Cape Fear 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 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.

/s/ Nash Johnson
Chairman of the Board

/s/ Evan J. Kleinhans
Chief Executive Officer

/s/ 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.

/s/ Evan J. Kleinhans
Chief Executive Officer

/s/ Charles M. Hester
Chief Financial Officer

March 10, 2022

Consolidated Five - Year Summary of Selected Financial Data

	December 31,				
(dollars in thousands)	**2021**	**2020**	**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:

	December 31,		
Branch/State	**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.

	December 31,					
Commodity Group	**2021**		**2020**		**2019**	
	(dollars in thousands)					
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.

	December 31,		
Loan Participations:	**2021**	**2020**	**2019**
	(dollars in thousands)		
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	December 31, 2021	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:	Year Ended December 31, 2021	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:

/s/ Bo Stone
Chairman of the Audit Committee

Members of Audit Committee

Jennifer B. Daniels
Dean C. Hilton
Gary L. Rouse

March 10, 2022

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 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	2020	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	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	–%	–%	–%
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:	December 31, 2019 Recorded Investment	December 31, 2019 Unpaid Principal Balance	December 31, 2019 Related Allowance	Year Ended December 31, 2019 Average Impaired Loans	Year Ended December 31, 2019 Interest Income Recognized on Impaired Loans
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			Nonaccrual TDRs		
	December 31,			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.