisor and partner with the public accounting firm Grant Thornton, is a former managing partner of the Oklahoma City office of the public accounting firm KPMG, and serves on the board of the BOK Financial Corporation, a financial institution based in Tulsa, Oklahoma, the North Carolina Theatre, Haven House Services, a nonprofit, and the Research Triangle Chapter of the National Association of Corporate Directors. Mr. Finley is a former director of AgCarolina Farm Credit, serving from 2006-2017, and also served as a board consultant between April and September of 2020. *Mr. Finley served through the time of his passing in June 2021.*

Bonnie V. Hancock, Outside Director, is Professor of Practice in the Poole College of Management at North Carolina State University (NCSU) where she teaches graduate classes in financial management and financial planning. She was also Executive Director of the Enterprise Risk Management Initiative from 2006-2021. Prior to joining NCSU, she worked with Progress Energy, as senior vice president of finance and information technology and later as president of Progress Fuels, a subsidiary that produced and marketed gas, coal and synthetic fuels, and operated fuel terminals and ash management facilities. She is a member of the boards of the North Carolina Coastal Pines Girl Scout Council, a leadership development organization for girls, where she serves as board chair; and the National Association of Corporate Directors – Research Triangle Chapter, an organization for the advancement of exemplary board leadership, where she also serves as board chair. *Ms. Hancock was appointed as an outside director and began her four-year term of service in January 2022.*

Bundy H. Lane is a row crop and livestock farmer in Gates County who serves on the board of Gates Cotton Gin and is a Board member and officer of several closely held family farming entities.

Audie M. Murphy is a row crop and poultry farmer in Greene County who also serves as secretary of the Greene Gin and Cotton Company, the Greene County Farm Bureau Board, and serves as an officer and director on several closely held family farming entities.

Rodney D. Smith is a row crop and livestock farmer in Lenoir County who serves on the board of the Lenoir County Farm Bureau and the Lenoir County Voluntary Agricultural District. Mr. Smith also manages and serves as a board member for multiple closely held family farming entities.

Ellis W. Taylor is a row crop farmer in Halifax County who also serves on the boards of the Federal Farm Credit Banks Funding Corporation, the funding agent for the Farm Credit System, AgFirst Farm Credit Bank, the district Farm Credit Bank, Northampton County Farm Bureau and Roanoke Cotton Company LLC.

Jackie E. Thompson, Sr. is a row crop and produce farmer in Wake County who also serves on the boards of Wake County Farm Bureau, North Carolina Farm Bureau, the North Carolina Tobacco Growers Association, and North Carolina Tobacco Associates.

Robert E. Turner, Jr. is a row crop and livestock farmer in Martin County who serves as a board member for multiple closely held farming entities.

Mark A. Wellons is a row crop and livestock farmer in Johnston County who serves as a board member for multiple closely held farming entities and as vice chairman for Tobacco Associates, a commodity organization. He also serves on the boards of North Carolina Farm Bureau, as chairman of the NC Farm Bureau's Energy and Transportation Committee as well as the R. Flake Shaw Scholarship Committee.

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.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditor

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

Aggregate fees incurred by the Association for services rendered by its independent auditor for the year ended December 31, 2021 were as follows (in whole dollars):

	2021
Independent Auditor	
Pricewaterhouse Coopers LLP	
Audit services	$ 70,200
Total	$ 70,200

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

Preferred Stock Insider Transactions

The following describes transactions related to the purchase/sale of Association preferred stock by senior officers or directors who are considered Insiders which occurred during the 12-month period ended December 31, 2021. An Insider is defined to include any one or more of the following: (1) the Association's directors, officers, employees and agents; (2) any corporation, partnership, limited liability company or other entity of which any of the Association's directors, officers, employees or agents, or nominees of any of the foregoing, are a director, officer, partner or the holder of a majority of the equity ownership of the entity; and (3) the spouse and any other person who regularly resides in the same household of any officer, director, employee or agent.

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 and the average dividend rate paid on shares of preferred stock during 2021 was 0.43 percent.

Consolidated Financial Statements

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

Copies of the Association's quarterly reports are available upon request free of charge by calling 1-800-951-3276 or writing Matt Currin, AgCarolina Farm Credit, P.O. Box 14789, Raleigh, NC 27620, or accessing the website, *www.AgCarolina.com.* The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report 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.

Shareholder Investment

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

Young, Beginning, and Small Farmers and Ranchers Program

The Association's mission includes providing sound and constructive credit and related services to young, beginning, and small (YBS) farmers and ranchers. Annual marketing goals are established to increase market share of loans to YBS farmers and ranchers. To facilitate our lending programs, financing programs and use of government guaranteed loan programs have been adopted and implemented. Educational opportunities, leadership training, business financial training, and insurance services for YBS farmers and ranchers have been developed or sponsored.

YBS farmers and ranchers are defined as:

Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the date the loan is originally made.
Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the date the loan is originally made.
Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

The following tables outline the loan volume (in thousands) and number of outstanding YBS loans as of December 31, 2021 and new YBS loans made in 2021 as compared to the annual marketing goals set forth in the Association's annual business plan.

Total Portfolio Goals and Progress
As of December 31, 2021

	Number of Loans		Amount of Loans	
	2021 Goal	2021 Actual	2021 Goal	2021 Actual
Young	1,074	1,211	$135,664	$164,452
Beginning	1,526	1,772	179,979	237,673
Small	2,502	2,651	217,567	256,880

New Loan Goals and Progress
December 31, 2021

	Number of Loans		Amount of Loans	
	2021 Goal	2021 Actual	2021 Goal	2021 Actual
Young	407	431	$101,410	$73,299
Beginning	551	637	103,303	111,848
Small	824	872	103,765	98,654

The following table shows the Association's YBS loans as a percent of the total number of loans as of December 31, 2021, and comparable demographics from the 2012 Agricultural Census. The Association's percentages vary from the Census percentages because the Association's methodology uses number of loans and the Census uses number of farmers.

	Association 12/31/21 Number of Loans	2012 Ag Census Number of Farmers
Young	16.51%	4.54%
Beginning	24.16%	18.14%
Small	17.33%	77.13%

As part of the Association's YBS program, the Association has established the following mission statement, qualitative goals, and methods to ensure credit and services are provided in a safe and sound manner. These program components are described below along with a status report of each component.

YBS Program Component	Status
Mission Statement: AgCarolina Farm Credit recognizes that young, beginning, and small farmers and ranchers face many challenges and obstacles. Our organization is dedicated to improving the future of agriculture and rural America by supporting young, beginning, and small farmers and ranchers through educational and leadership opportunities as well as providing competitive lending.	The Association is meeting its mission statement by fulfilling the credit needs of YBS farmers in the Association's territory.
Qualitative Goals: The following qualitative goals were set for 2020: • Broaden YBS and marketing outreach programs. • Broaden partnering opportunities with other organizations. • Increase educational opportunities for YBS farmers. • Broaden participation and involvement in youth programs and outreach activities. • Ensure sound YBS controls through expanded reporting.	The Association participated in the following YBS activities during 2020 in meeting its qualitative goals: • Supported the commodity groups including those that benefit the diverse segments of the ag community: NC Junior Beef Roundup, NC Dairy Association, NC Junior Hereford Association, Carolina Organic Commodities and Livestock Conference, and the Center for Environmental Farming Systems. • Sponsorship of livestock shows throughout the territory. • Supported the North Carolina FFA and 4-H groups by providing financial assistance, sponsorships, speakers, grants and volunteers. • Sponsor of 4-H Public Speaking program. • Session sponsor at annual FFA State Convention held virtually. • Partnered with the Tobacco Farm Life Museum in recognizing a young producer with the "Innovative Young Farmer" award. • Provided scholarships to North Carolina State University (NCSU), NC A&T University (NC A&T) and other North Carolina colleges and universities, including the NCSU Ag Institute and community colleges. • Grants presented to organizations across eastern North Carolina for programs that included FFA projects, 4-H projects, local food banks, and projects for non-profit organizations. • Provided two online educational programs, Ag Biz Planner and Ag Biz Basics, for young, beginning, small, and minority producers. • Sponsor of NC Choices Carolina Meat Conference. • Ag Leadership Institute, with Dr. Dave Kohl, providing financial training, as well as information on farm transition. • Sponsor of NCSU's Virtual CALS Tailgate. • Conducted Measuring Success financial workshops for members. • Hosted 4th annual Pull for Youth sporting clays event, a fundraiser for NC 4-H and FFA. • Conducted numerous educational webinars during the year. • Offered weather and commodity marketing email subscriptions. • Sponsored NCSU's Executive Farm Management Program. • Provided job shadowing opportunities for NCSU ag students. • Offered a virtual AgBiz Program in collaboration with other Farm Credit associations. • Supported USDA's Farmers to Families Food Box project.
Credit & Service Methods: Ensure methods are in place to make sure that credit and services offered to YBS farmers are provided in a safe and sound manner, and within the Association's risk-bearing capacity.	The Association's YBS program includes customized loan underwriting standards, loan guarantees, additional co-makers, and other credit enhancements to ensure that credit and services are provided in a safe and sound manner, and within the Association's risk-bearing capacity.

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 AgCarolina Farm Credit, ACA (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

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

PricewaterhouseCoopers LLP (PwC), the Association's independent auditor for 2021, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards AU-C 260 and 265 *(The Auditor's Communication With Those Charged With Governance)*. PwC has provided to the Committee the written disclosures required by professional standards.

The Committee discussed with PwC its independence from AgCarolina Farm Credit, ACA. The Committee also reviewed the non-audit services provided by PwC, if any, 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:

Ellis W. Taylor

Ellis W. Taylor
Chairman of the Audit Committee

Members of Audit Committee

A. Blake Brown
Bonnie V. Hancock
Bundy H. Lane
Audie M. Murphy
Ellis W. Taylor

March 10, 2022

pwc

Report of Independent Auditors

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

Opinion

We have audited the accompanying consolidated financial statements of AgCarolina Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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 and 2020, 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.

Other Matter

The consolidated financial statements of the Association as of December 31, 2019 and for the year then ended were audited by other auditors whose report, dated March 12, 2020, expressed an unmodified opinion on those statements.

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

PricewaterhouseCoopers LLP, *1075 Peachtree Street NE, Suite 2600, Atlanta, GA 30309*
T: (678) 419 1000, F: (678) 419 1239, www.pwc.com/us

assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

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

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2021 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 10, 2022

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2021	2020	2019
Assets			
Cash	$ **6**	$ 4	$ 3,325
Loans	**1,280,860**	1,192,556	1,149,313
Allowance for loan losses	**(13,484)**	(14,071)	(14,678)
Net loans	**1,267,376**	1,178,485	1,134,635
Accrued interest receivable	**14,535**	14,184	17,215
Equity investments in other Farm Credit institutions	**10,909**	11,981	13,481
Premises and equipment, net	**15,568**	11,858	10,774
Other property owned	**—**	—	966
Accounts receivable	**21,307**	18,419	12,941
Other assets	**4,567**	4,057	3,489
Total assets	$ **1,334,268**	$ 1,238,988	$ 1,196,826
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ **1,001,022**	$ 915,503	$ 893,705
Accrued interest payable	**1,782**	1,661	2,272
Patronage refunds payable	**25,555**	28,096	17,930
Accounts payable	**1,724**	1,204	1,619
Advanced conditional payments	**126**	9	1
Other liabilities	**10,167**	11,673	7,707
Total liabilities	**1,040,376**	958,146	923,234
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**36,457**	33,400	30,162
Retained earnings			
Allocated	**177,724**	177,724	174,551
Unallocated	**79,711**	69,718	68,879
Total members' equity	**293,892**	280,842	273,592
Total liabilities and members' equity	$ **1,334,268**	$ 1,238,988	$ 1,196,826

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2021	2020	2019
Interest Income			
Loans	$ **53,027**	$ 54,450	$ 60,797
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**19,832**	21,654	28,663
Net interest income	**33,195**	32,796	32,134
Provision for (reversal of allowance for) loan losses	**28**	(45)	339
Net interest income after provision for (reversal of allowance for) loan losses	**33,167**	32,841	31,795
Noninterest Income			
Loan fees	**4,907**	3,129	2,495
Fees for financially related services	**608**	525	284
Patronage refunds from other Farm Credit institutions	**21,136**	18,345	12,946
Gains (losses) on sales of premises and equipment, net	**490**	130	141
Gains (losses) on other transactions	**195**	369	718
Insurance Fund refunds	**—**	232	255
Other noninterest income	**11**	—	2
Total noninterest income	**27,347**	22,730	16,841
Noninterest Expense			
Salaries and employee benefits	**17,616**	16,959	16,418
Occupancy and equipment	**1,178**	1,093	1,170
Insurance Fund premiums	**1,485**	858	817
(Gains) losses on other property owned, net	**(6)**	168	10
Other operating expenses	**4,527**	3,923	4,655
Total noninterest expense	**24,800**	23,001	23,070
Income before income taxes	**35,714**	32,570	25,566
Provision for income taxes	**3**	—	1
Net income	$ **35,711**	$ 32,570	$ 25,565
Other comprehensive income	**—**	—	—
Comprehensive income	$ **35,711**	$ 32,570	$ 25,565

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2018	$ 27,306	$ 167,917	$ 68,395	$ 263,618
Comprehensive income			25,565	25,565
Capital stock/participation certificates issued/(retired), net	2,325			2,325
Dividends declared/paid	531		(531)	—
Patronage distribution				
Cash			(17,916)	(17,916)
Nonqualified retained earnings		5,972	(5,972)	—
Patronage distribution adjustment		662	(662)	—
Balance at December 31, 2019	$ 30,162	$ 174,551	$ 68,879	$ 273,592
Comprehensive income			32,570	32,570
Capital stock/participation certificates issued/(retired), net	2,928			2,928
Dividends declared/paid	310		(310)	—
Patronage distribution				
Cash			(28,087)	(28,087)
Nonqualified retained earnings		3,121	(3,121)	—
Patronage distribution adjustment		52	(213)	(161)
Balance at December 31, 2020	$ 33,400	$ 177,724	$ 69,718	$ 280,842
Comprehensive income			**35,711**	**35,711**
Capital stock/participation certificates issued/(retired), net	**2,893**			**2,893**
Dividends declared/paid	**164**		**(164)**	**—**
Patronage distribution				
Cash			**(25,554)**	**(25,554)**
Balance at December 31, 2021	**$ 36,457**	**$ 177,724**	**$ 79,711**	**$ 293,892**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2021	2020	2019
Cash flows from operating activities:			
Net income	$ **35,711**	$ 32,570	$ 25,565
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,116**	932	991
Provision for (reversal of allowance for) loan losses	**28**	(45)	339
(Gains) losses on other property owned	**(9)**	168	3
(Gains) losses on sales of premises and equipment, net	**(490)**	(130)	(141)
(Gains) losses on other transactions	**(195)**	(369)	(718)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**(351)**	3,031	1,146
(Increase) decrease in accounts receivable	**(2,888)**	(5,478)	2,078
(Increase) decrease in other assets	**(510)**	(568)	685
Increase (decrease) in accrued interest payable	**121**	(611)	(228)
Increase (decrease) in accounts payable	**520**	(415)	(6)
Increase (decrease) in other liabilities	**(1,311)**	4,335	1,623
Total adjustments	**(3,969)**	850	5,772
Net cash provided by (used in) operating activities	**31,742**	33,420	31,337
Cash flows from investing activities:			
Net (increase) decrease in loans	**(89,206)**	(43,915)	10,472
(Increase) decrease in equity investments in other Farm Credit institutions	**1,072**	1,500	(363)
Purchases of premises and equipment	**(4,925)**	(2,005)	(1,344)
Proceeds from sales of premises and equipment	**589**	119	223
Proceeds from sales of other property owned	**296**	908	17
Net cash provided by (used in) investing activities	**(92,174)**	(43,393)	9,005
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**85,519**	21,798	(23,333)
Net increase (decrease) in advanced conditional payments	**117**	8	1
Capital stock and participation certificates issued/(retired), net	**2,893**	2,928	2,325
Patronage refunds and dividends paid	**(28,095)**	(18,082)	(19,039)
Net cash provided by (used in) financing activities	**60,434**	6,652	(40,046)
Net increase (decrease) in cash	**2**	(3,321)	296
Cash, beginning of period	**4**	3,325	3,029
Cash, end of period	$ **6**	$ 4	$ 3,325
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	$ **287**	$ 110	$ —
Estimated cash dividends or patronage distributions declared or payable	**25,554**	28,087	17,916
Dividends declared or payable in shares of preferred stock	**164**	310	531
Supplemental information:			
Interest paid	$ **19,711**	$ 22,265	$ 28,891
Taxes (refunded) paid, net	**—**	—	6

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:** AgCarolina Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Beaufort, Bertie, Camden, Carteret, Chowan, Craven, Currituck, Dare, Edgecombe, Franklin, Gates, Granville, Greene, Halifax, Hertford, Hyde, Johnston, Jones, Lenoir, Martin, Nash, Northampton, Onslow, Pamlico, Pasquotank, Perquimans, Pitt, Tyrrell, Vance, Wake, Warren, Washington, Wayne, and Wilson in the state of North Carolina.

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 (the 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 AgFirst 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 lending agreement between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

   Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

H. **Employee Benefit Plans:** The Association participates in District and multi-district sponsored benefit plans. These plans may include 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, 2003 may participate in the AgFirst Farm Credit Retirement Plan (Plan), which is a defined benefit plan and considered multiemployer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

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

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

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

Deferred Compensation Plan
The Association also sponsors a long-term deferred compensation program for certain key employees. This plan is nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

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. **Accounts Receivable:** The Association records patronage refunds from the Bank on an accrual basis. Patronage refunds due from the Bank for the years ended December 31, 2021, 2020, and 2019 of $20,771, $17,794, and $12,741, respectively, are reflected in Accounts Receivable on the Consolidated Balance Sheets.

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. The methods used approximate the exit price notion in current guidance at a materially acceptable level. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing.

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

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

Additional information may be found in Note 8.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

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

A summary of loans outstanding at period end follows:

	December 31, 2021	December 31, 2020	December 31, 2019
Real estate mortgage	$ 755,579	$ 683,095	$ 638,604
Production and intermediate-term	423,382	411,724	419,981
Loans to cooperatives	2,595	4,488	3,762
Processing and marketing	50,684	47,451	40,887
Farm-related business	14,760	10,074	9,757
Communication	(2)	1,737	1,755
Power and water/waste disposal	310	9	15
Rural residential real estate	33,552	33,978	34,552
Total loans	$ 1,280,860	$ 1,192,556	$ 1,149,313

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	$ 10,807	$ 27,923	$ –	$ –	$ –	$ –	$ 10,807	$ 27,923
Production and intermediate-term	22,423	53,892	3,947	163,038	–	–	26,370	216,930
Loans to cooperatives	2,601	–	–	–	–	–	2,601	–
Processing and marketing	16,251	25,573	1,116	–	–	–	17,367	25,573
Farm-related business	268	27	118	–	–	–	386	27
Power and water/waste disposal	311	–	–	–	–	–	311	–
Total	$ 52,661	$ 107,415	$ 5,181	$ 163,038	$ –	$ –	$ 57,842	$ 270,453

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	$ 9,556	$ 39,981	$ –	$ 1,387	$ –	$ –	$ 9,556	$ 41,368
Production and intermediate-term	17,955	60,609	3,991	173,159	–	–	21,946	233,768
Loans to cooperatives	4,492	–	–	–	–	–	4,492	–
Processing and marketing	19,890	26,569	1,171	–	–	–	21,061	26,569
Farm-related business	271	194	161	–	–	–	432	194
Communication	1,740	–	–	–	–	–	1,740	–
Power and water/waste disposal	10	–	–	–	–	–	10	–
Total	$ 53,914	$ 127,353	$ 5,323	$ 174,546	$ –	$ –	$ 59,237	$ 301,899

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	$ 11,007	$ 31,700	$ –	$ 3,343	$ –	$ –	$ 11,007	$ 35,043
Production and intermediate-term	19,557	53,218	3,389	176,229	–	–	22,946	229,447
Loans to cooperatives	3,767	–	–	–	–	–	3,767	–
Processing and marketing	12,446	9,651	767	–	–	–	13,213	9,651
Farm-related business	364	–	201	–	–	–	565	–
Communication	1,759	–	–	–	–	–	1,759	–
Power and water/waste disposal	16	–	–	–	–	–	16	–
Total	$ 48,916	$ 94,569	$ 4,357	$ 179,572	$ –	$ –	$ 53,273	$ 274,141

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

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

	December 31, 2021	2020	2019
Real estate mortgage:			
Acceptable	93.31%	88.77%	87.71%
OAEM	4.62	4.98	6.05
Substandard/doubtful/loss	2.07	6.25	6.24
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	91.34%	86.57%	88.05%
OAEM	5.78	7.19	5.85
Substandard/doubtful/loss	2.88	6.24	6.10
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	94.85%	94.36%	96.15%
OAEM	1.85	5.64	3.34
Substandard/doubtful/loss	3.30	–	0.51
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	99.61%	97.15%	92.91%
OAEM	0.39	0.48	1.92
Substandard/doubtful/loss	–	2.37	5.17
	100.00%	100.00%	100.00%

	December 31, 2021	2020	2019
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	98.52%	97.90%	96.63%
OAEM	1.47	1.22	2.18
Substandard/doubtful/loss	0.01	0.88	1.19
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	92.94%	88.61%	88.50%
OAEM	4.75	5.60	5.70
Substandard/doubtful/loss	2.31	5.79	5.80
	100.00%	100.00%	100.00%

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

December 31, 2021	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 829	$ 771	$ 1,600	$ 762,763	$ 764,363
Production and intermediate-term	625	222	847	427,884	428,731
Loans to cooperatives	–	–	–	2,597	2,597
Processing and marketing	–	–	–	50,895	50,895
Farm-related business	43	–	43	14,790	14,833
Communication	–	–	–	(2)	(2)
Power and water/waste disposal	–	–	–	310	310
Rural residential real estate	–	–	–	33,668	33,668
Total	$ 1,497	$ 993	$ 2,490	$ 1,292,905	$ 1,295,395

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	$ 2,262	$ 4,210	$ 6,472	$ 684,971	$ 691,443
Production and intermediate-term	647	2,134	2,781	414,385	417,166
Loans to cooperatives	–	–	–	4,489	4,489
Processing and marketing	–	–	–	47,691	47,691
Farm-related business	139	179	318	9,814	10,132
Communication	–	–	–	1,737	1,737
Power and water/waste disposal	–	–	–	9	9
Rural residential real estate	–	1	1	34,072	34,073
Total	$ 3,048	$ 6,524	$ 9,572	$ 1,197,168	$ 1,206,740

	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	$ 3,346	$ 7,467	$ 10,813	$ 637,301	$ 648,114
Production and intermediate-term	3,130	9,378	12,508	414,689	427,197
Loans to cooperatives	–	–	–	3,763	3,763
Processing and marketing	–	–	–	41,167	41,167
Farm-related business	575	–	575	9,286	9,861
Communication	–	–	–	1,755	1,755
Power and water/waste disposal	–	–	–	15	15
Rural residential real estate	79	115	194	34,462	34,656
Total	$ 7,130	$ 16,960	$ 24,090	$ 1,142,438	$ 1,166,528

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

	December 31,		
	2021	2020	2019
Nonaccrual loans:			
Real estate mortgage	$ 3,260	$ 11,634	$ 13,735
Production and intermediate-term	5,775	13,866	12,832
Processing and marketing	1,680	–	–
Farm-related business	–	179	–
Rural residential real estate	5	18	204
Total	$ 10,720	$ 25,697	$ 26,771
Accruing restructured loans:			
Real estate mortgage	$ 2,932	$ 1,476	$ 1,985
Production and intermediate-term	640	218	303
Total	$ 3,572	$ 1,694	$ 2,288
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 14,292	$ 27,391	$ 29,059
Other property owned	–	–	966
Total nonperforming assets	$ 14,292	$ 27,391	$ 30,025
Nonaccrual loans as a percentage of total loans	0.84%	2.15%	2.33%
Nonperforming assets as a percentage of total loans and other property owned	1.12%	2.30%	2.61%
Nonperforming assets as a percentage of capital	4.86%	9.75%	10.97%

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

	December 31,		
	2021	2020	2019
Impaired nonaccrual loans:			
Current as to principal and interest	$ 9,610	$ 18,621	$ 8,302
Past due	1,110	7,076	18,469
Total	$ 10,720	$ 25,697	$ 26,771
Impaired accrual loans:			
Restructured	$ 3,572	$ 1,694	$ 2,288
90 days or more past due	–	–	–
Total	$ 3,572	$ 1,694	$ 2,288
Total impaired loans	$ 14,292	$ 27,391	$ 29,059
Additional commitments to lend	$ 4,300	$ 3,740	$ –

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

Impaired loans:	December 31, 2021 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2021 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	5,237	6,826	1,659	8,247	573
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 5,237	$ 6,826	$ 1,659	$ 8,247	$ 573
With no related allowance for credit losses:					
Real estate mortgage	$ 6,192	$ 7,924	$ –	$ 9,752	$ 677
Production and intermediate-term	1,178	2,338	–	1,855	128
Processing and marketing	1,680	1,700	–	2,646	184
Farm-related business	–	–	–	–	–
Rural residential real estate	5	104	–	7	1
Total	$ 9,055	$ 12,066	$ –	$ 14,260	$ 990
Total:					
Real estate mortgage	$ 6,192	$ 7,924	$ –	$ 9,752	$ 677
Production and intermediate-term	6,415	9,164	1,659	10,102	701
Processing and marketing	1,680	1,700	–	2,646	184
Farm-related business	–	–	–	–	–
Rural residential real estate	5	104	–	7	1
Total	$ 14,292	$ 18,892	$ 1,659	$ 22,507	$ 1,563

Impaired loans:	December 31, 2020 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2020 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 3,398	$ 3,587	$ 352	$ 3,395	$ 247
Production and intermediate-term	9,378	11,021	2,217	9,368	680
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 12,776	$ 14,608	$ 2,569	$ 12,763	$ 927
With no related allowance for credit losses:					
Real estate mortgage	$ 9,712	$ 11,971	$ –	$ 9,701	$ 704
Production and intermediate-term	4,706	6,221	–	4,700	341
Farm-related business	179	190	–	179	13
Rural residential real estate	18	201	–	18	1
Total	$ 14,615	$ 18,583	$ –	$ 14,598	$ 1,059
Total:					
Real estate mortgage	$ 13,110	$ 15,558	$ 352	$ 13,096	$ 951
Production and intermediate-term	14,084	17,242	2,217	14,068	1,021
Farm-related business	179	190	–	179	13
Rural residential real estate	18	201	–	18	1
Total	$ 27,391	$ 33,191	$ 2,569	$ 27,361	$ 1,986

Impaired loans:	December 31, 2019 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2019 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 2,027	$ 2,678	$ 276	$ 2,192	$ 91
Production and intermediate-term	6,838	8,189	3,192	7,396	307
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 8,865	$ 10,867	$ 3,468	$ 9,588	$ 398
With no related allowance for credit losses:					
Real estate mortgage	$ 13,693	$ 15,842	$ –	$ 14,810	$ 615
Production and intermediate-term	6,297	7,758	–	6,808	283
Processing and marketing	–	–	–	–	–
Farm-related business	–	3	–	–	–
Rural residential real estate	204	424	–	221	9
Total	$ 20,194	$ 24,027	$ –	$ 21,839	$ 907
Total:					
Real estate mortgage	$ 15,720	$ 18,520	$ 276	$ 17,002	$ 706
Production and intermediate-term	13,135	15,947	3,192	14,204	590
Processing and marketing	–	–	–	–	–
Farm-related business	–	3	–	–	–
Rural residential real estate	204	424	–	221	9
Total	$ 29,059	$ 34,894	$ 3,468	$ 31,427	$ 1,305

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:							
Balance at December 31, 2020	$ 6,942	$ 6,193	$ 594	$ 17	$ –	$ 325	$ 14,071
Charge-offs	(877)	(55)	–	–	–	–	(932)
Recoveries	161	156	–	–	–	–	317
Provision for loan losses	751	(721)	30	(17)	3	(18)	28
Balance at December 31, 2021	$ 6,977	$ 5,573	$ 624	$ –	$ 3	$ 307	$ 13,484
Balance at December 31, 2019	$ 6,504	$ 7,297	$ 527	$ 17	$ –	$ 333	$ 14,678
Charge-offs	(554)	(116)	–	–	–	–	(670)
Recoveries	52	56	–	–	–	–	108
Provision for loan losses	940	(1,044)	67	–	–	(8)	(45)
Balance at December 31, 2020	$ 6,942	$ 6,193	$ 594	$ 17	$ –	$ 325	$ 14,071
Balance at December 31, 2018	$ 7,347	$ 6,262	$ 549	$ 18	$ –	$ 340	$ 14,516
Charge-offs	(44)	(329)	–	–	–	–	(373)
Recoveries	54	142	–	–	–	–	196
Provision for loan losses	(853)	1,222	(22)	(1)	–	(7)	339
Balance at December 31, 2019	$ 6,504	$ 7,297	$ 527	$ 17	$ –	$ 333	$ 14,678
Allowance on loans evaluated for impairment:							
Individually	$ –	$ 1,659	$ –	$ –	$ –	$ –	$ 1,659
Collectively	6,977	3,914	624	–	3	307	11,825
Balance at December 31, 2021	$ 6,977	$ 5,573	$ 624	$ –	$ 3	$ 307	$ 13,484
Individually	$ 352	$ 2,217	$ –	$ –	$ –	$ –	$ 2,569
Collectively	6,590	3,976	594	17	–	325	11,502
Balance at December 31, 2020	$ 6,942	$ 6,193	$ 594	$ 17	$ –	$ 325	$ 14,071
Individually	$ 276	$ 3,192	$ –	$ –	$ –	$ –	$ 3,468
Collectively	6,228	4,105	527	17	–	333	11,210
Balance at December 31, 2019	$ 6,504	$ 7,297	$ 527	$ 17	$ –	$ 333	$ 14,678
Recorded investment in loans evaluated for impairment:							
Individually	$ 6,192	$ 6,415	$ 1,680	$ –	$ –	$ 5	$ 14,292
Collectively	758,171	422,316	66,645	(2)	310	33,663	1,281,103
Balance at December 31, 2021	$ 764,363	$ 428,731	$ 68,325	$ (2)	$ 310	$ 33,668	$ 1,295,395
Individually	$ 13,110	$ 14,084	$ 179	$ –	$ –	$ 18	$ 27,391
Collectively	678,333	403,082	62,133	1,737	9	34,055	1,179,349
Balance at December 31, 2020	$ 691,443	$ 417,166	$ 62,312	$ 1,737	$ 9	$ 34,073	$ 1,206,740
Individually	$ 15,720	$ 13,135	$ –	$ –	$ –	$ 204	$ 29,059
Collectively	632,394	414,062	54,791	1,755	15	34,452	1,137,469
Balance at December 31, 2019	$ 648,114	$ 427,197	$ 54,791	$ 1,755	$ 15	$ 34,656	$ 1,166,528

**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 $22,764, $20,160 and $20,078 at December 31, 2021, 2020, and 2019, respectively. Fees paid for such guarantee commitments totaled $0, $1, and $1 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.

	Year Ended December 31, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 865	$ 40	$ 1,026	$ 1,931	
Production and intermediate-term	–	5,707	456	6,163	
Total	$ 865	$ 5,747	$ 1,482	$ 8,094	
Post-modification:					
Real estate mortgage	$ 865	$ 40	$ 1,050	$ 1,955	$ (10)
Production and intermediate-term	–	7,606	457	8,063	(15)
Total	$ 865	$ 7,646	$ 1,507	$ 10,018	$ (25)

	Year Ended December 31, 2020				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 1,645	$ –	$ 1,645	
Production and intermediate-term	–	4,683	–	4,683	
Total	$ –	$ 6,328	$ –	$ 6,328	
Post-modification:					
Real estate mortgage	$ –	$ 1,645	$ –	$ 1,645	$ –
Production and intermediate-term	–	6,173	–	6,173	(1)
Total	$ –	$ 7,818	$ –	$ 7,818	$ (1)

	Year Ended December 31, 2019				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 679	$ 387	$ –	$ 1,066	
Production and intermediate-term	1,712	1,336	–	3,048	
Total	$ 2,391	$ 1,723	$ –	$ 4,114	
Post-modification:					
Real estate mortgage	$ 679	$ 387	$ –	$ 1,066	$ –
Production and intermediate-term	1,712	1,336	–	3,048	(6)
Total	$ 2,391	$ 1,723	$ –	$ 4,114	$ (6)

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

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

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

	Total TDRs December 31, 2021	2020	2019	Nonaccrual TDRs December 31, 2021	2020	2019
Real estate mortgage	$ 3,748	$ 3,794	$ 3,276	$ 816	$ 2,318	$ 1,291
Production and intermediate-term	5,996	5,632	2,906	5,356	5,414	2,603
Total loans	$ 9,744	$ 9,426	$ 6,182	$ 6,172	$ 7,732	$ 3,894
Additional commitments to lend	$ 2,000	$ 2,121	$ –			

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions
Equity investments in other Farm Credit 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.

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $10,243, $11,332, and $12,830 at December 31, 2021, 2020, and 2019, respectively. The Association owned 3.99 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, $418 million for 2020, and $272 million for 2019. In addition, the Association had investments of $666 related to other Farm Credit institutions at December 31, 2021.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2021	2020	2019
Land	$ 2,906	$ 2,902	$ 2,883
Buildings and improvements	14,255	11,156	9,641
Furniture and equipment	6,177	5,293	5,248
	23,338	19,351	17,772
Less: accumulated depreciation	7,770	7,493	6,998
Total	$ 15,568	$ 11,858	$ 10,774

Note 6 — Debt

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

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

The weighted average interest rates on the variable rate advances were 1.42 percent for LIBOR-based loans and 1.55 percent for Prime-based loans, and the weighted average remaining maturities were 3.5 years and 0.8 years, respectively, at December 31, 2021. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.31 percent, and the weighted average remaining maturity was 11.0 years at December 31, 2021. The weighted-average interest rate on all interest-bearing notes payable was 2.14 percent and the weighted-average remaining maturity was 8.8 years at December 31, 2021. Gross notes payable consist of approximately 21.81 percent variable rate and 78.19 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2021. Notes Payable to AgFirst Farm Credit Bank, as reflected on the Consolidated Balance Sheets, also includes a credit which reduces the notes payable balance and corresponding interest expense. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

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

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but does not always make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation, the total balance of which would not exceed $4,030, representing the total outstanding value of capital stock and participation certificates at December 31, 2021.

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.

The Association provides customers, through its Preferred Stock Program, the ability to purchase Class A Preferred Stock (Preferred Stock) at the Preferred Stock's par value of five dollars per share to holders of any class of Association common stock or participation certificates. The minimum initial subscription of Preferred Stock is one hundred shares for a total of five hundred dollars. Preferred Stock is a non-voting class of stock that pays a quarterly dividend based on dividend rates set in advance by the Board of Directors. All dividends are paid in shares of stock at par value at the end of the record date, normally each quarter end, provided that holders have a Preferred Stock outstanding balance at the time of the record date. Holders of Preferred Stock must also have an outstanding loan with the Association, and upon loan payoff must retire all shares of Preferred Stock within 90 days.

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

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

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

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

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

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2021	2020	2019
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	19.47%	20.27%	20.08%
Tier 1 Capital	6.0%	2.5%	8.5%	19.47%	20.27%	20.08%
Total Capital	8.0%	2.5%	10.5%	20.58%	21.52%	21.33%
Permanent Capital	7.0%	0.0%	7.0%	22.73%	23.36%	23.03%
Non-risk-adjusted ratios:						
Tier 1 Leverage**	4.0%	1.0%	5.0%	19.62%	20.46%	20.23%
URE and UREE Leverage	1.5%	0.0%	1.5%	19.64%	20.62%	20.40%

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

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

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

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

Class	Protected	Shares Outstanding Number	Aggregate Par Value
A Preferred/Nonvoting	No	6,485,287	$ 32,426
C Common/Voting	No	733,531	3,668
C Participation Certificates/Nonvoting	No	72,497	363
Total Capital Stock and Participation Certificates		7,291,315	$ 36,457

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 may 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.

Qualified allocated equities shall be retired for a cash distribution 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 no qualified surplus and $177,724 of nonqualified retained surplus.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available patronage-sourced net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans and leases 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. In February 2021, the Association distributed $25,554 for the 2021 fiscal year patronage to all eligible patrons.

Dividends

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

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

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. During 2021 stock dividends of $164 were declared and distributed on Class A Preferred Stock.

All qualified and nonqualified surplus may only be retired at the discretion of the Board. 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.

Transfer

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

Impairment

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

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

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:

a) ***First***, to the holders of Class A Preferred Stock, if any, pro rata, until an amount equal to the aggregate par value of all shares then issued and outstanding, plus declared but unpaid dividends, has been distributed to such holders;
b) ***Second***, to the holders of Class D Preferred Stock, if any, pro rata, until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders;
c) ***Third***, to the holders of Class C Common Stock, Class E Common Stock, and Class C Participation Certificates pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
d) ***Fourth***, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;
e) ***Fifth***, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed; and
f) ***Sixth***, insofar as is practicable, all unallocated surplus issued after January 1, 1995, shall be distributed to patrons of the Association from the period beginning January 1, 1995 through the date of liquidation.

Note 8 — Fair Value Measurement

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

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

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

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

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

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

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

Level 3
Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool. The methods used approximate the exit price notion in current guidance at a materially acceptable level.

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

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

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

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

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

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

	December 31, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 4,436	$ 4,436	$ –	$ –	$ 4,436
Recurring Assets	$ 4,436	$ 4,436	$ –	$ –	$ 4,436
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans*	$ 3,778	$ –	$ –	$ 3,778	$ 3,778
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 3,778	$ –	$ –	$ 3,778	$ 3,778
Other Financial Instruments					
Assets:					
Cash	$ 6	$ 6	$ –	$ –	$ 6
Loans	1,263,598	–	–	1,245,703	1,245,703
Accounts receivable	21,307	21,307	–	–	21,307
Other Financial Assets	$ 1,284,911	$ 21,313	$ –	$ 1,245,703	$ 1,267,016
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,001,022	$ –	$ –	$ 991,411	$ 991,411
Other Financial Liabilities	$ 1,001,022	$ –	$ –	$ 991,411	$ 991,411

	December 31, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 3,978	$ 3,978	$ –	$ –	$ 3,978
Recurring Assets	$ 3,978	$ 3,978	$ –	$ –	$ 3,978
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans**	$ 12,087	$ –	$ –	$ 12,087	$ 12,087
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 12,087	$ –	$ –	$ 12,087	$ 12,087
Other Financial Instruments					
Assets:					
Cash	$ 4	$ 4	$ –	$ –	$ 4
Loans	1,166,398	–	–	1,173,281	1,173,281
Accounts receivable	18,419	18,419	–	–	18,419
Other Financial Assets	$ 1,184,821	$ 18,423	$ –	$ 1,173,281	$ 1,191,704
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 915,503	$ –	$ –	$ 921,295	$ 921,295
Other Financial Liabilities	$ 915,503	$ –	$ –	$ 921,295	$ 921,295

	December 31, 2019									
		Total Carrying Amount		Level 1		Level 2		Level 3		Total Fair Value
Recurring Measurements										
Assets:										
Assets held in trust funds	$	3,390	$	3,390	$	–	$	–	$	3,390
Recurring Assets	$	3,390	$	3,390	$	–	$	–	$	3,390
Liabilities:										
Recurring Liabilities	$	–	$	–	$	–	$	–	$	–
Nonrecurring Measurements										
Assets:										
Impaired loans***	$	6,879	$	–	$	–	$	6,879	$	6,879
Other property owned		966		–		–		1,089		1,089
Nonrecurring Assets	$	7,845	$	–	$	–	$	7,968	$	7,968
Other Financial Instruments										
Assets:										
Cash	$	3,325	$	3,325	$	–	$	–	$	3,325
Loans		1,127,598		–		–		1,122,701		1,122,701
Accounts receivable		12,941		12,941		–		–		12,941
Other Financial Assets	$	1,143,864	$	16,266	$	–	$	1,122,701	$	1,138,967
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	$	893,705	$	–	$	–	$	891,741	$	891,741
Other Financial Liabilities	$	893,705	$	–	$	–	$	891,741	$	891,741

**Carrying value of impaired loans is the balance of loans with a related specific reserve ($5,237) less related specific reserves ($1,659) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($200).*

***Carrying value of impaired loans is the balance of loans with a related specific reserve ($12,776) less related specific reserves ($2,569) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($1,880).*

****Carrying value of impaired loans is the balance of loans with a related specific reserve ($8,865) less related specific reserves ($3,468) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($1,482).*

Uncertainty in Measurements of Fair Value

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements
December 31, 2021

		Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$	3,778	Appraisal	Income and expense	*
				Comparable sales	*
				Replacement costs	*
				Comparability adjustments	*
				Collateral discounts	10-50%

** 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 forecast Probability of default Loss severity
Accounts receivable	Carrying value	Par/principal
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 9 — Employee Benefit Plans

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

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

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required to be filed. As such, the following information is not available for the plans:

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

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Comprehensive Income were $2,104 for 2021, $1,727 for 2020, and $1,642 for 2019. At December 31, 2021, 2020, and 2019, the total liability balance for the FAP Plan was $39,135, $114,449, and $129,713, respectively. The FAP Plan was 96.17 percent, 89.63 percent, and 87.55 percent funded to the projected benefit obligation as of December 31, 2021, 2020, and 2019, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Comprehensive Income were $368 for 2021, $379 for 2020, and $386 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 $882, $845, and $802 for the years ended December 31, 2021, 2020 and 2019, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

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

The Association sponsors a nonqualified long-term deferred compensation program for certain Association employees and a nonqualified supplemental 401(k) plan. The deferred compensation program provides deferred compensation benefits to encourage focus on strategies that are in the long-term best interest of the Association and its shareholders. Under the program the funds are set up in a Trust owned by the Association. Compensation is deferred until a later date upon which the employee meets certain vesting guidelines, employment is terminated, or by Board approval. All current and future assets used by the Association to fund this program will remain general assets of the Association until payment or distribution is made. Employer contributions to this plan were $227, $198, and $202 for the years ended December 31, 2021, 2020, and 2019, respectively. At December 31, 2021, 2020, and 2019, the Association had a deferred compensation liability related to this plan of $4,278, $3,868 and $3,299 included within Other Liabilities on the Consolidated Balance Sheets. Expenses of the nonqualified 401(k) plan included in noninterest expenses were $8, $6, and $5 for 2021, 2020, and 2019, respectively.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2021 amounted to $27,519. During 2021, $15,224 of new loans were made and repayments totaled $14,993. In addition, net loans of $986 were no longer classified as related party loans. In the opinion of management, none of these loans outstanding at December 31, 2021 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2021, $250,880 of commitments to extend credit and $14 of commercial letters of credit were outstanding.

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 $2,342 with expiration dates ranging from January 1, 2022 to August 19, 2026. The maximum potential amount of future payments that may be required under these guarantees was $2,342.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2021	2020	2019
Current:			
Federal	$ 3	$ –	$ 1
State	–	–	–
Total Current	3	–	1
Deferred:			
Federal	–	–	–
State	–	–	–
Total Deferred	–	–	–
Total provision (benefit) for income taxes	$ 3	$ –	$ 1

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	$ 7,499	$ 6,840	$ 5,369
State tax, net	1	–	–
Effect of non-taxable FLCA subsidiary	(1,916)	(920)	(1,705)
Patronage distributions	(5,366)	(5,898)	(3,762)
Change in deferred tax asset valuation allowance	(228)	(54)	141
Deferred tax rate change	–	33	(33)
Other	13	(1)	(9)
Provision (benefit) for income taxes	$ 3	$ –	$ 1

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

	December 31, 2021	2020	2019
Deferred income tax assets:			
Allowance for loan losses	$ 1,417	$ 1,362	$ 1,455
Nonaccrual loan interest	246	529	490
Gross deferred tax assets	1,663	1,891	1,945
Less: valuation allowance	(1,663)	(1,891)	(1,945)
Gross deferred tax assets, net of valuation allowance	–	–	–
Deferred income tax liabilities:			
Other	–	–	–
Gross deferred tax asset (liability)	–	–	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2021, deferred income taxes have not been provided by the Association on approximately $5.5 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $1,663, $1,891, and $1,945 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 2016 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

2021	First	Second	Third	Fourth	Total
Net interest income	$ 7,595	$ 7,932	$ 8,754	$ 8,914	$ 33,195
Provision for loan losses	–	346	1	(319)	28
Noninterest income (expense), net and taxes	(3,154)	(585)	(3,278)	9,561	2,544
Net income	$ 4,441	$ 7,001	$ 5,475	$ 18,794	$ 35,711

2020	First	Second	Third	Fourth	Total
Net interest income	$ 7,969	$ 8,040	$ 8,433	$ 8,354	$ 32,796
Provision for loan losses	–	903	509	(1,457)	(45)
Noninterest income (expense), net and taxes	(2,765)	(2,324)	(2,443)	7,261	(271)
Net income	$ 5,204	$ 4,813	$ 5,481	$ 17,072	$ 32,570

2019	First	Second	Third	Fourth	Total
Net interest income	$ 7,580	$ 8,172	$ 8,048	$ 8,334	$ 32,134
Provision for loan losses	–	1,721	–	(1,382)	339
Noninterest income (expense), net and taxes	(2,438)	(2,422)	(3,002)	1,632	(6,230)
Net income	$ 5,142	$ 4,029	$ 5,046	$ 11,348	$ 25,565

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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