



2021 ANNUAL REPORT

AGFIRST FARM CREDIT BANK

MEETING THE MOMENT



LEON T. AMERSON
CHIEF EXECUTIVE OFFICER



MICHAEL T. "BO" STONE
CHAIRMAN OF THE BOARD

MEETING THE MOMENT

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

While 2021 was a remarkable and profitable year for AgFirst Farm Credit Bank, it also was one of ongoing COVID 19-related hardships for many. We're extremely proud that AgFirst continued to meet the moment by seizing opportunities to ensure a bright future for rural communities, families and American agriculture.

As we reflect on milestones of the past year, it quickly becomes evident that AgFirst is as strong as ever – from our resilient and highly motivated workforce to our record-setting financial performance and unshakeable vision for the future.

Throughout 2021, AgFirst continued to draw on the strength of a solid foundation laid over many decades by Bank and Association leaders. AgFirst employees stepped up every day to deliver high-quality service to our Association partners while continuing to execute on Bank initiatives that enable us to take advantage of an ever-evolving technology environment.



A RECORD-SETTING FINANCIAL PERFORMANCE

From a financial perspective, 2021 was a record year in terms of net income and patronage distributions. As a result of solid loan growth, interest expense benefits from called debt, slower-than-expected prepayments and continued strong credit quality, we achieved net income in excess of \$486 million, up 16% from the previous year.

Patronage distributions to those we serve – the end benefit of all we do – was \$468 million, an increase of nearly 19% from 2020. Associations pay for the funding, technology and other services provided by AgFirst primarily through the interest rates associated with their borrowings from AgFirst. Patronage refunds effectively reduced the Associations' average interest rate and costs of common technology and services by 213 basis points in 2021, resulting in an after-patronage cost of only 17 basis points.

A COMMITTED AND CARING TEAM

A large part of the Bank's success in 2021 was due to a committed and caring workforce that continued to excel in challenging conditions. Teams across the Bank met the moment with tenacity and creativity to anticipate Association and borrower needs. It was truly inspiring to see how employees – who continued telecommuting from living rooms, kitchens and home offices – rallied during the second year of an exhausting pandemic to ensure business-as-usual activities continued without disruption. Notably, this commitment and dedication occurred even as many members of the AgFirst family were coping in some way with the health impacts of a relentless virus.

Despite their personal challenges, employees showed up whether they were finding ways to grow business, deploying technology solutions or working to keep operations running smoothly. Even more remarkable is that, on top of their commitment to the AgFirst District, they continued to show



compassion for their community. Our employees contributed generously to organizations that care for our most vulnerable citizens in support of community-sustaining lifelines such as the United Way of the Midlands.

As a proud member of the central South Carolina business community, AgFirst is also committed to making a difference in the lives of others. In 2021, the Bank donated over \$600,000 to organizations offering access to desperately needed resources, such as the American Red Cross and United Way, and championing inclusivity in agriculture.


The Bank expanded our commitment to diversity, equity and inclusion. In support of our partnership with Historically Black Colleges and Universities (HBCUs), the Bank made donations to Benedict College, Claflin University, North Carolina Agricultural and Technical State University and South Carolina State University. These contributions support career centers, fund scholarships and offer students attending HBCUs important professional development opportunities. The Bank also provided financial support to the National Black Growers Council and helped fund a new scholarship program investing in the future of Native American and Latino students to ensure that American agriculture more closely reflects the demographics of the world it feeds.

A RENEWED SENSE OF PURPOSE

To further support our mission, we know that we must keep pace with changes in the financial marketplace and technology landscape so our District stays well-positioned to serve agriculture and rural America. The world in which we now find ourselves demands that we redouble our efforts to better understand the customer experience for both our Association partners and their customer-owners.

Digital innovation has been an AgFirst priority for some time, but the pandemic prompted a heightened sense of purpose regarding our IT modernization efforts. In 2021, the Bank made significant strides in this area. We continued to examine our processes to pinpoint how we could create efficiencies and introduced best-in-class solutions that will offer a better, more consistent borrower experience. These solutions are also streamlining the important work that takes place behind the scenes as Associations grow and nurture their businesses.

Beyond customer and user experience, these systems are designed to ensure we can easily pivot to take advantage of continually developing features and functionality. This gives AgFirst the ability to continue to offer cutting-edge technology solutions to our customers in the years to come.



It's important to note that our Associations are true partners in all of our efforts, but especially when it comes to implementing new technology products. We work hand-in-hand with Associations to ensure that what we are delivering today – and what we are planning for tomorrow – will meet their needs in a way that helps them compete in their marketplace, operate with efficiency and grow their business for the future.

Work on a variety of initiatives continues to ensure AgFirst and our partners meet tomorrow with great promise.

OUR 2022 OUTLOOK

Looking ahead, we anticipate a time when the pandemic finally subsides and our workforce can gather again in person to collaborate on the important business of supporting agriculture and rural America. We know 2022 will be another pivotal year for the Bank's planned technology upgrades that will help us maintain a competitive edge for long-term success. Regardless of the challenges or triumphs in store for 2022, we have no doubt that the AgFirst team will rise to meet the moment once again.



Leon T. Amerson
Chief Executive Officer

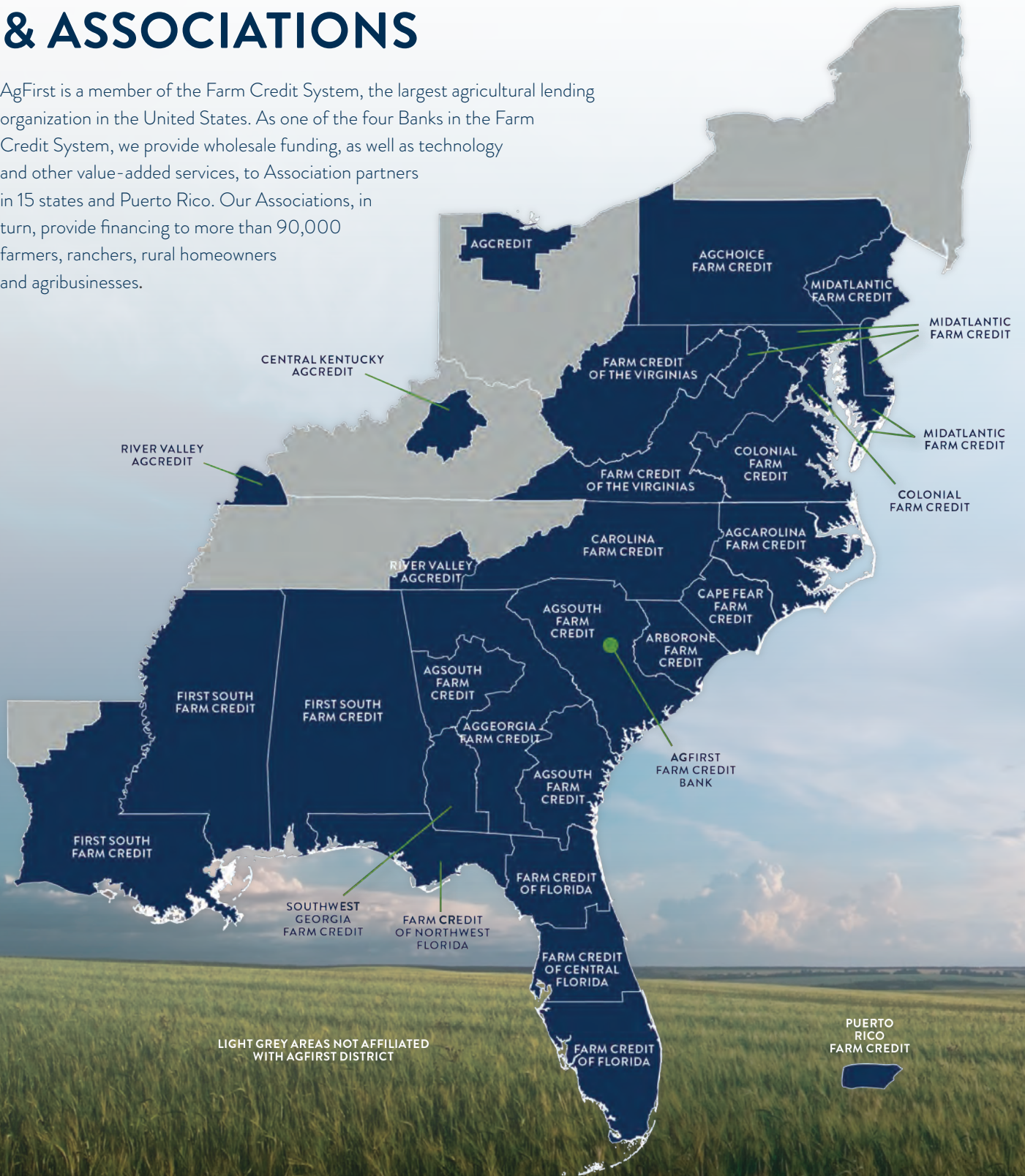


Michael T. "Bo" Stone
Chairman of the Board

March 10, 2022

AGFIRST FARM CREDIT BANK & ASSOCIATIONS

AgFirst is a member of the Farm Credit System, the largest agricultural lending organization in the United States. As one of the four Banks in the Farm Credit System, we provide wholesale funding, as well as technology and other value-added services, to Association partners in 15 states and Puerto Rico. Our Associations, in turn, provide financing to more than 90,000 farmers, ranchers, rural homeowners and agribusinesses.



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AGCREDIT



JACK W. BENTLEY JR.
AGGEORGIA FARM CREDIT



JENNY R. BLACK
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MICHAEL T. "BO" STONE
CAPE FEAR FARM CREDIT



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AGFIRST FARM CREDIT BANK



AgFirst Farm Credit Bank

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Management

Leon T. Amerson	President and Chief Executive Officer
William E. Brown	Senior Vice President and Chief Credit Officer
James A. Bumgarner	Senior Vice President and Chief Administrative Officer
Stephen F. Ciambrone	Senior Vice President and Chief Information Officer
Stephen Gilbert	Senior Vice President and Chief Financial Officer
Frances S. Griggs	Senior Vice President and General Counsel
Daniel E. LaFreniere	Senior Vice President and Chief Audit Executive
Juan Silvera	Senior Vice President and Chief Marketing Officer
Chad E. Toney	Senior Vice President and Chief Information Security Officer

Board of Directors

Michael T. Stone	Chairman
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Gary L. Baldosser	Director
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Jenny R. Black	Director
Sherry E. Bowden	Director
William K. Jackson	Director
Dwain K. Lanier	Director
Fred R. Moore, Jr.	Director
Michael W. Patrick	Director
John Whitworth Player	Director
Thomas E. Porter, Jr.	Director
David L. Richesin	Director
Ellis W. Taylor	Director

Report of Management

The accompanying Financial Statements and related financial information appearing throughout this Annual Report have been prepared by management of AgFirst Farm Credit Bank (Bank) 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 Financial Statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all Financial Statements, and that the assets of the Bank 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 Bank 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 Audit Committee of the Board of Directors and to the Chief Executive Officer.

AgFirst has a Code of Ethics for its Chief Executive Officer, Senior Financial Officers, and other Senior Officers who are involved with preparation and distribution of financial statements and maintenance of the records supporting the financial statements. A copy of the AgFirst Code of Ethics may be viewed on the Bank's website at www.agfirst.com.

The Financial Statements have been audited by an independent registered public accounting firm, whose report appears elsewhere in this Annual Report. The Bank is also subject to examination by the Farm Credit Administration.


The Financial Statements, in the opinion of management, fairly present the financial condition of the Bank. The undersigned certify that we have reviewed the 2021 Annual Report of AgFirst Farm Credit Bank, 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.



Michael T. ("Bo") Stone
Chairman of the Board



Leon T. Amerson
President and Chief Executive Officer



Stephen Gilbert
Senior Vice President and Chief Financial Officer

March 10, 2022

Five-Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	As of or for the Year Ended December 31,				
	2021	2020	2019	2018	2017
Balance Sheet Data					
Cash and cash equivalents	\$ 1,025,288	\$ 1,213,685	\$ 1,094,559	\$ 521,485	\$ 713,287
Investments in debt securities	9,336,705	8,515,428	7,932,835	7,981,248	8,122,228
Loans	28,535,682	26,224,989	25,111,659	24,275,881	23,359,160
Allowance for loan losses	(20,147)	(18,257)	(18,032)	(18,049)	(14,381)
Net loans	28,515,535	26,206,732	25,093,627	24,257,832	23,344,779
Other property owned	—	—	3,041	2,842	154
Other assets	397,026	402,361	381,027	315,055	307,009
Total assets	\$ 39,274,554	\$ 36,338,206	\$ 34,505,089	\$ 33,078,462	\$ 32,487,457
Obligations with maturities of one year or less	\$ 13,856,634	\$ 15,927,888	\$ 12,512,029	\$ 11,764,284	\$ 12,438,144
Obligations with maturities of greater than one year	23,115,140	17,932,454	19,662,242	19,090,481	17,806,498
Total liabilities	36,971,774	33,860,342	32,174,271	30,854,765	30,244,642
Perpetual preferred stock	32,500	49,250	49,250	49,250	49,250
Capital stock and participation certificates	299,131	311,859	325,278	317,840	313,752
Additional paid-in-capital	63,673	58,883	58,883	58,883	58,883
Retained earnings					
Allocated	416	416	418	440	492
Unallocated	1,888,462	1,871,594	1,848,506	1,848,936	1,845,194
Accumulated other comprehensive income (loss)	18,598	185,862	48,483	(51,652)	(24,756)
Total shareholders' equity	2,302,780	2,477,864	2,330,818	2,223,697	2,242,815
Total liabilities and shareholders' equity	\$ 39,274,554	\$ 36,338,206	\$ 34,505,089	\$ 33,078,462	\$ 32,487,457
Statement of Income Data					
Net interest income	\$ 648,398	\$ 581,347	\$ 407,662	\$ 410,167	\$ 447,067
Provision for (reversal of) allowance for loan losses	3,552	(6,220)	(935)	3,542	(551)
Noninterest expense, net	(158,840)	(169,889)	(136,916)	(100,637)	(102,869)
Net income	\$ 486,006	\$ 417,678	\$ 271,681	\$ 305,988	\$ 344,749
Key Financial Ratios					
Rate of return on average:					
Total assets	1.31 %	1.17 %	0.81 %	0.95 %	1.09 %
Total shareholders' equity	18.33 %	15.90 %	11.14 %	13.03 %	14.36 %
Net interest income as a percentage of average earning assets	1.78 %	1.67 %	1.23 %	1.29 %	1.44 %
Operating expense as a percentage of net interest income and noninterest income	28.22 %	27.91 %	34.36 %	30.61 %	26.72 %
Net (chargeoffs) recoveries to average loans	(0.01)%	0.03 %	0.00 %	0.00 %	0.00 %
Total shareholders' equity to total assets	5.86 %	6.82 %	6.75 %	6.72 %	6.90 %
Debt to shareholders' equity (:1)	16.06	13.67	13.80	13.88	13.49
Allowance for loan losses to loans	0.07 %	0.07 %	0.07 %	0.07 %	0.06 %
Permanent capital ratio	18.73 %	19.39 %	19.32 %	21.67 %	22.21 %
Common equity tier 1 capital ratio	18.47 %	18.99 %	18.90 %	21.20 %	21.73 %
Tier 1 capital ratio	18.70 %	19.36 %	19.29 %	21.64 %	22.18 %
Total regulatory capital ratio	18.85 %	19.51 %	19.45 %	21.79 %	22.31 %
Tier 1 leverage ratio*	6.87 %	7.09 %	7.10 %	7.53 %	7.67 %
Unallocated retained earnings (URE) and URE equivalents	6.09 %	6.18 %	6.17 %	6.58 %	6.72 %
Net Income Distribution					
Cash patronage declared	\$ 463,555	\$ 390,382	\$ 266,942	\$ 298,223	\$ 312,456
Perpetual preferred stock dividend	521	963	1,798	1,622	1,146
Stock dividend patronage declared	3,991	3,468	3,112	2,635	2,766

* Tier 1 leverage ratio must include a minimum of 1.50% of URE and URE equivalents.

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

AgFirst Farm Credit Bank (the Bank or AgFirst) is one of the banks of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses. Consistent with the mission of supporting rural America, the System also makes rural residential real estate loans, finances rural communication, power and water infrastructures and makes loans to support agricultural exports and to finance other eligible entities.

The nation is currently served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), each of which has specific lending authorities within its chartered territory. The ACB also has certain additional specific nationwide lending authorities. AgFirst is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of the states of Ohio, Tennessee, Kentucky and Louisiana.

Each FCB and the ACB serves one or more of either Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that originate and service both long-term real estate mortgage loans and short- and intermediate-term loans. PCAs, FLCAs and ACAs are collectively referred to as associations. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District (District). The Associations are structured as cooperatives in which each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders jointly own AgFirst. As of December 31, 2021, the District consisted of the Bank and nineteen District Associations. See *Loan Portfolio* section for discussion on a proposed merger expected to take place in 2022. All nineteen Associations were structured as ACA holding companies, with FLCA and PCA subsidiaries. The Bank and District Associations are regulated by the Farm Credit Administration (FCA).

The following commentary reviews the Financial Statements of condition and results of operations of AgFirst as of and for the years ended December 31, 2021, 2020, and 2019. This information should be read in conjunction with the accompanying Financial Statements, the Notes to the Financial Statements and other sections of this Annual Report. The Financial Statements were prepared under the oversight of the Audit Committee of the Bank's Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" included in this Annual Report. See Note 1, *Organization and Operations*, in the Notes to the Financial Statements for a discussion of the operations of AgFirst.

FORWARD-LOOKING INFORMATION

Certain sections of this Annual Report contain forward-looking statements concerning financial information and statements about future economic performance and events, plans and objectives and assumptions underlying these projections and statements. These projections and statements are not based on historical facts but instead represent the Bank's current assumptions and expectations regarding the Bank's business, the economy and other future conditions. However, actual results and developments may differ materially from the Bank's expectations and predictions due to a number of risks and uncertainties, many of which are beyond the Bank's control.

These risks and uncertainties include, but are not limited to:

- political (including trade policies), legal, regulatory, financial markets, and economic conditions and developments in the United States (U.S.) and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy that can affect the availability of off-farm sources of income;
- weather-related, food safety, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of District borrowers;
- volatile prices of agricultural commodities;
- changes in production expenses, particularly feed, fuel, and fertilizer;
- changes in demand or supply of U.S. agricultural products in a global marketplace;
- changes in farmland and rural real estate values;
- availability of agricultural workers and changes in labor costs;
- uncertainties and risks associated with the COVID-19 pandemic, including its impact on the business, results of operations and financial condition;
- disruption of operations or disclosure of confidential information as a result of cybersecurity incidents;
- changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise (GSE), as well as investor and rating agency reactions to events involving the U.S. government, other GSEs and other financial institutions;
- actions taken by the Federal Reserve System in implementing monetary and fiscal policy, as well as other policies and actions of the federal government that impact the financial services industry and the debt markets;
- credit, interest rate, prepayment, and liquidity risk inherent in lending activities;
- the replacement of LIBOR and the implementation of Secured Overnight Financing Rate (SOFR) or another benchmark interest rate; and
- changes in the Bank's assumptions for determining the allowance for loan losses, other-than-temporary impairment and fair value measurements.

Forward-looking statements can be identified by words such as “anticipates,” “believes,” “could,” “estimates,” “may,” “should,” “will,” or other variations of these terms that are intended to reference future periods.

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, AgFirst 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 Bank continues to operate in a remote work environment with a limited number of employees working at the Bank’s headquarters.

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, which has contributed to rising inflation, supply chain disruptions and labor shortages in the United States and globally.

Even after the COVID-19 pandemic subsides, the global economy will likely require some time to recover from its effects, the length of which is unknown, and during which economic downturn may be experienced. As a result, AgFirst and District Associations may be materially and adversely affected during this recovery.

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 provided financial assistance through the U.S. Department of Agriculture (USDA) and other government agency programs. Among the many programs was the Paycheck Protection Program (PPP). The PPP provided support to small businesses to cover payroll and certain other expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States government. Over the life of the program, the District extended loans to approximately 9,900 borrowers. As of December 31, 2021, the District had \$24.9 million of these loans outstanding, of which \$17.8 million is held at the Bank. In addition, through December 31, 2021, the volume of PPP loans that have received forgiveness from the SBA since the start of the program was \$243.0 million.

CLIMATE CHANGE

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

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

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

AGRICULTURAL OUTLOOK

Production agriculture is a cyclical business that is heavily influenced by commodity prices, weather, government policies (including, among other things, tax, trade, immigration, crop insurance and periodic aid), interest rates and various other factors that affect supply and demand.

The following USDA analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of AgFirst’s business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data in the AgFirst District.

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 District 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 District'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. Additionally, while the District benefits overall from diversification, individual District entities may have higher geographic, commodity, and borrower concentrations which may accentuate the negative impact on those entities' financial performance and credit quality. 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 Bank's financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Consideration of AgFirst's significant accounting policies is critical to the understanding of the Bank's results of operations and financial position because some accounting policies require complex or subjective judgments and estimates that may affect the reported amount of certain assets or liabilities as well as the recognition of certain income and expense items. In many instances, management has to make judgments about matters that are inherently uncertain. For a complete discussion of the Bank's significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Financial Statements. The following is a summary of the Bank's most critical accounting policies:

- *Allowance for loan losses* — The allowance for loan losses is management’s best estimate of the amount of probable losses inherent in the Bank’s 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.

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 attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and current factors, internal risk ratings, regulatory oversight, and geographic, industry, and other factors.

In addition to the allowance for loan losses attributable to specific loans, the Bank may also establish a general allowance for loan losses based on management’s assessment of risk inherent in the loans in the Bank’s portfolio that were not specifically evaluated. In establishing general reserves, factors affecting certain commodity types or industries may be taken into consideration, as well as other factors previously discussed. Certain loan pools purchased from Associations are analyzed in accordance with the selling Associations’ allowance methodologies for assigning general and specific allowances. Allowances are established on these pools based on that analysis after Bank management’s determination that the methodologies employed are reasonable.

The Bank has established a reserve for unfunded commitments that provides for potential losses related to unfunded commitments and is maintained at a level that is considered the best estimate of the amount required to absorb probable losses related to these unfunded commitments. The reserve is determined using a similar methodology as used for the allowance for loan losses taking into account the probability of funding the commitment. The reserve for unfunded commitments is recorded as a liability in the Financial Statements.

Assessing the appropriateness of the allowance for loan losses and reserve for unfunded commitments is a dynamic process. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the level of the allowance for loan losses and have a direct impact on the provision for loan losses and the results of operations.

The overall adequacy of the allowance for loan losses is validated further through periodic evaluations of the loan portfolio, which generally consider historical charge-off experiences adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, collateral value, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active 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 active market exists. Management utilizes third-party valuation services to obtain fair value prices for the majority of the Bank’s investment securities. Management also utilizes significant estimates and assumptions to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, pension obligations, certain derivatives, certain investment securities and 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 asset or liability values, which could have material positive or negative effects on the Bank’s results of operations.

LOAN PORTFOLIO

The Bank’s loan portfolio consists primarily of direct loans to District Associations (Direct Notes), loan participations/syndications purchased, Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to OFIs as shown below at December 31:

AgFirst Loan Portfolio <i>(dollars in thousands)</i>	2021		2020		2019	
Direct Notes*	\$ 19,739,633	69.18 %	\$ 17,945,905	68.43 %	\$ 16,830,432	67.02 %
Participations/Syndications Purchased, net*	5,724,229	20.06	5,094,229	19.43	4,654,511	18.53
Correspondent Lending	2,912,759	10.20	3,047,757	11.62	3,484,332	13.88
Loans to OFIs	159,061	0.56	137,098	0.52	142,384	0.57
Total	<u>\$ 28,535,682</u>	<u>100.00 %</u>	<u>\$ 26,224,989</u>	<u>100.00 %</u>	<u>\$ 25,111,659</u>	<u>100.00 %</u>

*Net of participations sold

The diversification of the Bank's loan volume by type for each of the past three years at December 31 is shown below:

<i>(dollars in thousands)</i>	2021		2020		2019	
Direct Notes	\$ 19,739,633	69.18 %	\$ 17,945,905	68.43 %	\$ 16,830,432	67.02 %
Rural residential real estate	2,784,761	9.76	2,899,911	11.06	3,325,122	13.24
Processing and marketing	1,680,782	5.89	1,229,744	4.69	1,091,959	4.35
Real estate mortgage	1,153,729	4.04	1,116,668	4.26	1,135,611	4.52
Production and intermediate-term	1,032,288	3.62	1,163,424	4.44	1,089,174	4.34
Power and water/waste disposal	748,563	2.62	569,315	2.17	519,111	2.07
Communication	545,699	1.91	462,287	1.76	356,584	1.42
Loans to cooperatives	527,118	1.84	561,335	2.14	473,462	1.88
Loans to OFIs	159,061	0.56	137,098	0.52	142,384	0.57
Farm-related business	79,888	0.28	46,732	0.18	62,595	0.25
International	76,739	0.27	84,948	0.32	76,775	0.31
Other	7,421	0.03	7,622	0.03	8,450	0.03
Total loans	\$ 28,535,682	100.00 %	\$ 26,224,989	100.00 %	\$ 25,111,659	100.00 %

Total loans outstanding were \$28.536 billion at December 31, 2021. Compared to the prior year, total loans outstanding increased \$2.311 billion, or 8.81 percent. Loans outstanding at the end of 2020 increased \$1.113 billion, or 4.43 percent, compared to December 31, 2019.

As noted in the table above, a significant portion of the Bank's loan portfolio is comprised of Direct Notes to District Associations. Since Direct Notes fund District Associations' lending activities, increases and decreases in the Direct Note portfolio are closely linked to the commodities and geographic distribution of the District Associations' loan portfolios.

In 2021, loan growth for the combined District portfolio was primarily in the forestry, field crops, processing, cattle, and grains segments. In 2020, loan growth was primarily in the forestry, processing, utilities, field crops, and poultry segments. See *Direct Notes* and *Participations/Syndications* sections below for further discussion of loan growth.

Each loan in the Bank's portfolio is classified according to a Uniform Classification System, which is used by all System institutions. Below are the classification definitions:

- *Acceptable* – Assets are expected to be fully collectible and represent the highest quality. In addition, these assets may include loans with properly executed and structured guarantees that might otherwise be classified less favorably.
- *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 AgFirst loans including accrued interest at December 31:

AgFirst Total Loans Credit Quality	2021	2020	2019
Acceptable	99.45 %	94.00 %	93.93 %
OAEM	0.34	5.85 %	5.84 %
Substandard/doubtful/loss	0.21	0.15 %	0.23 %
Total	100.00 %	100.00 %	100.00 %

The table above reflects credit quality improvement during 2021, which was primarily due to the classification change from OAEM to acceptable of a Direct Note. At December 31, 2021, this Direct Note totaled approximately \$1.566 billion.

While Bank credit quality reflects overall improvement for the current period, it may deteriorate in future quarters in response to potential changes in government support for agricultural sectors, inflationary input cost pressures, and unforeseen impacts from geopolitical, trade, supply chain, weather, or agriculture-related events. See the *Direct Notes*, *Participations/Syndications*, and *Correspondent Lending* sections below for further discussion of the Bank's loan portfolio and credit quality.

Direct Notes

AgFirst's primary business is to provide funding, operational support, and technology services to District Associations. AgFirst provides a revolving line of credit, referred to as a Direct Note, to each of the District Associations. Each of the Associations funds its lending and general corporate activities primarily by borrowing under its Direct Note. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association. Each GFA contains minimum borrowing base margin, capital, and earnings requirements that must be maintained by the Association. Refer to Note 1, *Organization and Operations*, in the Notes to the Financial Statements for further discussion.

On August 31, 2021, the boards of MidAtlantic Farm Credit, ACA and AgChoice Farm Credit, ACA announced intentions to pursue a merger. The Associations, with combined total assets of \$5.8 billion as of December 31, 2021, anticipate a merger date of July 1, 2022 subject to receiving all regulatory and shareholder approvals required.

At December 31, 2021, total Direct Note volume outstanding was \$19.740 billion, an increase of \$1.794 billion, or 10.00 percent, compared to December 31, 2020. Direct Note volume of \$17.946 billion at December 31, 2020, increased \$1.115 billion, or 6.63 percent, compared to December 31, 2019. The Bank may sell participation interests in certain of its Direct Notes to other System banks. At December 31, 2021, Direct Note volume totaling \$1.207 billion had been sold to another System bank.

As noted above, increases and decreases in the Direct Note portfolio are closely linked to the commodities and geographic distribution of the District Associations' loan portfolios. In 2021, loan growth was primarily in the forestry, field crops, and grains segments. Forestry saw strong growth, driven by a favorable interest rate market and capital expansion, to support strong demand in end-use markets as well as increased retail consumer demand for land. Prices for field crops and grains and their inputs including seed, fertilizers and chemicals, increased significantly in 2021. This increase in input costs amplified funding demands by farmers and grain elevator operators.

AgFirst provides each Association with core operating systems and support, including a loan origination system, loan accounting and servicing systems, general ledger and related financial accounting systems, and a human resources/payroll system. With AgFirst providing such systems and other services, the Associations are able to achieve operating efficiencies ordinarily afforded to much larger organizations. In addition, having common systems supported by AgFirst provides an opportunity to automate and standardize portions of the AgFirst/Association lending process. One of the most significant advantages of this is a match-funding mechanism that automatically creates Direct Note advances that match the repricing and maturity characteristics of each underlying Association loan. The Associations' interest rate risk and systems operational risks are primarily transferred to the Bank by employing these systems.

Ultimately, the Associations' ability to repay their Direct Note obligations is significantly dependent upon the repayment of loans made to their borrowers. Accordingly, AgFirst's direct and indirect credit exposure depends upon the creditworthiness of both the Associations that are direct borrowers and the underlying borrowers of the Associations whose loans, as well as the other assets of the Associations, secure their Direct Notes.

AgFirst continually monitors the risk-bearing capacity of each Association through a variety of mechanisms, including testing of the reliability of the Association's risk ratings assigned to each of its loans, periodic meetings with the Association's management and board of directors, regular formalized risk assessments, and prior approval of loan transactions that exceed the Association's delegated lending authority as determined by AgFirst.

All Associations are subject to an annual audit by an independent registered public accounting firm and periodic examination by the FCA. Each Association is required by regulatory mandate to perform continuous internal credit, appraisal, and audit reviews. Litigation in which Associations are involved is typically loan related and currently poses no material threat to their viability.

All Associations met all of the regulatory minimum capital requirements, and were considered well-capitalized at December 31, 2021. See *Regulatory Ratios* in the *Capital* section below for a discussion of the calculation of these ratios.

The following table presents the credit quality of the Bank's Direct Note portfolio including accrued interest at December 31:

	Direct Note Credit Quality					
	2021		2020		2019	
	%	#	%	#	%	#
	Total	Total	Total	Total	Total	Total
Acceptable	100.00%	19	92.09%	18	91.96%	18
OAEM	—	—	7.91	1	8.04	1
Substandard/doubtful/loss	—	—	—	—	—	—
Total	100.00%	19	100.00%	19	100.00%	19

At December 31, 2021, no District Associations were operating under a written agreement with the FCA, and none were operating under a special credit agreement pursuant to the GFA.

Presently, collection of the full Direct Note amount due is expected from all Associations in accordance with the contractual terms of the debt arrangements, and no allowance has been recorded for Direct Notes. Virtually all assets of the various Associations are pledged as collateral for their respective Direct Notes. In the opinion of management, all Association Direct Notes are adequately collateralized. The risk funds of an Association, including both capital and the allowance for loan losses, also protect the interest of the Bank should a Direct Note default.

Associations employ a number of risk management techniques to limit credit exposures. Each Association has adopted underwriting standards, individual borrower exposure limits, commodity exposure limits, and other risk management techniques. AgFirst and the Associations actively purchase and sell loan participations to enhance the diversification of their portfolios. Some Associations utilize guarantees from U.S. government agencies/departments, including the Farm Service Agency, the Small Business Administration, and the Federal Agricultural Mortgage Corporation (Farmer Mac), as well as state government guarantees to further limit credit exposures. At December 31, 2021, Associations collectively had \$1.952 billion (7.48 percent of the total Associations' loan portfolios) under such government or GSE guarantees, compared to \$1.837 billion (7.68 percent) and \$1.689 billion (7.51 percent), at December 31, 2020 and 2019, respectively.

The following table presents the credit quality classification of the combined Associations' loans, including accrued interest, at December 31 as follows:

District Associations Credit Quality	2021	2020	2019
Acceptable	95.94 %	94.32 %	93.64 %
OAEM	2.22	3.10	3.75
Substandard/doubtful/loss	1.84	2.58	2.61
Total	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

Total Association loan delinquencies (loans 90 days or more past due) were 0.27 percent of the combined Association total loan assets at year-end 2021, compared to 0.43 percent and 0.52 percent at December 31, 2020 and 2019, respectively.

At December 31, 2021, nonperforming assets for the combined Associations represented 1.07 percent of total loans and other property owned or \$278.5 million, compared to 1.42 percent or \$339.4 million for 2020, and 1.66 percent or \$374.4 million for 2019. Nonperforming assets consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned.

Associations recognized net loan charge-offs of \$2.8 million for 2021, \$907 thousand for 2020, and \$11.6 million for 2019. As a percentage of total average loans, net charge-offs for the combined Associations were 0.01 percent for 2021 compared to 0.00 percent for 2020 and 0.05 percent for 2019. Each Association maintains an allowance for loan losses determined by its management based upon its unique circumstances.

Affiliated Associations serve primarily all or a portion of fifteen states and Puerto Rico. The District's large footprint results in geographic diversity, which is a natural credit risk-reducing factor for AgFirst. The following table illustrates the geographic distribution of the Associations' loan volume outstanding by state for the past three years at December 31:

State	District Associations		
	Percent of Portfolio		
	2021	2020	2019
North Carolina	16 %	16 %	16 %
Georgia	11	11	11
Pennsylvania	11	10	10
Virginia	9	10	10
Ohio	9	8	8
Florida	8	8	8
Maryland	6	6	6
Alabama	6	6	5
South Carolina	6	6	6
Kentucky	4	4	4
Mississippi	3	3	3
Louisiana	2	2	2
Delaware	2	2	2
All Other States	7	8	9
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Only three states have loan volume representing 10.00 percent or greater of the total at December 31, 2021. Commodity diversification, guarantees, and borrowers with significant reliance on non-farm income further mitigate the geographic concentration risk in these states.

The Associations' credit portfolios are comprised of a number of commodity segments having varying, and in some cases complementary, characteristics which helps mitigate credit risk. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the largest agricultural commodity of the customer.

The following table illustrates the aggregate credit portfolio of the Associations by major commodity segments based on borrower eligibility at December 31:

District Associations			
Commodity Group	Percent of Portfolio		
	2021	2020	2019
Forestry	16 %	15 %	15 %
Poultry	13	14	14
Field Crops	12	12	12
Cattle	9	9	9
Grains	8	8	8
Corn	6	6	6
Other Real Estate	5	5	5
Dairy	5	5	5
Tree Fruits and Nuts	3	3	3
Nursery/Greenhouse	3	3	3
Rural Home Loans	3	3	2
Cotton	3	3	3
Swine	2	3	3
Processing	2	2	2
Other	10	9	10
Total	100 %	100 %	100 %

As illustrated in the above chart, Associations had concentrations of 10.00 percent or greater in only three commodities: forestry, poultry, and field crops. All three commodities have geographic dispersion over the entire AgFirst District footprint. Also, many of these borrowers have significant secondary income from other sources.

Forestry is divided principally into hardwood and softwood production and value-added processing. The timber from hardwood production is further processed into furniture, flooring, and high-grade paper and is generally located at the more northern latitudes and higher elevations of the AgFirst District. Softwood timber production is typically located in the coastal plains of the AgFirst District footprint and is used for building materials for the housing market and pulp to make paper and hygiene products. Timber producers at the Associations range in size from less than fifty acres to thousands of acres, with value-added processing being conducted at sawmills, planer mills, and paper mills.

Poultry concentrations within the Associations are dispersed among a large number of farm units producing poultry. Poultry concentration is further dispersed as production is segregated among chicken, turkey, and egg production.

The field crops commodity group represents a diverse group of commodities, including melons, vegetables, and other non-grain crops, which are grown throughout the AgFirst District.

The diversity of income sources supporting Association loan repayments, including a prevalence of non-farm income among the borrowers, further mitigates credit risk to AgFirst. The following table illustrates the aggregate credit portfolio of the Associations by major segments based upon primary source of repayment as of December 31 of each year:

District Associations			
Commodity Group	Percent of Portfolio		
	2021	2020	2019
Non-Farm Income	35 %	33 %	32 %
Poultry	13	14	14
Field Crops	6	6	7
Grains	6	6	6
Forestry	5	6	6
Corn	5	5	5
Dairy	4	5	5
Cattle	4	4	4
Cotton	3	3	3
Tree Fruits and Nuts	3	2	3
Other Real Estate	2	2	2
Processing	2	2	2
Nursery/Greenhouse	2	2	2
Swine	2	2	3
Other	8	8	6
Total	100 %	100 %	100 %

As mentioned previously, loans exceeding an Association's delegated lending authority must be pre-approved by AgFirst. As a result, larger agribusiness loans are typically analyzed by AgFirst's commercial lending staff as well as the Association's own lending staff prior to an Association committing to such loans.

Exposure to losses is reduced further through collateralization and other credit enhancements, including federal government guarantees. Typically, multiple loans to the same borrower are cross-collateralized and cross-defaulted.

By law, all long-term loans authorized by Title 1 of the Farm Credit Act of 1971, as amended (the Farm Credit Act), must be secured by a first lien on real estate with an initial loan to appraised value not exceeding 85.00 percent. As of December 31, 2021, long-term loans represent 66.79 percent of District Association loans.

Participations/Syndications

AgFirst has a Capital Markets Unit that purchases and sells loan participations and syndications. The Bank's credit officers work with the Associations to originate loans within the District's territory, provide commercial loan expertise to augment the Associations' staff, as needed, and provide an outlet for loans that exceed Associations' various hold limits. Additionally, the Capital Markets Unit actively pursues the purchase of participations and syndications originated outside of the District's territory by other System institutions, commercial banks, and other lenders. These loans may be held as earning assets of AgFirst or sub-participated to the Associations. The Capital Markets Unit also sells participations outside of the District to manage AgFirst's and the District Associations' loan concentrations and hold positions.

AgFirst's net participations/syndications volume outstanding increased by 12.37 percent from December 31, 2020 to December 31, 2021 and increased by 9.45 percent from December 31, 2019 to December 31, 2020. The increase in participation volume in 2021 is primarily due to a combination of factors including new client acquisition, customers restructuring their balance sheets to take advantage of the current rate environment, liquidity needs due to commodity price escalation, and merger and acquisition activity. The increase in 2020 was primarily due to increased capital markets activity, existing customers utilizing lines of credit given market certainty, and the Bank's purchase of PPP loans originated by Associations.

The following table shows total participations/syndications portfolio credit exposures at December 31 of each year:

<i>(dollars in thousands)</i>	Participations/Syndications		
	2021	2020	2019
Participations/Syndications Purchased	\$ 8,061,843	\$ 7,403,206	\$ 6,624,130
Less: Participations/Syndications Sold	2,337,614	2,308,977	1,969,619
Net Outstanding	5,724,229	5,094,229	4,654,511
Available Unused Commitments	3,643,035	3,137,084	2,861,118
Letters of Credit and Guarantees	63,983	66,340	53,525
Total Exposure	\$ 9,431,247	\$ 8,297,653	\$ 7,569,154

Like the Associations, AgFirst employs a number of management techniques to limit credit risk, including underwriting standards, limits on the amounts of loans purchased from a single originator, and maximum hold positions to a single borrower and commodity. Although the participations/syndications portfolio is comprised of a relatively small number of large loans, it is diversified both geographically and on a commodity basis. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

The following table illustrates AgFirst's participations/syndications portfolio by geographic distribution at December 31:

<i>(dollars in thousands)</i>	Participations/Syndications					
	2021		2020		2019	
Georgia	\$ 714,620	12 %	\$ 640,173	13 %	\$ 758,164	16 %
North Carolina	450,310	8	468,900	9	396,829	9
Florida	420,252	7	447,731	9	464,224	10
Texas	383,171	7	310,466	6	241,355	5
California	312,825	5	250,273	5	244,288	5
Ohio	295,042	5	198,536	4	196,662	4
New York	289,383	5	215,543	4	115,083	2
Pennsylvania	208,413	4	98,530	2	88,027	2
Illinois	190,753	3	124,708	2	89,139	2
Minnesota	186,795	3	184,341	4	172,314	4
Louisiana	165,147	3	163,839	3	137,512	3
Kansas	139,523	2	127,913	3	129,501	3
Kentucky	121,705	2	113,377	2	81,688	2
Indiana	119,056	2	56,426	1	20,715	—
Missouri	118,625	2	127,589	3	110,030	2
Connecticut	110,200	2	111,201	2	112,316	2
Colorado	108,025	2	96,662	2	102,342	2
South Carolina	95,043	2	136,256	3	159,690	3
Washington	92,400	2	116,122	2	115,570	2
New Jersey	86,916	2	98,849	2	99,712	2
Other	1,116,025	20	1,006,794	19	819,350	20
	\$ 5,724,229	100 %	\$ 5,094,229	100 %	\$ 4,654,511	100 %

The following participations/syndications table shows the various major commodity groups in the portfolio based on borrower eligibility and their percentage of the outstanding portfolio volume at December 31:

Participations /Syndications Commodity Group	Percent of Portfolio		
	2021	2020	2019
Processing	21 %	19 %	16 %
Utilities	20	19	17
Forestry	18	18	20
Field Crops	7	7	7
Tree Fruits and Nuts	5	5	5
Swine	4	4	4
Dairy	3	3	4
Nursery/Greenhouse	3	3	4
Grains	3	3	2
Cattle	3	3	3
Tobacco	2	2	2
Other	11	14	16
Total	100 %	100 %	100 %

The following table segregates these loans based upon repayment dependency by commodity at December 31:

Participations/Syndications Commodity Group	Percent of Portfolio		
	2021	2020	2019
Processing	21 %	19 %	18 %
Utilities	19	19	17
Forestry	16	16	17
Field Crops	8	7	8
Non-Farm Income	6	6	6
Tree Fruits and Nuts	4	4	4
Grains	3	3	2
Dairy	3	3	3
Swine	3	3	3
Cattle	2	2	3
Poultry	2	2	2
Nursery/Greenhouse	2	3	3
Tobacco	2	2	2
Other	9	11	12
Total	100 %	100 %	100 %

The relatively stable credit quality for the participations/syndications portfolio as of December 31 is shown in the following chart:

Participations/Syndications Credit Quality	2021	2020	2019
Acceptable	97.53 %	97.22 %	96.61 %
OAEM	1.68	2.25	2.40
Substandard/doubtful/loss	0.79	0.53	0.99
Total	100.00 %	100.00 %	100.00 %

Correspondent Lending

The Correspondent Lending portfolio consists primarily of first lien rural residential mortgages. The volume of this portfolio decreased by 4.43 percent from year-end 2020 to 2021 and decreased 12.53 percent from year-end 2019 to 2020. The decrease in volume in 2021 resulted from increased early payoff activity by borrowers taking advantage of falling interest rates and refinancing with other lenders. While AgFirst has purchased a number of refinanced loans and new loans, a significant portion of its purchase volume has traditionally consisted of construction-to-permanent loans, the demand for which has been adversely affected by modifications of qualification standards established by loan insurers in response to the COVID-19 pandemic. During the third quarter of 2021, qualification guidelines for construction-to-permanent loans returned to pre-pandemic standards. The decrease in volume in 2020 resulted primarily from loan sales of \$289.4 million to capitalize on market premiums in the portfolio and manage long-term risk during a period of market volatility. These sales resulted in \$8.2 million in gains. See *Noninterest Income* in the *Results of Operations* section below. A reduction in new home construction loans resulting from modifications of qualification standards and increased early payoff activity from refinancing (both discussed above) also contributed to the decrease in 2020.

As of December 31, 2021, \$719.9 million, or 24.72 percent, of loans in the Correspondent Lending portfolio include a long-term standby commitment to purchase (LTSP) and \$2.193 billion, or 75.28 percent, are not covered under a LTSP. The LTSPs from the Federal National Mortgage Association (Fannie Mae) and/or Federal Agricultural Mortgage Corporation (Farmer Mac), give AgFirst the right to deliver delinquent loans to the guarantor at par. The remaining loans are included in the Bank's allowance for loan losses methodology related to this portfolio.

Correspondent Lending loans consist of the following at December 31:

<i>(dollars in thousands)</i>	AgFirst Correspondent Lending					
	2021		2020		2019	
Rural Home Loans – LTSP	\$ 594,699	20.42 %	\$ 788,462	25.87 %	\$ 1,011,478	29.03 %
Part-time Farm Loans – LTSP	125,208	4.30	144,325	4.74	155,526	4.46
Non-guaranteed Loans	2,192,852	75.28	2,114,970	69.39	2,317,328	66.51
Total	\$ 2,912,759	100.00 %	\$ 3,047,757	100.00 %	\$ 3,484,332	100.00 %

Rural home loans are underwritten to conform to Fannie Mae underwriting standards. Part-time farm loans conform to Farmer Mac underwriting standards.

Part-time farm loans represent first lien mortgages on homes with property characteristics (such as acreage or agricultural improvements) that may not conform to Fannie Mae standards. These loans are included in the Farmer Mac LTSP.

AgFirst Correspondent Lending retains servicing rights for some sold loans. The total volume serviced but not owned as of December 31, 2021 was \$303.0 million. The Correspondent Lending loans are sub-serviced through agreements with third parties.

At December 31, 2021, 99.48 percent of the total Correspondent Lending loans, including accrued interest, was classified as acceptable compared to 99.58 percent and 99.66 percent at December 31, 2020 and 2019, respectively. At December 31, 2021, 2020, and 2019, 0.52 percent, 0.42 percent, and 0.34 percent, respectively, were classified substandard. There were no loans classified as ODEM for the periods presented.

As a result of the COVID-19 pandemic, the Bank utilized forbearance programs offered by Fannie Mae to eligible borrowers for an initial six-month forbearance, with a potential total maximum forbearance of twelve months. At December 31, 2021, loans totaling \$2.9 million, or 0.10 percent of the Correspondent Lending portfolio, remained in the forbearance program, a reduction from \$83.9 million, or 2.74 percent of the Correspondent Lending portfolio at December 31, 2020.

RISK MANAGEMENT

Overview

The Bank is in the business of making agricultural and other loans that requires accepting certain risks in exchange for compensation for the risks undertaken. Proper management of the risks inherent in AgFirst's business is essential for current and long-term financial performance. Prudent and disciplined risk management includes an enterprise risk management structure to identify emerging risks and evaluate risk implications of decisions and actions taken. The objectives of risk management are to identify and assess risks, and to properly and effectively mitigate, measure, price, monitor, and report risks in the Bank's business activities.

The Bank's Executive Committee is responsible for risk management, including:

- Providing overall leadership, vision, and direction for enterprise risk management;
- Establishing an integrated risk management framework for all aspects of risk across the organization;
- Ensuring development of risk management policies, including the quantification of management's risk appetite through specific risk limits;
- Implementing a set of risk metrics and reports, including key risk exposures, early warning indicators and mitigation strategies;
- Optimizing the Bank's risk portfolio through business activities and risk transfer strategies;
- Improving the Bank's risk management readiness through recruiting and retaining top talent, coordination of communication and training programs, risk-based performance measurement and incentives, and other change management programs;
- Assigning responsibility for development of analytical systems and data management capabilities to support the risk management program; and
- Reporting periodically to the Board of Directors on actions taken to strengthen the Bank's system of internal control and top risks impacting the Bank.

The Executive Committee provides oversight of the Bank's risk management functions through an integrated management committee structure, including, among others, the Bank's Asset/Liability Management Committee (ALCO), Loan Committee, Special Assets Committee, Internal Control over Financial Reporting (ICFR) Steering Committee, Data Governance Steering Committee, Fraud Risk Management Steering Committee and Senior Management Committee.

Stress testing represents a critical component of the Bank's risk management process. Stress testing is primarily an analysis performed under a wide range of economic scenarios, including unlikely but plausible economic scenarios, and is designed to determine whether the Bank has enough capital to withstand the impact of adverse developments. The Bank is required by regulation to perform stress tests with a level of sophistication appropriate to its size and complexity.

Types of risk to which the Bank has exposure include:

- *structural risk* — risk inherent in the business and related to the System's structure, which is comprised of interdependent networks of cooperative lending institutions;
- *credit risk* — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed;
- *interest rate risk* — risk that changes in interest rates may adversely affect the Bank's operating results and financial condition;
- *liquidity risk* — risk arising from the inability to meet obligations when they come due without incurring unacceptable losses, including the ability to access the debt market;
- *operational risk* — risk of loss resulting from inadequate or failed internal processes, systems, or controls; errors by employees; fraud; or external events;
- *reputational risk* — risk of loss resulting from events, real or perceived, that shape the image of the Bank, the System, or any of its entities, including the impact of investors' perceptions about agriculture and rural financing, the reliability of Bank or System financial information, or the actions of any System institution; and
- *political risk* — risk of loss of support for the System and agriculture by federal and state governments.

Structural Risk Management

Structural risk results from the fact that AgFirst, along with its related Associations, is part of the System, which is comprised of banks and associations that are cooperatively owned, directly or indirectly, by their borrowers. Each System institution is responsible for its own risk management, and there are no formal processes or procedures in place to mandate consistent Systemwide risk mitigation actions. Because System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. The Funding Corporation provides for the issuance and marketing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The System banks fund association loans with Systemwide debt. Refer to Note 6, *Debt*, in the Notes to the Financial Statements for further discussion. The banks are jointly and severally liable for the repayment of Systemwide Debt Securities, exposing each bank to the risk of default of the others. Although capital at the association level reduces the

banks' credit exposures with respect to their related associations, that capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

In order to mitigate this risk, the System utilizes two integrated contractual agreements executed by and among the banks— the Amended and Restated Contractual Interbank Performance Agreement (CIPA) and the Third Amended and Restated Market Access Agreement (MAA). Under provisions of the CIPA, a score is calculated quarterly that measures the financial condition and performance of each district using various ratios that take into account each district's and bank's capital, asset quality, earnings, interest-rate risk, and liquidity. Based on these measures, the CIPA establishes an agreed-upon standard of financial condition and performance that each district must achieve and maintain. The CIPA also establishes monetary penalties if the performance standard is not met. These penalties will occur at the same point at which a bank would be required to provide additional monitoring information under the MAA.

The MAA establishes criteria and procedures that provide operational oversight and control over a bank's access to System funding if the creditworthiness of the bank declines below certain agreed-upon levels. The MAA provides for the identification and resolution of individual bank financial problems in a timely manner and discharges the Funding Corporation's statutory responsibility for determining conditions for each bank's participation in each issuance of Systemwide Debt Securities.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in outstanding loans, leases, letters of credit, unfunded loan commitments, investments and derivative counterparty credit exposures. The Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of individual obligors. The Bank sets underwriting standards and lending policies consistent with FCA regulations, which provide direction to loan officers and are approved by the Board of Directors.

The credit risk management process begins with an analysis of a potential 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. 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 loan rating structure, incorporating a 14-point risk rating scale to identify and track a borrower's probability of default and a separate scale addressing loss given default. The loan rating structure reflects estimates of loss through two components, 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 Bank and Associations limit their exposure to both borrower and commodity concentrations through their participation in loans or interests in loans to/ from other institutions within the System and outside the System. This also allows the Bank and Associations to manage growth and capital, and to improve geographic diversification. Concentration risk is reviewed and measured by industry, product, geography and customer limits.

Although neither the Bank nor any other System institution receives any direct government support, credit quality is indirectly enhanced by government support in the form of program payments to borrowers, which improve their ability to honor their commitments. However, due to the geographic location of the District and the resulting types of agriculture, generally government programs account for a relatively small percentage of net farm income in the territory served by the District Associations.

The Bank's high-risk assets continue to be a small percentage of total loans in 2021 primarily due to the Bank's underwriting standards, the government support programs referenced in the *COVID-19 Support Programs* section and the Bank's continuous efforts to resolve problem assets. High-risk assets, including accrued interest, at December 31, are detailed in the following table:

<i>(dollars in thousands)</i>	2021	2020	2019
AgFirst High-risk Assets			
Nonaccrual loans	\$ 35,179	\$ 26,253	\$ 23,494
Accruing restructured loans	25,100	8,622	15,639
Accruing loans 90 days past due	5,781	1,130	—
Total high-risk loans	66,060	36,005	39,133
Other property owned	—	—	3,041
Total high-risk assets	\$ 66,060	\$ 36,005	\$ 42,174
Ratios			
Nonaccrual loans to total loans	0.12 %	0.10 %	0.09 %
High-risk assets to total assets	0.17 %	0.10 %	0.12 %

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank at December 31, 2021 were \$35.2 million compared to \$26.3 million at December 31, 2020. Nonaccrual loans increased \$8.9 million during 2021 due primarily to loan balances transferred to nonaccrual status of \$28.1 million, partially offset by repayments of \$13.0 million and reinstatements to accrual status of \$5.7 million. At December 31, 2021, total nonaccrual loans were primarily classified in the rural home loan

(49.17 percent of the total), utilities (31.27 percent), and tobacco (15.25 percent) segments. At December 31, 2020, total nonaccrual loans were primarily classified in the rural home loan (61.42 percent of the total) and swine (30.74 percent) segments.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. TDRs increased \$17.2 million since December 31, 2020 and totaled \$29.7 million at December 31, 2021. This increase resulted from loan modifications subsequent to the forbearance programs offered by FNMA. The total was comprised of \$25.1 million of accruing restructured loans and \$4.6 million of nonaccrual restructured loans. At December 31, 2021, restructured loans were primarily in the rural home loan (79.19 percent of the total) segment. At December 31, 2020, restructured loans were primarily in the rural home loan (46.72 percent of the total), nursery/greenhouse (6.84 percent), and swine (5.86 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. The Bank had no OPO at both December 31, 2021 and December 31, 2020.

Allowance for Loan Losses

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The Bank increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan is uncollectible. Any subsequent recoveries are added to the allowance. Impaired and certain other significant loans were reviewed individually to determine that appropriate reserves were in place at year-end. All other loans were analyzed collectively and general reserves were established based on that collective analysis including the risk rating and potential for loss given default of the underlying loans.

The following table presents the activity in the allowance for loan losses for the most recent three years at December 31:

AgFirst Allowance for Loan Losses Activity			
<i>(dollars in thousands)</i>	2021	2020	2019
Balance at beginning of year	\$18,257	\$18,032	\$18,049
Charge-offs:			
Rural Residential Real Estate	(1,881)	(104)	(39)
Total charge-offs	(1,881)	(104)	(39)
Recoveries:			
Production and Intermediate-Term	21	6,549	777
Rural Residential Real Estate	198	—	180
Total recoveries	219	6,549	957
Net (charge-offs) recoveries	(1,662)	6,445	918
Provision for (reversal of) allowance for loan losses	3,552	(6,220)	(935)
Balance at end of year	\$20,147	\$18,257	\$18,032
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.01)%	0.03 %	0.00 %

The allowance for loan losses totaled \$20.1 million at December 31, 2021, as compared with \$18.3 million at December 31, 2020 and \$18.0 million at December 31, 2019. The allowance at December 31, 2021 included specific reserves of \$2.3 million (11.36 percent of the total) and \$17.9 million of general reserves (88.64 percent), related primarily to participation loans. The general reserves at December 31, 2021 also included \$4.7 million of allowance provided by the Bank for non-LTSP loans in the Correspondent Lending portfolio. None of the allowance relates to the Direct Note portfolio. See further discussion in *Direct Notes* and *Correspondent Lending* in the *Loan Portfolio* section above. See *Provision for Loan Losses* in the *Results of Operations* section below for details regarding loan loss provision expense and reversals. During 2021, the rural home loan segment accounted for all charge-offs and 90.43 percent of recoveries. The total allowance at December 31, 2021 was comprised primarily of reserves for the rural home loan (25.56 percent of the total), utilities (17.33 percent), processing (16.29 percent), tree fruits and nuts (7.11 percent), and forestry (6.82 percent) segments. The total allowance at December 31, 2020 was comprised primarily of reserves for the rural home loan (35.02 percent of the total), processing (13.07 percent), forestry (9.07 percent), utilities (8.39 percent), and nursery/greenhouse (5.31 percent) segments.

The allowance for loan losses by loan type for the most recent three years, at December 31, is presented in the following table:

	2021	2020	2019
Real Estate Mortgage	\$ 1,513	\$ 1,551	\$ 1,667
Production and Intermediate-Term	3,583	3,289	3,448
Agribusiness	5,532	4,553	5,112
Communication	994	923	771
Power and Water/Waste Disposal	2,854	1,024	1,438
Rural Residential Real Estate	5,149	6,394	5,046
Loans to OFIs	327	294	308
International	84	130	137
Other	111	99	105
Total	<u>\$ 20,147</u>	<u>\$ 18,257</u>	<u>\$ 18,032</u>

The allowance for loan losses as a percentage of loans outstanding and certain other credit quality indicators, at December 31, is shown below:

	2021	2020	2019
Allowance for loan losses to loans	0.07 %	0.07 %	0.07 %
Allowance for loan losses to nonaccrual loans	57.27 %	69.55 %	76.75 %
Allowance for loan losses to participation/ syndication loans, Correspondent Lending loans, and loans to OFIs	0.23 %	0.22 %	0.22 %

The Bank's credit quality has remained stable; however, periods of uncertainty in the general economic environment create the potential for prospective risks in the loan portfolio. See Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements and the *Critical Accounting Policies* section above for further information concerning the allowance for loan losses.

Interest Rate Risk Management

Interest rate risk is the risk of loss of future earnings or long-term market value of equity that may result from changes in interest rates. This risk can produce variability in Bank earnings (net interest spread achieved and net interest income earned) and, ultimately, the long-term capital position of the Bank. The objective of interest rate risk management is to generate a reliable level of net interest income in any interest rate environment and to preserve the long-term market value of equity. AgFirst uses a variety of analytical techniques to manage the complexities associated with offering numerous loan options. Interest rate sensitivity gap analysis is used to monitor the repricing and maturity characteristics of AgFirst's interest-earning assets and interest-bearing liabilities. Simulation analysis is used to determine the potential change in net interest income and in the market value of equity under various possible future market interest rate environments.

AgFirst and the District Associations adhere to a philosophy that loans should be priced competitively in the market and that loan rates and spreads should be contractually established at loan closing such that a borrower is not subject to rate changes at the discretion of management or boards of directors. Therefore, District Association variable rate and adjustable rate loans are generally indexed to market rates, and fixed rate loans are priced based on market rates. Loan products offered by the Associations include Prime- or other reference rate-indexed variable rate loans, one-, three-, and five-year Treasury-indexed adjustable rate loans, and fixed rate loans. Variable rate and adjustable rate loans are offered with or without caps. Terms are available for up to 30 years. A variety of repayment options are offered, with the ability to pay on a monthly, quarterly, semi-annual or annual frequency. In addition, customized repayment schedules may be negotiated to fit a borrower's unique circumstances.

The following tables represent AgFirst's market value of equity and projected change over the next twelve months in net interest income for various rate movements as of December 31, 2021. The upward and downward shocks are generally based on movements in interest rates which are considered significant enough to capture the effects of embedded options and convexity within the assets and liabilities so that underlying risk may be revealed.

Scenarios	Assets	Liabilities*	Equity*	% Change
Book Value	\$ 39,274,554	\$ 37,004,274	\$ 2,270,280	-
+4.0% Shock	\$ 35,274,102	\$ 33,360,048	\$ 1,914,054	(28.46)%
+2.0% Shock	\$ 37,182,884	\$ 34,959,055	\$ 2,223,829	(16.88)%
Base line **	\$ 39,335,164	\$ 36,659,685	\$ 2,675,479	-
-50% of 3M Tbill ***	\$ 39,366,721	\$ 36,685,289	\$ 2,681,432	0.22 %

Net Interest Income (dollars in thousands)		
Scenarios	Net Interest Income	% Change
+4.0% Shock	\$630,472	2.70%
+2.0% Shock	\$629,762	2.59%
Base line **	\$613,888	—
-50% of 3M Tbill ***	\$612,723	(0.19)%

* For interest rate risk management, the \$32.5 million perpetual preferred stock is included in liabilities rather than equity.

** Base line uses rates as of the balance sheet date before application of any interest rate shocks.

*** When the three-month Treasury bill interest rate is less than 4 percent, both the minus 200 and minus 400 basis point shocks are replaced with a downward shock which is equal to one-half of the three-month Treasury bill rate. At December 31, 2021, this downward shock was (3) basis points.

The following table sets forth the repricing characteristics of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2021. The amount of assets and liabilities shown in the table, which reprice or mature during a particular period, were determined in accordance with the earlier of term-to-repricing or contractual maturity, anticipated prepayments, and, in the case of liabilities, the exercise of call options. Anticipated loan prepayments are based on AgFirst's historical prepayment activity during various interest rate cycles.

(dollars in thousands)	Repricing/Maturity Gap Analysis				
	0 to 6 Months	6 Months to 1 Year	1 to 5 Years	Over 5 Years	Total
Floating Rate Loans					
Adjustable/Indexed Loans	\$ 6,763,432	\$ 15,876	\$ 11,934	\$ —	\$ 6,791,242
Fixed Rate Loans					
Fixed Rate Loans	39,650	25,646	113,521	55,322	234,139
Fixed Rate Prepayable	4,012,171	3,094,023	10,446,550	3,922,378	21,475,122
Nonaccrual Loans					
Nonaccrual Loans	—	—	—	35,179	35,179
Total Loans	10,815,253	3,135,545	10,572,005	4,012,879	28,535,682
Total Investments *	4,080,370	662,254	2,630,188	2,363,893	9,736,705
Other Interest-earning Assets	103,786	—	—	—	103,786
TOTAL INTEREST-EARNING ASSETS	\$ 14,999,409	\$ 3,797,799	\$ 13,202,193	\$ 6,376,772	\$ 38,376,173
Interest-Bearing Liabilities					
Systemwide Bonds and Notes	\$ 12,060,771	\$ 3,763,000	\$ 17,713,000	\$ 2,820,000	\$ 36,356,771
TOTAL INTEREST-BEARING LIABILITIES	\$ 12,060,771	\$ 3,763,000	\$ 17,713,000	\$ 2,820,000	\$ 36,356,771
Interest Rate Sensitivity Gap	\$ 2,938,638	\$ 34,799	\$ (4,510,807)	\$ 3,556,772	
Sensitivity Gap as a % of Total Earning Assets	7.66 %	0.09 %	-11.76 %	9.27 %	
Cumulative Gap	\$ 2,938,638	\$ 2,973,437	\$ (1,537,370)	\$ 2,019,402	
Cumulative Gap as a % of Total Earning Assets	7.66 %	7.75 %	(4.01)%	5.26 %	
Rate Sensitive Assets/Rate Sensitive Liabilities	1.24	1.01	0.75	2.26	

* Includes cash equivalents.

At December 31, 2021, the twelve month Cumulative Repricing/Maturity Gap position of the Bank was asset sensitive, meaning the volume of repricing/maturing assets exceeded the volume of liabilities that mature or reprice during that time period. Asset sensitivity implies an increase in net interest income in rising interest rate scenarios and lower net interest income in falling interest rate scenarios.

The Repricing/Maturity Gap Analysis is a "point in time" view and is representative of the interest rate environment at December 31, 2021. Optionality imbedded in assets and liabilities will alter the repricing/maturity gap under various interest rate scenarios. Therefore, the Repricing/Maturity Gap Analysis must be used with other analysis methods to capture the repricing and maturity attributes of balance sheet accounts that react differently in changing interest rate environments. For example, during a period of rising interest rates, call options on fixed rate debt are not exercised and the debt terms extend to reflect the longer contractual maturity dates. Prepayment optionality on fixed rate assets also slows as the economic incentive for borrowers to refinance decreases and extends the asset's term.

To supplement the Repricing/ Maturity Gap Analysis, the Bank utilizes a financial simulation model for measuring interest rate sensitivity of net interest income and market value of equity as mentioned above. These two interest rate risk metrics are measured and reported on a monthly basis to the Bank's ALCO and quarterly to the Board of Directors. They are also calculated periodically during the month as the management of interest rate risk is an on-going function embedded in the funding operations. At December 31, 2021, the simulations reflected an increase of 2.59 percent in net interest income for a +200

basis point parallel shift in interest rates. This change was within the Bank's policy limit of -16.00 percent. The Bank's net interest income sensitivity to falling interest rates reflected a minimal decrease in net interest income as the parallel shift in interest rates was limited to 3 basis points which prevented additional debt from being called by the model.

Market value of equity reflected a negative sensitivity in rising interest rate scenarios due to the Bank's strategy of utilizing equity as a long-term funding source. When equity is used as long-term funding, its market value behaves similarly to a fixed rate bond. The simulations reflected a decrease of 16.88% in market value of equity for a +200 basis point parallel shift in interest rates which was within the Bank's policy limit of -20.00 percent and considered appropriate by management for this funding structure. The Bank's market value of equity sensitivity to falling interest rates was not significantly impacted due to the current low level of interest rates.

The Bank may, under certain conditions, use derivatives for asset/liability management purposes to reduce interest rate risk. AgFirst policy prohibits the use of derivatives for speculative purposes. At December 31, 2021, the Bank had one foreign currency forward outstanding with a notional value of \$2.3 million.

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. As a result, it was uncertain whether LIBOR would continue to be quoted 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 Bank and Associations have exposure to LIBOR arising from loans made to customers, investment securities purchased, Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf, and preferred stock issued by the Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

The FCA has issued guidance similar to that of 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.

The Bank and Associations have implemented LIBOR transition plans and continue 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 a new contract is one that (1) creates additional LIBOR exposure or (2) extends the term of an existing LIBOR contract; however, 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 expectation that new or updated LIBOR contracts include strong and clearly defined fallback rates for when the initial reference rate is discontinued.

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 highly discourages Farm Credit System institutions from entering into new contracts that reference LIBOR as soon as practicable and in any event no later than December 31, 2021. 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 following is a summary of District outstanding variable-rate financial instruments tied to LIBOR based on contractual maturity at December 31, 2021:

<i>(dollars in millions)</i>	Due in 2022	Due in 2023 (On or Before June 30)	Due After June 30, 2023	Total
Investments	\$ —	\$ —	\$ 1,022	\$ 1,022
Loans	346	135	4,714	5,195
Total	\$ 346	\$ 135	\$ 5,736	\$ 6,217
Systemwide debt securities	\$ 275	35	—	\$ 310
Preferred stock	—	—	33	33
Total	\$ 275	\$ 35	\$ 33	\$ 343

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. At December 31, 2021, less than 1 percent of total District investments, less than 2 percent of total District loans, and less than 1 percent of Systemwide debt securities maturing after June 30, 2023 do not contain fallback provisions. The Bank's preferred stock may be redeemed on any five-year anniversary of its issuance. The next redemption date for the preferred stock is June, 2022.

Liquidity Risk Management

Liquidity risk management is necessary to ensure the Bank's ability to meet its financial obligations. One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. Along with normal cash flows associated with lending operations, AgFirst has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments. The Bank also has investment securities repurchase agreements in place with several commercial banks for commitments totaling approximately \$6.050 billion. A standard repurchase agreement involves the acquisition of immediately available funds through the sale of securities with a simultaneous commitment to repurchase the same securities on a certain date within one year at a specified price, including interest at an agreed upon rate. In addition, the System has established a line of credit in the event contingency funding is needed to meet obligations of System banks.

Cash, Cash Equivalents and Investments

FCA regulations provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its quarterly average balance of total loans outstanding. Based upon FCA guidelines, at December 31, 2021, the Bank's eligible available-for-sale investments were 34.02 percent of its quarterly average daily balance of loans outstanding. These investments serve to provide liquidity to the Bank's operations, to manage short-term funds, and to manage interest rate risk. AgFirst maintains an investment portfolio for these purposes comprised primarily of short-duration, high-quality investments.

Cash, cash equivalents, and investment securities as of December 31, 2021 totaled \$10.362 billion compared to \$9.729 billion and \$9.027 billion at December 31, 2020 and 2019, respectively.

As of December 31, 2021, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

Eligible liquidity investments are classified according to three liquidity quality levels with level 1 being the most liquid. The first 15 days of minimum liquidity coverage are met using only level 1 instruments, which include cash and cash equivalents. Days 16 through 30 of minimum liquidity coverage are met using level 1 and level 2 instruments. Level 2 consists primarily of U.S. government guaranteed securities. Days 31 through 90 are met using level 1, level 2, and level 3 securities. Level 3 consists primarily of U.S. agency investments. Additionally, a supplemental liquidity buffer in excess of the 90-day minimum liquidity reserve is set to provide coverage to at least 120 days.

At December 31, 2021, AgFirst met all individual level criteria and had a total of 235 days of maturing debt coverage. The Bank's cash and cash equivalents position provided 26 days of the total liquidity coverage. Investment securities fully backed by the U.S. government or U.S. government agencies provided 195 days of liquidity. An additional 14 days of coverage were provided by a supplemental liquidity buffer. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

An agreement with a commercial bank requires AgFirst to maintain \$50.0 million as a compensating balance. At December 31, 2021, the Bank held \$42.2 million in U.S. Treasury securities for that purpose. The remainder of the compensating balance is held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

AgFirst's cash, cash equivalents and investment portfolio consisted of the following security types as of December 31:

<i>(dollars in thousands)</i>	AgFirst Cash, Cash Equivalents and Investment Securities					
	2021		2020		2019	
Investment Securities Available-for-Sale						
U.S. Govt. Treasury Securities	\$ 342,113	3.66 %	\$ 318,870	3.75 %	\$ 143,839	1.82 %
U.S. Govt. Guaranteed	4,165,087	44.61	4,361,424	51.22	4,539,387	57.22
Rural Housing U.S. Govt. Agency Guaranteed	175,958	1.88	257,380	3.02	391,922	4.94
Other U.S. Govt. Agency Guaranteed	4,280,477	45.85	2,898,177	34.03	2,078,593	26.20
Non-Agency Asset-Backed Securities	353,937	3.79	649,499	7.63	741,828	9.35
Total Available-for-Sale	\$ 9,317,572	99.79 %	\$ 8,485,350	99.65 %	\$ 7,895,569	99.53 %
Investment Securities Held-to-Maturity						
Farmer Mac Guaranteed	\$ 475	0.01 %	\$ 1,121	0.01 %	\$ 1,239	0.02 %
Other Mission Related Investments	18,658	0.20	28,957	0.34	36,027	0.45
Total Held-to-Maturity	19,133	0.21	30,078	0.35	37,266	0.47
Total Investment Securities	\$ 9,336,705	100.00 %	\$ 8,515,428	100.00 %	\$ 7,932,835	100.00 %
Cash and Cash Equivalents						
Cash	\$ 521,502	50.87 %	\$ 584,953	48.20 %	\$ 219,465	20.05 %
Interest-earning Cash	103,786	10.12	108,732	8.96	225,094	20.57
Repurchase Agreements	400,000	39.01	520,000	42.84	650,000	59.38
Total Cash and Cash Equivalents	\$ 1,025,288	100.00 %	\$ 1,213,685	100.00 %	\$ 1,094,559	100.00 %
Total Investment Securities and Cash and Cash Equivalents	\$ 10,361,993		\$ 9,729,113		\$ 9,027,394	

Cash and cash equivalents, which decreased \$188.4 million from December 31, 2020 to a total of \$1.025 billion at December 31, 2021, consist primarily of noninterest- and interest-earning cash on deposit and money market securities that are short-term in nature (maturities of overnight to 90 days). Incremental movements in cash and cash equivalents balances between reporting periods are due primarily to changes in liquidity needs in relation to upcoming debt maturities and operational funding needs.

Investment securities increased \$821.3 million, or 9.64 percent, to \$9.337 billion, or 23.77 percent of total assets at December 31, 2021, compared to \$8.515 billion, or 23.43 percent, as of December 31, 2020. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines.

Investment securities classified as being available-for-sale totaled \$9.318 billion at December 31, 2021. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited. As of December 31, 2021, all of the non-agency asset-backed securities were rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs).

AgFirst also maintains a portfolio of investments that are not held for liquidity purposes and are accounted for as a held-to-maturity portfolio. These investments were authorized by FCA regulations that allow investments in Farmer Mac securities and also in investments approved by the FCA as Mission Related Investments. Investment securities classified as held-to-maturity declined to \$19.1 million at December 31, 2021 due to normal paydowns on the securities.

Net unrealized gains related to investment securities were \$22.0 million at December 31, 2021, compared to net unrealized gains of \$190.5 million at December 31, 2020. These net unrealized gains, which stem primarily from changes in interest rates, for 2021 and 2020 are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements.

The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Based on the results of all analyses, the Bank did not recognize any other-than-temporary credit related impairment during the year ended December 31, 2021. See Note 2, *Summary of Significant Accounting Policies* and Note 4, *Investments*, in the Notes to the Financial Statements for further information.

Systemwide Debt Securities

The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities. However, the Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System's mission of providing credit to agriculture and rural America.

AgFirst's primary source of liquidity comes from its ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the System banks. AgFirst continually raises funds in the debt markets to support its mission, to repay maturing Systemwide Debt Securities, and to meet other obligations.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Farm Credit System Insurance Corporation (FCSIC) has an agreement with the Federal Financing Bank (FFB), a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the FFB could advance funds to the FCSIC. Under its existing statutory authority, the FCSIC may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to \$10 billion and terminates on September 30, 2022, unless otherwise renewed. The decision whether to seek funds from the FFB is at the discretion of the FCSIC. Each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

Currently, Moody's Investors Service and Fitch Ratings have assigned long-term debt ratings for the System of Aaa and AAA, and short-term debt ratings of P-1 and F1, respectively. These are the highest ratings available from these rating agencies. S&P Global Ratings (S&P) maintains the long-term debt rating of the System at AA+, which directly corresponds to its AA+ long-term sovereign credit rating of the U.S. government. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's status as a GSE. Negative changes to the System's credit ratings could reduce earnings by increasing debt funding costs, and could also have a material adverse effect on liquidity, the ability to conduct normal business operations, and the Bank's overall financial condition and results of operations. However, AgFirst anticipates continued access to funding necessary to support the District's and Bank's needs.

AgFirst's year-to-date average balance of Systemwide Debt Securities at December 31, 2021, was \$34.279 billion. At December 31, 2021, AgFirst had \$36.357 billion in total System debt outstanding compared to \$33.356 billion at December 31, 2020 and \$31.724 billion at December 31, 2019. Total interest-bearing liabilities increased primarily due to additional funding needs related to a higher level of loans and investments as discussed elsewhere in this report.

Refer to Note 6, *Debt*, in the Notes to the Financial Statements, for additional information related to debt.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. AgFirst's and the Associations' boards of directors are required, by regulation, to adopt internal control policies that provide adequate direction to their respective institutions in establishing effective controls over and accountability for operations, programs, and resources. The policies must include, at a minimum, the following items:

- recruiting and retaining skilled professional employees;
- direction to management that assigns responsibility for the internal control function to an officer of the institution;
- adoption of internal audit and control procedures;
- direction for the operation of a program to review and assess an institution's assets;
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation;
- adoption of asset quality classification standards;
- adoption of standards for assessing credit administration, including the appraisal of collateral; and
- adoption of standards for the training required to initiate a program.

In addition, AgFirst has implemented a Risk Management Policy to ensure that business exposures to risk are identified, measured and controlled, using the most effective and efficient methods to mitigate such exposures. AgFirst's risk management structure was designed to ensure that an effective enterprise-wide risk management program is in place. Exposure to operational risk is typically identified with the assistance of senior management, and internal audit plans are developed with higher risk areas receiving more attention. AgFirst's operations rely on the secure processing, transmission and storage of confidential information in its computer systems and networks. Although AgFirst believes that it has robust information security procedures and controls, its technologies, systems, networks and customers' devices may be the target of cyber-attacks or information security breaches. Due to the COVID-19 pandemic, these risks continue to be heightened due to the requirement for employees to work from home. Failure in or breach of AgFirst's operational or security systems or infrastructure, or those of its third-party vendors and other service providers, including as a result of cyber-attacks, could disrupt AgFirst's businesses or the businesses of its customers, result in the unintended disclosure or misuse of confidential or proprietary information, damage the Bank's reputation, increase costs, and cause losses.

No control system, no matter how well designed and operated, can provide absolute assurance that the objectives of the control systems are met. Also, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or errors can be detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts of some persons, collusion of two or more people, or management override of the control. The design of any system of controls also is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may be inadequate because of changes in conditions, or compliance with policies or procedures may deteriorate.

Reputational Risk Management

Reputation risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the Bank, System or any of its entities. Such risks include impacts related to investors' perceptions about agriculture, the reliability of the Bank, System, or other System institution financial information or actions by the Bank or any other System institution. Entities that serve the System at the national level, including the Coordinating Committee, the Presidents' Planning Committee and The Farm Credit Council (see below), will communicate guidance to the System for reputational issues that have broader consequences for the System as a whole. These entities support those business and other practices that are consistent with the Bank's mission.

Political Risk Management

Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government. System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agriculture and rural America. The System and its borrowers may be significantly affected by federal legislation that impacts the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. However, government support programs generally account for a relatively small percentage of net farm income in the territory served by the District Associations. Government support programs were higher in 2021 and 2020 due to COVID-19 as discussed in the *COVID-19 Support Programs* section.

The District addresses political risk by actively supporting The Farm Credit Council, which is a full-service trade association representing the System before Congress, the Executive Branch, and others. The Farm Credit Council provides the mechanism for “grassroots” involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. Additionally, the District takes an active role in representing the individual interests of System institutions and their borrowers before Congress. Each district has its own Council, which is a member of The Farm Credit Council. The district Councils represent the interests of their members on a local and state level, as well as on a federal level.

RESULTS OF OPERATIONS

Net Income

AgFirst net income totaled \$486.0 million for the year ended December 31, 2021, an increase of \$68.3 million from 2020. Net income of \$417.7 million for the year ended December 31, 2020 was an increase of \$146.0 million from 2019. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion:

Change in Net Income <i>(dollars in thousands)</i>	Year Ended December 31,	
	2021	2020
Net income (for prior year)	\$ 417,678	\$ 271,681
Increase (decrease) due to:		
Total interest income	(98,826)	(192,970)
Total interest expense	165,877	366,655
Net interest income	67,051	173,685
Provision for loan losses	(9,772)	5,285
Noninterest income	43,623	(14,961)
Noninterest expense	(32,574)	(18,012)
Total increase (decrease) in net income	68,328	145,997
Net income	\$ 486,006	\$ 417,678

Interest Income

Total interest income for the year ended December 31, 2021 was \$827.6 million, a decrease of \$98.8 million, as compared to the same period of 2020. Total interest income for 2020 was \$926.4 million, a decrease of \$193.0 million, as compared to the same period of 2019. The decreases in interest income in 2021 and 2020 resulted from lower yields on interest-earning assets as loans and investment securities repriced at lower interest rates. The average yield on interest-earning assets decreased 37 basis points from 2020 to 2021 and 73 basis points from 2019 to 2020.

The following table illustrates the impact of volume and yield changes on interest income:

Net Change in Interest Income <i>(dollars in thousands)</i>	Year Ended December 31,	
	2020 - 2021	2019 - 2020
Current year increase in average earning assets	\$ 1,437,697	\$ 1,801,724
Prior year average yield	2.65 %	3.38 %
Interest income variance attributed to change in volume	38,164	60,936
Current year average earning assets	36,337,512	34,899,815
Current year decrease in average yield	(0.37)%	(0.73)%
Interest income variance attributed to change in yield	(136,990)	(253,906)
Net change in interest income	\$ (98,826)	\$ (192,970)

Interest Expense

Total interest expense for the year ended December 31, 2021 was \$179.2 million, a decrease of \$165.9 million, as compared to the same period of 2020. Total interest expense for the year ended December 31, 2020 was \$345.1 million, a decrease of \$366.7 million, as compared to the same period of 2019. The decreases in 2021 and 2020 were due to lower rates paid on System debt obligations.

The following table illustrates the impact of volume and rate changes on interest expense:

Net Change in Interest Expense (dollars in thousands)	Year Ended December 31,	
	2020 - 2021	2019 - 2020
Current year increase in average interest-bearing liabilities	\$ 1,412,171	\$ 1,946,551
Prior year average rate	1.05 %	2.30 %
Interest expense variance attributed to change in volume	14,827	44,806
Current year average interest-bearing liabilities	34,279,349	32,867,178
Current year decrease in average rate	(0.53) %	(1.25) %
Interest expense variance attributed to change in rate	(180,704)	(411,461)
Net change in interest expense	\$ (165,877)	\$ (366,655)

The COVID-19 impact on interest rates provided the Bank opportunities to call and replace \$7.251 billion of debt for the year ended December 31, 2021 and \$43.043 billion for the year ended December 31, 2020. The average rate reduction for the debt called in 2021 (i.e., the difference between the rates on the called bonds and the rates on the replacement bonds) was 22 basis points, resulting in interest expense savings of \$64.3 million, net of debt extinguishment expense of \$9.2 million, over the remaining life of the bonds of 3.77 years. For the year ended December 31, 2020, the average rate reduction for the called bonds was 63 basis points, resulting in interest expense savings of \$954.8 million, net of debt extinguishment expense of \$65.5 million, over the remaining life of the bonds of 4.27 years. In addition, there was \$18.005 billion of debt called during the year ended December 31, 2019. For 2019, the average rate reduction for the called bonds was 39 basis points, resulting in interest expense savings of \$303.1 million, net of debt extinguishment expense of \$30.0 million, over the remaining life of the bonds of 4.91 years. Replacement bonds generally have terms similar to those of the bonds being replaced.

Net Interest Income

Net interest income increased from 2020 to 2021 and from 2019 to 2020, as illustrated by the following table:

(dollars in thousands)	AgFirst Analysis of Net Interest Income								
	Year Ended December 31,								
	2021			2020			2019		
	Avg. Balance	Interest	Avg. Yield	Avg. Balance	Interest	Avg. Yield	Avg. Balance	Interest	Avg. Yield
Loans	\$ 26,936,802	\$ 696,450	2.59 %	\$ 25,688,957	\$ 765,690	2.98 %	\$ 24,484,009	\$ 895,560	3.66 %
Investments	9,287,243	131,067	1.41	8,992,490	158,756	1.77	8,386,357	218,826	2.61
Other	113,467	90	0.08	218,368	1,987	0.91	227,725	5,017	2.20
Total earning assets	36,337,512	827,607	2.28	34,899,815	926,433	2.65	33,098,091	1,119,403	3.38
Interest-bearing liabilities	34,279,349	(179,209)	0.52	32,867,178	(345,086)	1.05	30,920,627	(711,741)	2.30
Spread			1.76			1.60			1.08
Impact of capital	\$ 2,058,163		0.02	\$ 2,032,637		0.07	\$ 2,177,464		0.15
Net Interest Income (NII) & NII to average earning assets		\$ 648,398	1.78 %		\$ 581,347	1.67 %		\$ 407,662	1.23 %

Net interest income for the year ended December 31, 2021 was \$648.4 million compared to \$581.3 million for the same period of 2020, an increase of \$67.1 million or 11.53 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.78 percent and 1.67 percent in the current year and previous year, respectively, an increase of 11 basis points. The increase in net interest margin resulted primarily from lower rates paid on interest-bearing liabilities and higher earning asset volume, partially offset by refinancing of interest-earning assets at lower interest rates.

Provision for Loan Losses

AgFirst measures risks inherent in its portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. Loan loss provision was a net expense of \$3.6 million, a net reversal of \$6.2 million and a net reversal of \$935 thousand for the years ended December 31, 2021, 2020, and 2019, respectively.

The \$3.6 million in net provision expense for the year ended December 31, 2021 consisted of \$3.5 million of net provision expense for specific reserves and \$32 thousand of net provision expense for general reserves. The net provision expense for 2021 primarily resulted from expenses in the utilities (\$2.0 million), processing (\$896 thousand), and tree fruits and nuts (\$816 thousand) segments.

The \$6.2 million in net provision reversals for the year ended December 31, 2020 consisted of \$7.3 million of net provision reversals for specific reserves, partially offset by \$1.1 million of net provision expense for general reserves. The net provision reversals for 2020 primarily resulted from reversals in the nursery/greenhouse segment of \$6.8 million, primarily one loan relationship, and in the field crops segment of \$1.0 million, partially offset by provision expenses related to borrowers in the rural home loan segment of \$1.5 million.

The \$935 thousand in net provision reversals for the year ended December 31, 2019 consisted of \$4.4 million of net provision reversals for specific reserves, offset by \$3.5 million of net provision expense for general reserves. The net provision reversals for 2019 primarily resulted from reversals in the field crops

segment of \$2.7 million, mainly related to one loan relationship that transferred to nonaccrual in 2018, partially offset by provision expenses related to borrowers in the processing (\$583 thousand) and forestry (\$526 thousand) segments.

See *Allowance for Loan Losses* in the *Risk Management* section above and Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information.

Noninterest Income

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

Noninterest Income <i>(dollars in thousands)</i>	For the Year Ended December 31,			Increase/(Decrease)	
				2021/	2020/
	2021	2020	2019	2020	2019
Loan fees	\$ 12,508	\$ 11,326	\$ 8,710	\$ 1,182	\$ 2,616
Gains on investments, net	330	7,215	—	(6,885)	7,215
Losses on debt extinguishment	(9,204)	(65,475)	(30,034)	56,271	(35,441)
Gains on other transactions	2,745	11,433	1,281	(8,688)	10,152
Insurance premium refund	—	2,622	2,620	(2,622)	2
Patronage refunds from Other Farm Credit institutions	18,597	14,444	13,196	4,153	1,248
Other noninterest income	8,704	8,492	9,245	212	(753)
Total noninterest income	\$ 33,680	\$ (9,943)	\$ 5,018	\$ 43,623	\$ (14,961)

Total noninterest income increased \$43.6 million from 2020 to 2021 and decreased \$15.0 million from 2019 to 2020. Significant line item dollar variances are discussed below.

For the years ended December 31, 2021 and 2020, loan fees increased \$1.2 million and \$2.6 million, respectively. The increase in 2021 was primarily due to an increase of \$902 thousand in commitment fees in the participations portfolio and an increase of \$331 thousand in servicing fees in the Correspondent Lending portfolio. The increase in 2020 was primarily due to increases in fee income in the Correspondent Lending portfolio of \$1.6 million, primarily in modification fees, and \$753 thousand in the participations portfolio primarily for commitment fees.

Gains on investments decreased \$6.9 million for the year ended December 31, 2021 and increased \$7.2 million for the year ended December 31, 2020. As part of its normal portfolio management activities, the Bank periodically packages and sells amortizing securities that have relatively small remaining balances and correspondingly high administrative costs. During 2021, the Bank sold such securities with a par value of approximately \$43.9 million and recognized net gains of \$330 thousand compared to sales of securities with a par value of approximately \$55.9 million and net gains of \$7.2 million recorded during 2020. There were no sales of investment securities in 2019.

Debt issuance expense is amortized into interest expense over the contractual life of the underlying debt security. Debt is called to take advantage of favorable market interest rate changes. When debt securities are called prior to maturity, any unamortized issuance cost is expensed through losses on debt extinguishment. The amount of issuance cost expensed when a bond is called is dependent upon both the size and remaining maturity of the bond when called. Losses on called debt are more than offset by interest expense savings realized over the life of the replacement debt. Call options were exercised on bonds totaling \$7.251 billion for the year ended December 31, 2021 compared to \$43.043 billion and \$18.005 billion for the years ended December 31, 2020 and 2019, respectively. Accordingly, losses on debt extinguishment decreased \$56.3 million for the year ended December 31, 2021 compared to an increase of \$35.4 million for the year ended December 31, 2020. See *Net Interest Income* section above for further discussion.

For the year ended December 31, 2021, net gains on other transactions decreased \$8.7 million. The decrease resulted primarily from \$8.2 million in gains on the sale of Correspondent Lending loans of \$289.4 million in 2020 to capitalize on market premiums in the portfolio and manage long-term risk during a period of market volatility. In addition, gains recognized on the fair value of mortgage servicing rights decreased by \$1.8 million as servicing retained from these loan sales increased gains in 2020. For the year ended December 31, 2020, net gains on other transactions increased \$10.2 million due primarily to the gains of \$8.2 million on the sale of Correspondent Lending loans discussed above and an increase of \$2.0 million in the fair value of mortgage servicing rights recognized for the servicing rights retained from these loan sales. See *Correspondent Lending* in the *Loan Portfolio* section above for further discussion.

In both 2020 and 2019, the Bank received insurance premium refunds of \$2.6 million from the FCSIC which insures the System's debt obligations. These refunds are nonrecurring and resulted from the assets of the FCSIC exceeding the secure base amount, as defined by the Farm Credit Act, at the end of the respective preceding year. No refund was received in 2021.

For the years ended December 31, 2021, and 2020, patronage refunds from other Farm Credit institutions increased by \$4.2 million and \$1.2 million, respectively. For both periods, the increase is primarily due to increases in patronage income received from entities outside of the District related to participation loans sold to them.

Noninterest Expenses

Noninterest expenses for each of the three years ended December 31 are shown in the following table:

Noninterest Expenses <i>(dollars in thousands)</i>	For the Year Ended December 31,			Increase/(Decrease)	
	2021	2020	2019	2021/ 2020	2020/ 2019
	Salaries and employee benefits	\$ 76,604	\$ 73,467	\$ 65,405	\$ 3,137
Occupancy and equipment	7,080	7,494	6,927	(414)	567
Insurance Fund premiums	17,927	10,578	9,104	7,349	1,474
Purchased services	43,231	26,996	17,506	16,235	9,490
Data processing	25,965	18,954	17,643	7,011	1,311
Other operating expenses	21,678	22,009	25,199	(331)	(3,190)
Losses from other property owned	35	448	150	(413)	298
Total noninterest expenses	\$ 192,520	\$ 159,946	\$ 141,934	\$ 32,574	\$ 18,012

Total noninterest expenses increased \$32.6 million and increased \$18.0 million in 2021 and 2020, respectively. Significant line item dollar variances are discussed below.

Salaries and employee benefits expenses increased \$3.1 million and \$8.1 million for the years ended December 31, 2021 and 2020, respectively. The increases resulted primarily from \$1.9 million and \$6.7 million for 2021 and 2020, respectively, in higher salaries and incentives mainly due to normal salary administration and an increase in headcount and in 2020 also due to higher performance-based incentives. Higher postretirement benefit expenses of \$2.2 million and \$1.2 million for 2021 and 2020, respectively, due primarily to higher pension service cost also contributed to the increases.

Insurance Fund premiums increased \$7.3 million and \$1.5 million for the years ended December 31, 2021 and 2020, respectively, compared to the prior years. The increases resulted primarily from increases in the base annual premium rate to 16 basis points in 2021 from 8 basis points in the first half of 2020 and 11 basis points in the second half of 2020, and 9 basis points in 2019. The FCSIC Board makes premium rate adjustments, as necessary, to maintain the secure base amount which is based upon insured debt outstanding at System banks. The Insurance Fund premium rate is 16 basis points for at least the first half of 2022.

The Bank operates as the centralized service provider for the District Associations which results in costs incurred at the Bank that are expected to be offset through efficiencies gained at District Associations. As a result of significant technology initiatives, purchased services and data processing expenses were elevated during 2021 and 2020. Purchased services increased \$16.2 million and \$9.5 million for the years ended December 31, 2021 and 2020, respectively. The increases for both periods resulted primarily from higher contractor expenses and professional fees of \$16.1 million and \$10.9 million for 2021 and 2020, respectively. Data processing costs increased \$7.0 million and \$1.3 million for the years ended December 31, 2021 and 2020, respectively. The increases for both periods resulted primarily from higher software depreciation and maintenance costs of \$7.4 million and \$1.7 million for 2021 and 2020, respectively.

The decrease of \$3.2 million in other operating expenses in 2020 is primarily due to lower travel and meeting costs of \$1.9 million as a result of the COVID-19 pandemic.

CAPITAL

Capital serves to support future asset growth and investment in new products and services, and to provide protection against credit, interest rate, and other risks, as well as operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

The AgFirst Capitalization Plan (the "Plan") approved by the Bank's Board of Directors establishes guidelines 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. The Bank's capital objectives are considered adequate to support inherent risk. There were no significant changes to the Plan during 2021.

Total shareholders' equity at December 31, 2021 was \$2.303 billion, compared to \$2.478 billion and \$2.331 billion at December 31, 2020, and 2019, respectively. The decrease in 2021 of \$175.1 million primarily resulted from cash patronage declared of \$463.6 million, a decrease in unrealized gains on investments of \$168.5 million due to an increase in interest rates which decreased the fair value of existing available-for-sale fixed-rate investment securities, \$16.7 million of net capital stock retired, and a net impact from repurchase of perpetual preferred stock of \$12.0 million (see below), partially offset by an increase in retained earnings from net income of \$486.0 million. The increase in 2020 of \$147.0 million primarily resulted from an increase in retained earnings from net income of \$417.7 million and from an increase in unrealized gains on investments of \$138.2 million, partially offset by cash patronage declared of \$390.4 million and \$16.9 million of net capital stock retired.

During 2021, the Bank repurchased, through privately negotiated transactions, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with par value totaling \$16.8 million. The repurchase transactions resulted in an average discounted price of 71.40 percent of par value. The net effect of the repurchases on shareholders' equity was to reduce perpetual preferred stock outstanding by \$16.8 million and to increase additional paid-in capital by \$4.8 million.

The Bank's patronage declared in 2021, 2020, and 2019 was based on paying Associations and OFIs a dividend equal to 75 basis points relative to their average Direct Note balance and paying a dividend to participants in Association capitalized participation pools in an amount equal to each Association's respective pool's net income. During 2021, the patronage related to eligible Capital Markets participations was 100 basis points, an increase of 25 basis points as compared to 2020 and 2019. Also, favorable earnings, strong credit quality and modest balance sheet growth in recent years have resulted in Bank capital levels that were above target levels. After considering current capital levels and projected capital needs, during 2021, 2020, and 2019, the Bank's Board of Directors declared additional patronage totaling \$274.0 million, \$218.0 million and \$104.0 million, respectively. Patronage is paid in the year following declaration, primarily in January.

The Associations are required to maintain ownership in the Bank in the form of Class B and Class C stock. At December 31, 2021, 2020, and 2019, the Associations' minimum stock requirement was 5.51 percent, 6.29 percent, and 7.00 percent, respectively, of risk-adjusted Direct Note balances. The Bank's capital stock and participation certificates totaled \$299.1 million at December 31, 2021, compared to \$311.9 million and \$325.3 million at December 31, 2020 and 2019, respectively, as a result of decreasing stock requirements. The net decreases of \$12.8 million in 2021 and \$13.4 million in 2020 were due to the retirement of \$16.7 million and \$16.9 million of Association owned stock for 2021 and 2020, respectively, through stock equalization, partially offset by the issuance of stock patronage to another System bank.

See Note 7, *Shareholders' Equity*, in the Notes to the Financial Statements and the *Additional Required Regulatory Capital Disclosures* section for further information.

Regulatory Ratios

The Bank's regulatory ratios (calculated using a three-month average daily balance) are shown in the following table:

	Regulatory Minimum, Including Buffer	AgFirst Ratios as of December 31,		
		2021	2020	2019
Permanent Capital Ratio	7.00%	18.73 %	19.39 %	19.32 %
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	18.47 %	18.99 %	18.90 %
Tier 1 Capital Ratio	8.50%	18.70 %	19.36 %	19.29 %
Total Regulatory Capital Ratio	10.50%	18.85 %	19.51 %	19.45 %
Tier 1 Leverage Ratio*	5.00%	6.87 %	7.09 %	7.10 %
Unallocated Retained Earnings (URE) and URE Equivalents	1.50%	6.09 %	6.18 %	6.17 %

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

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations that ensure that the System's capital requirements are comparable with the Basel III framework and the standardized approach of federal banking regulatory agencies. The requirements are based on regulatory ratios as defined by the FCA and include common equity tier 1 (CET1) capital, tier 1 capital, total capital, and tier 1 leverage ratios. The tier 1 leverage ratio must include a minimum unallocated retained earnings (URE) and URE equivalents component. The permanent capital ratio required under the Farm Credit Act remains in effect.

The permanent capital, CET1, tier 1, and total capital ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by a risk-adjusted asset base. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. The tier 1 leverage ratio and URE and URE equivalents component of the tier 1 leverage ratio do not incorporate any risk-adjusted weighting of assets. These ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by the three-month average daily balance of total assets adjusted for regulatory deductions.

For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios.

See the *Additional Required Regulatory Capital Disclosures* section for further information.

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

The District is committed to providing sound and dependable credit to young, beginning, and small (YBS) farmers and ranchers. Because of the unique needs of these individuals, and their importance to the future growth of the Associations, the Associations have established annual marketing goals to increase market shares of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers' access to a stable source of credit. AgFirst and the District Associations recognize that YBS farmers are vitally important to the future of agriculture and are committed to continue offering programs to help educate, assist, and provide quality financial services to YBS farmers.

The FCA regulatory definitions for YBS farmers and ranchers are as follows:

Young Farmer – A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.

Beginning Farmer – A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.

Small Farmer – A farmer, rancher, or producer or harvester of aquatic products who normally generated less than \$250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

It is important to note that, due to the regulatory definitions, a farmer/rancher may be included in multiple categories as he/she would be included in each category in which the definition was met.

The following table summarizes information regarding the combined District's loans outstanding to Young and Beginning Farmers and Ranchers as of December 31, 2021:

**Young and Beginning Farmers and Ranchers
Number/Volume of Loans Outstanding
(dollars in thousands)**

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total loans and commitments outstanding at year-end	163,789		\$ 38,419,030	
2. Young farmers and ranchers	31,801	19.42 %	\$ 4,113,356	10.71 %
3. Beginning farmers and ranchers	54,533	33.29 %	\$ 7,782,598	20.26 %

The following table summarizes information regarding the combined District's loans outstanding to Small Farmers and Ranchers as of December 31, 2021:

**Small Farmers and Ranchers
Number/Volume of Loans Outstanding by Loan Size
(dollars in thousands)**

Number/Volume Outstanding	\$0- \$50,000	\$50,001- \$100,000	\$100,001- \$250,000	\$250,001 and greater
1. Total number of loans and commitments outstanding at year-end	75,056	29,478	32,365	26,890
2. Total number of loans to small farmers and ranchers	53,128	18,813	18,681	8,979
3. Number of loans to small farmers and ranchers as a % of total number of loans	70.78 %	63.82 %	57.72 %	33.39 %
4. Total loan volume outstanding at year-end	\$ 1,496,627	\$ 2,135,158	\$ 5,158,419	\$ 29,628,826
5. Total loan volume to small farmers and ranchers	\$ 1,064,720	\$ 1,357,625	\$ 2,934,856	\$ 4,622,894
6. Loan volume to small farmers and ranchers as a % of total loan volume	71.14 %	63.58 %	56.89 %	15.60 %

The following table summarizes information regarding the combined District's new loans made to Young and Beginning Farmers and Ranchers for the year ended December 31, 2021:

**Young and Beginning Farmers and Ranchers
Gross New Business During 2021, Number/Volume of Loans
(dollars in thousands)**

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total gross new loans and commitments made during 2021	54,915		\$ 17,649,658	
2. Total loans and commitments made during 2021 to young farmers and ranchers	11,112	20.23 %	\$ 1,731,558	9.81 %
3. Total loans and commitments made during 2021 to beginning farmers and ranchers	18,308	33.34 %	\$ 3,355,691	19.01 %

The following table summarizes information regarding the combined District's new loans made to Small Farmers and Ranchers for the year ended December 31, 2021:

**Small Farmers and Ranchers
Gross New Business by Loan Size, Number/Volume of Loans
(dollars in thousands)**

Number/Volume	\$0- \$50,000	\$50,001 - \$100,000	\$100,001- \$250,000	\$250,001 and greater
1. Total number of new loans and commitments made during 2021	22,324	9,970	11,302	11,319
2. Total number of loans made to small farmers and ranchers during 2021	15,769	6,346	6,678	3,809
3. Number of loans to small farmers and ranchers as a % of total number of loans	70.64 %	63.65 %	59.09 %	33.65 %
4. Total gross loan volume of all new loans and commitments made during 2021	\$ 544,184	\$ 744,264	\$1,865,974	\$14,495,236
5. Total gross loan volume to small farmers and ranchers	\$ 373,094	\$ 468,424	\$1,079,815	\$2,076,930
6. Loan volume to small farmers and ranchers as a % of total gross new loan volume	68.56 %	62.94 %	57.87 %	14.33 %

COMMITMENTS AND CONTINGENCIES

On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from legal actions pending against AgFirst would be immaterial in relation to the financial position of AgFirst. Refer to Note 11, *Commitments and Contingencies*, in the Notes to the Financial Statements for additional information.

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 and had no significant impact.

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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

The following Accounting Standards Update (ASU) was issued by the Financial Accounting Standards Board (FASB):

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. A cross-discipline governance structure was also developed at the Bank. 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: <ol style="list-style-type: none"> 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 continues to be 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 will be adopted January 1, 2023.

Additional 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*, to the 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 & Analysis of Financial Condition & Results of Operations* included in this Annual Report to shareholders.

Unincorporated Business Entities

The Bank held no equity investment at December 31, 2021 in Unincorporated Business Entities (UBEs).

Description of Property

The following table sets forth certain information regarding the properties owned by the Bank at December 31, 2021, all of which are located in Columbia, South Carolina:

Location	Description
1115 Calhoun Street	Bank operations facility
1901 Main Street	Bank office building and adjacent parking facility, partially leased to tenants

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

Management's Discussion & Analysis of Financial Condition & Results of Operations, which appears in this Annual Report to shareholders 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 Bank.

The chief executive officer and all other senior officers of the Bank, together with their length of service at their present position, as well as positions held currently and during the last five years, are as follows:

Name and Title	Time in Position	Prior Experience	Other Business Interests
Leon T. Amerson, <i>President and Chief Executive Officer</i>	9.5 years		Member on the Finance Committee and Business Practices Committee of the Presidents Planning Committee of the Farm Credit System; Member of the Board of Directors of the Federal Farm Credit Banks Funding Corporation and Member of the Governance Committee; Member of the Executive Council of the National Council of Farmer Cooperatives; Member of the Board of Directors for Palmetto Agribusiness Council; Member of the Finance Committee for United Way of the Midlands; Member of the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee.
William E. Brown, <i>Senior Vice President and Chief Credit Officer</i>	4.5 years	Manager, Credit Integration/Commercial Credit Executive at First Citizens Bank and Trust of North Carolina 2014 to 2016	
James A. Bumgarner <i>Senior Vice President and Chief Administrative Officer</i>	0.25 years	Chief Stakeholder Relationship Officer May 2021 to October 2021, Vice President and Director of Association Relationships July 2016 to May 2021	Board Member of the Farm Credit Captive Insurance Company.
Stephen F. Ciambrone, <i>Senior Vice President and Chief Information Officer</i>	2.25 years	Director of Information Technology June 2019 to September 2019, Managing Director at CitiGroup 2008 to 2018	
Stephen Gilbert, <i>Senior Vice President and Chief Financial Officer</i>	4.75 years	Vice President and Controller August 2009 to March 2017	Member of the Farm Credit System Disclosure Committee; Appointed Member and Chair of the AgFirst/FCBT Plan Fiduciary Committee.
Frances S. Griggs, <i>Senior Vice President and General Counsel</i>	4.75 years	Vice President and Assistant General Counsel July 2013 to March 2017	Chairperson of the Girl Scouts of South Carolina – Mountains to Midlands.
Juan Silvera, <i>Senior Vice President and Chief Marketing Officer</i>	0.25 years	Executive Director, Marketing, Brand and Product Management 2020 to October 2021, Chief Marketing Officer at RaboBank N.A. from 2016 to 2020	
Chad E. Toney, <i>Senior Vice President and Chief Information Security Officer</i>	0.5 years	Vice President, Infrastructure and Operations July 2017 to June 2021, Vice President and Chief Information Security Officer 2013 to 2017	Member of Evanta Governing Body of Charlotte Information Security Officer community.
Daniel E. LaFreniere, <i>Senior Vice President and Chief Audit Executive</i>	8.5 years		

The total amount of compensation earned by the Chief Executive Officer (CEO) and the senior officers and other highly compensated employees (HCE) 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	Incentives	Deferred Comp.	Change in Pension Value (e)	Perq./ Other*	Total
Leon T. Amerson	2021	\$ 896,506	\$ 892,054	\$ 44,173	\$ 41,659	\$ 25,774	\$ 1,900,166
Leon T. Amerson	2020	\$ 862,033	\$ 984,714	\$ 35,844	\$ 1,197,297	\$ 27,993	\$ 3,107,881
Leon T. Amerson	2019	\$ 832,032	\$ 795,281	\$ 34,992	\$ 1,573,082	\$ 26,189	\$ 3,261,576
11 Officers/HCE (a) (b)	2021	\$ 3,302,532	\$ 2,068,677	\$ 238,986	\$ 93,210	\$ 1,313,267	\$ 7,016,672
8 Officers/HCE (c)	2020	\$ 2,815,094	\$ 2,314,545	\$ 174,446	\$ —	\$ 569,866	\$ 5,873,951
8 Officers (d)	2019	\$ 2,510,788	\$ 1,542,189	\$ 176,721	\$ —	\$ 824,396	\$ 5,054,094

* For all years, includes company contributions to 401(k) plan (see Note 9, Employee Benefit Plans, to the Financial Statements), group life insurance premiums, spousal travel and Bank-provided automobile. For 2021, also includes payment to a senior officer who left the Bank in 2021 of \$939,206 for separation pay and certain other compensation/benefits, and payment to one officer of accrued annual leave of \$883. For 2020, also includes payment to a highly compensated employee who joined the Bank in 2020 of \$280,000 for a sign-on payment. For 2019, also includes payment to senior officers of accrued annual leave of \$193,185 following adoption of a Senior Management Time-Off Policy, payment to a senior officer who left the Bank in 2019 of \$331,985 for separation pay and certain other compensation/benefits, and payment to a senior officer who joined the Bank in 2019 of \$50,000 for a sign-on payment.

- (a) Disclosure of information on the total compensation paid during 2021 to any senior officer, or to any other individual included in the aggregate, is available to shareholders upon request.
- (b) For 2021, includes ten senior officers and one highly compensated employee. Includes two senior officers who left the Bank during 2021.
- (c) For 2020, includes seven senior officers and one highly compensated employee.
- (d) For 2019, includes one senior officer who left the Bank during the year.
- (e) The changes in pension values as reflected in the table above resulted primarily from changes in the actuarial assumptions for discount rate and mortality and an additional year of benefit accrual. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

Pension Benefits Table
As of December 31, 2021

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2021
CEO:					
Leon T. Amerson	2021	AgFirst Farm Credit Retirement Plan	35.67	\$ 3,153,775	\$ —
Leon T. Amerson	2021	AgFirst Farm Credit Bank Supplemental Retirement Plan	35.67	7,404,417	—
				\$ 10,558,192	\$ —
Senior Officers and Highly Compensated Employees:					
1 Officer, excluding the CEO	2021	AgFirst Farm Credit Retirement Plan	21.50	\$ 1,482,580	\$ —
				\$ 1,482,580	\$ —

Executive Incentive Compensation Plan

In addition to a base salary, certain named senior officers may earn additional compensation under the Bank's Executive Incentive Plan, which has a short-term and a long-term component. Participation in the plan is at the sole discretion of the CEO or in the case of the CEO at the sole discretion of the Board of Directors. The objectives of this plan are to provide a market-competitive financial rewards package to executives, provide incentive for the achievement of the AgFirst short- and long-term business objectives and to provide the Bank the ability to attract and retain key executives. The plan's payments are based upon the Bank's achievement of certain performance factors including, but not limited to, capital adequacy, asset quality, profitability, liquidity, and sensitivity, and the senior officers' overall performance achievement as determined by an individual performance rating. Short-term incentive awards are shown in the year earned and payments are made in the first quarter of the following year.

The long-term component of the plan is subject to forfeiture based upon AgFirst's performance during the three-year performance period immediately following the plan year. Specifically, the long-term award for a particular plan year will be reduced by an amount equal to one-third of the original award for each subsequent year during the three-year performance period in which any one of the performance thresholds for capital adequacy or earnings is not achieved.

Long-term incentive award amounts are shown in the year accrued and are vested over a period of time composed of the plan year and the performance period subsequent to the end of the plan year. Incentive awards are forfeited if the participant fails to remain employed until the end of the performance period subsequent to the end of the plan year, unless the end of employment is due to the participant's death or disability, or the Board of Directors, in its sole discretion, determines that the participant should be paid all or a portion of the incentive awards. Effective with the 2021 plan year, the participant is eligible to receive a prorated long-term incentive award if the end of employment is due to retirement and the participant remained employed for at least one year of the performance period.

Retirement and Deferred Compensation Plans

The Bank'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 Bank is to offer benefit plans that are market competitive and aligned with the Bank's strategic objectives. The plans are designed to enable the Bank to proactively attract, retain, recognize and reward a highly skilled, motivated and diverse staff that supports the Bank's mission and that allows the Bank to align the human capital needs with the Bank'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" once age 55 is reached. 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 and/or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

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. For employees hired on or prior to December 31, 2002, the Bank 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 Bank 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. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired on or after January 1, 2003. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service.

Senior officers and other highly compensated employees 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 Bank.

Chief Executive Officer

Mr. Amerson participates in the AgFirst Farm Credit Retirement Plan, as described above.

Mr. Amerson participates in the AgFirst Farm Credit Bank Supplemental Retirement Plan, a nonqualified supplemental executive retirement plan. Benefits that would have accrued in the qualified defined benefit retirement plan in the absence of Internal Revenue Code limitations are made up through the nonqualified supplemental executive retirement plan. At the election of the retiree, benefits are paid based upon various annuity terms.

Mr. Amerson participates in the Farm Credit Benefits Alliance 401(k) Plan and the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, as described above.

Senior Officers

One senior officer participates in the AgFirst Farm Credit Retirement Plan, as described above.

Senior officers participate in the Farm Credit Benefits Alliance 401(k) Plan and the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, as described above.

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

Bank compensation plans are reviewed annually by the Board of Directors' Compensation Committee.

AgFirst Farm Credit Bank Board of Directors

The following represents the Board of Directors as of December 31, 2021:

Name	Current Term Expires	Principal Occupation, Board Committees and Other Affiliations
Ellis W. Taylor Age: 52 Board Appointment: 2012	12/2023	Principal Occupation: Owner/operator of Mush Island Farms, LLC, a row crop operation. Part owner of Roanoke Cotton Company, LLC, which operates cotton gins and a warehouse. Board Committees: Chairman of the Board; Chair of the Coordinating Committee and ex-officio member of all Board Committees Other Affiliations: Board member: AgCarolina Farm Credit, ACA and Chair of Audit Committee; Northampton County Farm Bureau; Northampton County Voluntary Ag District, a farmland preservation organization; and, Federal Farm Credit Banks Funding Corporation.
Michael T. Stone Age: 50 Board Appointment: 2015	12/2022	Principal Occupation: Owner/operator of P & S Farms, Inc. and Bo Stone Farms, LLC, diverse farming operations. Board Committees: Vice Chairman of the Board; Coordinating, Governance and Compensation Committees Other Affiliations: Board member: Cape Fear Farm Credit, ACA; Southeastern Health hospital; North Carolina Farm Bureau Energy and Transportation Committee; The Farm Credit Council, and Farm Credit Council Services. Appointed member and Chair: AgFirst Plan Sponsor Committee; AgFirst/FCBT Plan Sponsor Committee.
Gary L. Baldosser Age: 55 Board Appointment: 2020	12/2023	Principal Occupation: Owner/operator Baldosser Farms, Inc., a cow/calf and row crop operation and Garbec Farms, a family land holding entity. Board Committees: Audit Committee Other Affiliations: Board member: AgCredit Agricultural Credit Association; Sunrise Co-op Clyde Condominium Association, a condominium grain storage association; Trustee: Tri-Grain, LLC, a family land holding entity; member: Bloc-B, LLC, a family land holding entity.

<p>Jack W. Bentley, Jr. Age: 64 Board Appointment: 2019</p>	<p>12/2022</p>	<p>Principal Occupation: Owner/operator A&J Dairy, a dairy, beef, pasture, crop and timberland operation.</p> <p>Board Committees: Audit Committee</p> <p>Other Affiliations: Board member: AgFirst Plan Sponsor Committee; Chairman - AgGeorgia Farm Credit, ACA; Chairman - USDA Farm Service Agency; American Dairy Association; Lone Star Milk Producers and Wilkes County Farm Bureau.</p>
<p>Jenny R. Black Age: 47 Board Appointment: 2018</p>	<p>12/2023</p>	<p>Principal Occupation: Certified Project Manager and owner/operator Jenny Black Consulting, LLC, an information technology consulting company. Serves as manager for citrus and agricultural operations of Ridge Investments, LLC, Black & Myers Properties and BHB Holdings, LLC.</p> <p>Board Committees: Risk Policy Committee</p> <p>Other Affiliations: Board member: Farm Credit of Central Florida, ACA; The Farm Credit Council; Polk County Florida 4-H Foundation, a youth agricultural organization; Volunteers in Service to the Elderly, a non-profit whose mission is to assist the elderly with independent living; All Saints Academy Independent School.</p>
<p>Sherry E. Bowden Age: 60 Board Appointment: 2020</p>	<p>12/2023</p>	<p>Principal Occupation: Retired CFO State Street Corporation, a financial services organization; Certified public accountant and certified personal property appraiser.</p> <p>Board Committees: Audit Committee (designated financial expert)</p> <p>Other Affiliations: Member: South Carolina Association of CPAs, National Society of Accountants for Cooperatives.</p>
<p>William J. Franklin, Jr. Age: 64 Board Appointment: 2018</p>	<p>12/2021</p>	<p>Principal Occupation: Owner/operator Franklin Farms, a cow/calf operation. CEO of Scott County Telephone Cooperative, a telecommunications company.</p> <p>Board Committees: Risk Policy Committee</p> <p>Other Affiliations: Board member: Scott County Cattle Association; Southwest Virginia Workforce Development, which offers re-employment and training programs; Carolina-Virginia Telephone Membership Association; National Rural Broadband PAC; IRIS Networks, a telecommunications entity; LIT Networks, a telecommunications entity; Member: Farm Credit of the Virginias, ACA.</p>
<p>Bonnie V. Hancock Age: 60 Board Appointment: 2010</p>	<p>12/2021</p>	<p>Principal Occupation: Professor of Practice and Executive Director of the Enterprise Risk Management Initiative at North Carolina State University, teaching courses in financial management, enterprise risk management and strategy and financial statement analysis.</p> <p>Board Committees: Coordinating and Chair of Risk Policy Committee</p> <p>Other Affiliations: Board member: North Carolina Coastal Pines Girl Scouts Council; National Association of Corporate Directors - Research Triangle Chapter, an organization for the advancement of exemplary board leadership.</p>
<p>William K. Jackson Age: 66 Board Appointment: 2013</p>	<p>12/2024</p>	<p>Principal Occupation: Partner in Jackson Farms, a dairy operation with other farming interests. President of Jackson Farms 2, LLC, a small dairy processing facility that bottles milk, makes ice cream, and operates a convenience store. President of Jackson Farms 3, LLC and Jackson Farms Limited Partnership, which are involved in the production of natural gas.</p> <p>Board Committees: Compensation, Coordinating and Chair of Governance Committees</p> <p>Other Affiliations: Board member: AgChoice Farm Credit, ACA; The Farm Credit Council; President of Fayette County Agricultural Improvement Association Board, a local county fair; Penn State Fayette, Eberly Campus Advisory Board, which oversees campus community involvement.</p>

<p>J. Alvin Lyons</p> <p>Age: 64</p> <p>Board Appointment: 2018</p>	<p>12/2021</p>	<p>Principal Occupation:</p> <p>Owner/operator of Lyons Family Farms, a farming operation of row crops. Serves as Magistrate of Scott County Fiscal Court, the legislative body for the county government.</p> <p>Board Committees:</p> <p>Audit Committee</p> <p>Other Affiliations:</p> <p>Board member: Central Kentucky Agricultural Credit Association; Scott County Farm Bureau; Scott County Rural Land Management, which focuses on land preservation; Scott County Beef Improvement Association, which provides beef promotion and education; Chair: Independent Associations' Retirement Plan Sponsor Committee.</p>
<p>S. Alan Marsh</p> <p>Age: 67</p> <p>Board Appointment: 2010</p>	<p>12/2021</p>	<p>Principal Occupation:</p> <p>Partner in Marsh Farms Inc., an operation consisting of row crops.</p> <p>Board Committees:</p> <p>Risk Policy Committee</p> <p>Other Affiliations:</p> <p>Board member: First South Farm Credit, ACA; Limestone County Farmers Federation, an agricultural trade organization; and Staplcotn, a cotton cooperative association; President and stockholder: South Limestone Co-op Gin, a cotton ginning operation.</p>
<p>Fred R. Moore, Jr.</p> <p>Age: 69</p> <p>Board Appointment: 2014</p>	<p>12/2021</p>	<p>Principal Occupation:</p> <p>President of Fred R. Moore & Son, Inc. d/b/a Collins Wharf Sod, a turf and grain operation. Partner of F&E Properties, LLC, a rental business. Partner of F&E Moore Properties, LLC, a land holding partnership.</p> <p>Board Committees:</p> <p>Coordinating, Governance and Chair of Board Compensation Committees</p> <p>Other Affiliations:</p> <p>Board member: MidAtlantic Farm Credit, ACA; Wicomico Soil Conservation District; Wicomico County Farm Bureau; Allen Volunteer Fire Company.</p>
<p>Michael W. Patrick</p> <p>Age: 56</p> <p>Board Appointment: 2020</p>	<p>12/2023</p>	<p>Principal Occupation:</p> <p>Partner in Patrick Farms Joint Venture, a cotton, corn, soybean and timber operation.</p> <p>Board Committees:</p> <p>Compensation and Governance Committees</p> <p>Other Affiliations:</p> <p>Board member: First South Farm Credit, ACA; Commissioner: Madison County Soil and Water Commission; Member: Madison County USDA FSA County Committee.</p>
<p>Thomas E. Porter, Jr.</p> <p>Age: 68</p> <p>Board Appointment: 2019</p>	<p>12/2022</p>	<p>Principal Occupation:</p> <p>President of Porter Farms, Inc., a farming operation consisting of a sow farrow to wean hog operation, poultry, pullet houses and breeder hen houses, cow/calf operation, and greenhouses. Manages the Farm at Brush Arbor, LLC, an agritourism business on the farm.</p> <p>Board Committees:</p> <p>Risk Policy Committee</p> <p>Other Affiliations:</p> <p>Board member: Cabarrus County Ag Advisory, an agricultural trade and promotion organization; Union Power Cooperative; Three Rivers Land Trust; Cabarrus County Farm Bureau (president); Cabarrus County Extension Advisory (chairman); Cabarrus County Soil and Water Conservation District; Water Committee for the American Farm Bureau; Food Innovation Committee; Commissioners Circle North Carolina Commissioner of Agriculture; Member: Carolina Farm Credit, ACA.</p>
<p>William T. Robinson</p> <p>Age: 54</p> <p>Board Appointment: 2016</p>	<p>12/2023</p>	<p>Principal Occupation:</p> <p>Owner/operator of Robinson Family Farm, which consists of corn, cattle and timber. Owner/operator of MMR Consultants, LLC, a business consulting firm specializing in utility and industrial market segments. Former Executive Director for the SEFA Group, an engineering, construction, and transportation company. Retired from the Department of Treasury and Corporate Financial Planning at Santee Cooper.</p> <p>Board Committees:</p> <p>Coordinating and Chair of Audit Committees</p> <p>Other Affiliations:</p> <p>Board member: AgSouth Farm Credit, ACA; Orangeburg-Calhoun Technical College Foundation; Tri-County Electric Cooperative; Member: Farm Credit System Audit Committee.</p>

Fred R. Moore, Jr. was re-elected for a four-year term beginning January 1, 2022.

The following new directors will also serve four-year terms beginning January 1, 2022:

Name	Current Term Expires	Principal Occupation, Board Committees and Other Affiliations
Dwain K. Lanier Age: 66 Board Appointment: 2022	12/2025	Principal Occupation: Managing Partner of Pareto Consulting LLC, a performance consulting business. President of Aspire Higher LLC, a real estate rental company. Retired Vice President of Operational and Regulatory Assurance for Tennessee Valley Authority, a federally owned electric utility company. Board Committees: Risk Policy Committee Other Affiliations: Board member: Southeast Raleigh YMCA, a non-profit youth and community organization.
John Whitworth Player Age: 55 Board Appointment: 2022	12/2025	Principal Occupation: Owner/operator of J. Whit Player Farms, a farming operation. Owner/operator of Players Stoney Run Farms, a farming operation. Vice President and part owner of St. Charles Gin Company, a cotton ginning company. Forestry Technician, South Carolina Forestry Commission, a state agency overseeing forestry management. Board Committees: Risk Policy Committee Other Affiliations: Board member: ArborOne, ACA; Carolina Cotton Growers Cooperative, a cotton marketing organization; SC Boll Weevil Eradication Program, an agricultural organization. Part Owner: Canoe Slough LLC, a recreational land holding entity.
David L. Richesin Age: 55 Board Appointment: 2022	12/2025	Principal Occupation: Owner/operator of Cherry Brook Farm, a farming operation. Board Committees: Audit Committee Other Affiliations: Board member: Chairman - River Valley AgCredit, ACA; Board President - London County Farm Bureau; Tennessee Farm Bureau Federation, a lobbying organization; Tennessee Farmers Service, an accounting and tax services organization; Tennessee Rural Health, a health insurance service organization; Tennessee Farmers Mutual, an insurance provider.

Committees

The Board has established an Audit Committee, Compensation Committee, Risk Policy Committee, Governance Committee and Coordinating Committee. All members of the Board, other than the Chairman, serve on a committee. The Chairman of the Board serves as an ex-officio member of all Board committees and the Vice Chairman serves as a member of the Board Compensation Committee. The Board has one designated financial expert who serves on the Audit Committee. The responsibilities for each committee are set forth in its respective Board approved charter.

During February 2022, the Board elected Michael T. Stone as Chairman of the Board and William T. Robinson as Vice Chairman of the Board for 2022. The Board elected the following Chairpersons to the Board Committees for 2022: Sherry E. Bowden - Audit Committee; Jenny R. Black - Risk Policy Committee; William K. Jackson - Governance Committee; Michael T. Stone - Coordinating Committee; and, Fred R. Moore, Jr. - Compensation Committee.

Compensation of Directors

Directors were compensated in 2021 in cash at the rate of \$79,568 per year, payable at \$6,631 per month. This is compensation for attendance at Board meetings, Board committee meetings, certain other meetings pre-approved by the Board and other duties as assigned. Farm Credit Administration (FCA) regulations also allow additional compensation to be paid to a director in exceptional circumstances where extraordinary time and effort are involved. In this regard, additional compensation was paid for certain leadership positions on the Board, including the Chairman of the Board, Vice Chairman of the Board, Chair of each Board standing committee as well as to members of the Board Audit Committee in recognition of greater than normal participation in Board activities. Total cash compensation paid to all directors as a group during 2021 was \$1,291,020. Directors received no non-cash compensation during 2021. Additional information for each director who served during 2021 is provided in the following table.

Name of Director	Number of Days Served			Total Comp. Paid During 2021
	Board Meetings	Other Official Activities*	Farm Credit Council Bd. Activities	
Gary L. Baldosser	16.25	11.25	4.50	\$ 87,068
Jack W. Bentley, Jr.	16.25	11.25	1.50	87,068
Jenny R. Black	16.25	8.50	4.50	79,568
Sherry E. Bowden	16.25	16.25	1.50	87,068
William J. Franklin, Jr.	11.75	6.25	4.50	79,568
Bonnie V. Hancock	16.25	11.25	1.50	87,068
William K. Jackson	16.25	15.50	4.50	87,068
J. Alvin Lyons	16.25	11.75	4.50	87,068
S. Alan Marsh	15.75	8.00	1.50	79,568
Fred R. Moore, Jr.	16.25	15.75	4.50	87,068
Michael W. Patrick	16.25	12.50	1.50	79,568
Thomas E. Porter, Jr.	16.25	8.25	1.50	79,568
William T. Robinson	16.25	14.25	1.50	94,568
Michael T. Stone**	16.25	15.50	4.50	89,568
Ellis W. Taylor	16.25	16.50	3.00	99,568
Total				<u>\$1,291,020</u>

* Other official activities include Board committee meetings and Board training.

** Does not include 3.0 days served as Board-appointed member of the AgFirst and AgFirst/FCBT Plan Sponsor Committees.

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 upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$33,500 for 2021, \$21,809 for 2020, and \$161,942 for 2019.

Transactions with Senior Officers and Directors

The Bank's disclosure on loans to and transactions with its officers and directors, to be disclosed in this section, is incorporated herein by reference to Note 10, *Related Party Transactions*, to the Financial Statements included in this Annual Report to shareholders. Such loans are subject to special approval requirements contained in the FCA regulations and were made on the same terms, including interest rate, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons. No loan to a director or to any organization affiliated with such person, or to any immediate family member who resides in the same household as such person or in whose loan or business operation such person has a material financial or legal interest, involved more than the normal risk of collectability.

There have been no transactions between the Bank and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the Board of Directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Registered Public Accounting Firm

There were no changes in or material disagreements with the Bank's independent registered public accounting firm on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees expensed by the Bank for services rendered by its independent registered public accounting firm for the year ended December 31, 2021 were as follows:

	<u>2021</u>
<i>Independent Registered Public Accounting Firm</i>	
PricewaterhouseCoopers LLP (PwC)	
Audit services	\$ 1,023,400
Audit-related services	73
Non-audit services	<u>50,900</u>
Total	<u>\$ 1,074,373</u>

Audit fees of \$1,023,400 were for the annual audits of financial statements of the Bank and District. Audit-related fees were for benefit plan audits. Non-audit fees of \$50,900 were for Farmer Mac minimum servicing standards attestation and a disclosure checklist software subscription. Out-of-pocket expenses are included in the fee amounts reported above.

All non-audit services provided by PwC require pre-approval by the Audit Committee.

Financial Statements

The 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 to shareholders are incorporated herein by reference.

Borrower Information Regulations

FCA regulations require that borrower information be held in strict confidence by Farm Credit 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 Farm Credit 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 to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Shareholder Investment

Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's Annual and Quarterly Reports and combined information concerning AgFirst Farm Credit Bank and District Associations are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, VP and Controller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. This information can also be obtained at the Bank's website, 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 each Quarterly Report within 40 days after the end of each fiscal quarter, except that no report is prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Additional Required Regulatory Capital Disclosures

The following disclosures contain regulatory disclosures as required for the Bank under Regulation §628.62 and §628.63 for risk-adjusted ratios: common equity tier 1 capital, tier 1 capital and total capital ratios. As required, these disclosures are made available for at least three years and can be accessed via AgFirst's website at www.agfirst.com.

DISCLOSURE MAP

Disclosure Requirement	Description	2020 Annual Report Reference
Scope of Application	Corporate entity and structure	Note 1
	Restrictions of capital	Note 7, section F
Capital Structure	Terms and conditions of capital instruments	Note 7, sections A through E
Credit Risk: General	Qualitative disclosures	Note 2, section B; Note 3
	Distribution of risk exposure	Note 3; Note 4
	Loans by loan type	Note 3
	Major industry type	Note 3, Loan Portfolio section of MD&A
	Composition of Direct Notes	Direct Notes section of MD&A
	Allowance for Loan Loss Reconciliation	Note 3
Interest Rate Risk for Non-Trading Activities	Quantitative & qualitative disclosure requirements	Interest Rate Risk Management section of MD&A

SCOPE OF APPLICATION

AgFirst Farm Credit Bank (AgFirst or the Bank) is one of the four banks of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, established by Congress and subject to the provisions of the Farm Credit Act of 1971, as amended. The Bank prepares financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry.

As of December 31, 2021, the AgFirst District consisted of the Bank and 19 District Associations. All 19 were structured as Agricultural Credit Association (ACA) holding companies, with Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries. AgFirst is owned jointly by these 19 Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders. The Bank does not have any subsidiaries requiring consolidation; therefore, there are no consolidated entities for which the total capital requirement is deducted, there are no restrictions on transfer of funds or total capital with other consolidated entities and no subsidiary exists which is below the minimum total capital requirement individually or when aggregated at the Bank's level. In conjunction with other System entities, the Bank jointly owns certain service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the FCS Building Association (FCSBA), and the Farm Credit Association Captive Insurance Corporation (Captive). Certain of the Bank's investments in other System institutions, including the investment in the Funding Corporation and FCSBA, are deducted from capital for purposes of calculating regulatory capital ratios, as only the institution that issued the equities may count the amount as regulatory capital.

CAPITAL STRUCTURE

Descriptions of the Bank's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are included in Note 7, *Shareholders' Equity*, of the Notes to the Financial Statements.

The table below outlines the Bank's capital structure for the capital adequacy calculations as of December 31, 2021:

<i>(dollars in thousands)</i>	Ending Balance	3-Month Average Daily Balance
Common Equity Tier 1 Capital (CET1)		
Common cooperative equities:		
Statutory minimum purchased borrower stock	\$ 23	\$ 23
Other required member purchased stock	99,171	112,724
Allocated equities:		
Allocated stock subject to retirement	199,937	198,973
Nonqualified allocated surplus subject to retirement	416	416
Unallocated retained earnings	1,888,462	2,291,812
Paid-in capital	63,673	63,673
Regulatory adjustments and deductions made to CET1*	(81,075)	(77,758)
Total CET1	<u>\$ 2,170,607</u>	<u>\$ 2,589,863</u>
Additional Tier 1 Capital (AT1)		
Non-cumulative perpetual preferred stock	\$ 32,500	\$ 32,500
Regulatory adjustments and deductions made to AT1	—	—
Total AT1	<u>\$ 32,500</u>	<u>\$ 32,500</u>
Total Tier 1 Capital	<u>\$ 2,203,107</u>	<u>\$ 2,622,363</u>
Tier 2 Capital		
Allowance for loan losses	\$ 20,147	\$ 19,812
Reserve for unfunded commitments	588	581
Regulatory adjustments and deductions made to total capital	—	—
Total Tier 2 Capital	<u>\$ 20,735</u>	<u>\$ 20,393</u>
Total Capital	<u>\$ 2,223,842</u>	<u>\$ 2,642,756</u>
Reconciliation to Balance Sheets:		
Allowance for loan losses	\$ (20,147)	
Reserve for unfunded commitments	(588)	
Intra-system investments	81,075	
Accumulated other comprehensive income	18,598	
Total Capital per Balance Sheets	<u>\$ 2,302,780</u>	

* Primarily investments in other System institutions.

CAPITAL ADEQUACY AND CAPITAL BUFFERS

In conjunction with the annual business and financial planning process, the Board of Directors reviews and approves a capital adequacy plan which includes target levels for capital and capital ratio baselines. When reviewing the capital adequacy plan and setting an appropriate target equity level, the Board considers the following: credit risk and allowance levels; quality and quantity of earnings; sufficiency of liquid funds; operational risk; interest rate risk; growth in determining optimal capital levels; the Bank's overall risk profile; capability of management; quality of operating policies, procedures, and internal controls; capital composition; loan volume projections; anticipated future capital needs; and the Bank's capital levels in comparison to regulatory minimum capital standards.

The Board balances the desire to distribute a level of patronage that provides appropriate returns to the Bank's customer/owners with the need to properly capitalize the Bank. The Board may increase or decrease these patronage levels based on its ongoing evaluation of the Bank's business. As a result, there is no assurance that patronage will remain at current levels.

As part of its business planning process, the Bank performs stress tests to examine the Bank's financial condition and performance, including capital levels, under a variety of market and economic environments, including unanticipated loan growth and prolonged periods of financial and loan quality stress. These stress tests illustrate the Bank's ability to continue to maintain compliance with regulatory requirements through severe market conditions while continuing to fulfill the Bank's mission. Results of these stress tests are reviewed with the Board of Directors and the FCA.

The table below outlines the Bank's risk-weighted assets by exposure (including accrued interest of that exposure) as of December 31, 2021. Risk-weighted assets are calculated on a three-month average daily balance.

<i>(dollars in thousands)</i>	Ending Balance	Risk-Weighted Assets
Exposures to:		
Government-sponsored entities, including Direct Notes to Associations	\$ 29,497,780	\$ 4,897,469
Depository institutions	625,288	26,549
Corporate exposures, including borrower loans and leases	6,366,634	5,875,438
Residential mortgage loans	2,076,380	1,036,001
Past due > 90 days and nonaccrual loans	40,960	41,174
Securitizations	353,157	76,285
Exposures to obligors and other assets	231,420	150,912
Off-balance sheet exposures	6,477,129	1,915,901
Total	\$ 45,668,748	\$ 14,019,729
Reconciliation to Balance Sheets:		
Off-balance sheet exposures	(6,477,129)	
Allowance for loan losses not risk-weighted	(20,147)	
Intra-system investments not risk-weighted	81,075	
AFS mark to market not risk-weighted	22,007	
Total Assets per Balance Sheets	\$ 39,274,554	

As of December 31, 2021, the Bank exceeded all capital requirements to which it was subject, including applicable capital buffers. The Bank's risk-adjusted capital ratios exceeded the regulatory minimum levels, including the conservation buffer by at least 8.35 percent. Additionally, the Bank's leverage ratio was 1.87 percent in excess of its required minimum leverage ratio, including the buffer. If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The following sets forth the regulatory capital ratios:

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	4.50%	2.50%	7.00%	18.47%	18.99%	18.90%
Tier 1 Capital	6.00%	2.50%	8.50%	18.70%	19.36%	19.29%
Total Capital	8.00%	2.50%	10.50%	18.85%	19.51%	19.45%
Permanent Capital	7.00%	0.00%	7.00%	18.73%	19.39%	19.32%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.00%	1.00%	5.00%	6.87%	7.09%	7.10%
URE and UREE Leverage	1.50%	0.00%	1.50%	6.09%	6.18%	6.17%

* The Tier 1 Leverage Ratio must include a minimum of 1.5% of URE and URE Equivalents.

CREDIT RISK: GENERAL

System entities have specific lending authorities within their chartered territories. The Bank is subject to credit risk by lending to the District's Federal Land Credit Associations (FLCAs), Production Credit Associations (PCAs) and Agricultural Credit Associations (ACAs) as well as Other Financing Institutions (OFIs). The Bank also purchases participations and syndications and first lien residential mortgage loans. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired based on characteristics such as probability of default (PD) and loss given default (LGD). Allowance needs by geographic region are only considered in rare circumstances that may not otherwise be reflected in the PD and LGD (flooding, drought, etc.). There was no allowance attributed to a geographic area as of December 31, 2021.

Refer to Note 2, *Summary of Significant Accounting Policies*, of the accompanying financial statements for the Bank's policy for determining past due or delinquency status, policy for placing loans on nonaccrual status, policy for returning loans to accrual status, definition of and policy for identifying impaired loans, description of the methodology used to estimate allowance for loan losses, and policy for charging-off uncollectible amounts. Refer to Note 3, *Loans and Allowance for Loan Losses*, and Note 4, *Investments*, in the Notes to the Financial Statements for quantitative disclosures related to the Bank's credit risk.

CREDIT RISK MITIGATION

Credit Risk Mitigation Related to Loans

The Bank uses various strategies to mitigate credit risk in its lending portfolio. As described in Note 1, *Organization and Operations*, in the Notes to the Financial Statements, a substantial portion of the loan balance is concentrated in notes receivable from the District Associations to fund their earning assets, which collateralize the notes. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their respective retail loan portfolios.

The Bank and District Associations limit their exposure to both borrower and commodity concentrations through the District Associations' and Bank's participation in loans or interests in loans to/from other institutions within the System and outside the System. This also allows the Bank and District Associations to manage growth and capital, and to improve geographic diversification. Concentration risk is reviewed and measured by industry, product, geography and customer limits.

Although neither the Bank nor any other System institution receives any direct government support, credit quality is indirectly enhanced by government support in the form of program payments to borrowers, which improve their ability to honor their commitments.

The following table illustrates credit risk mitigants within AgFirst's loan portfolio which reduce capital requirements as of December 31, 2021:

<i>(dollars in thousands)</i>	Ending Balance	3-Month Average Balance	Risk- Weighted Exposures	% of Total Loans
Loans with unconditional guarantee	\$ 23,147	\$ 37,258	\$ —	— %
Loans with conditional guarantee	721,341	746,258	149,252	3 %
Direct Notes	19,778,813	19,371,049	3,874,210	69 %
Total	<u>\$ 20,523,301</u>	<u>\$ 20,154,565</u>	<u>\$ 4,023,462</u>	<u>72 %</u>

An additional technique to reduce credit risk is AgFirst's monitoring for commodity and geographic concentrations. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the largest agricultural commodity of the customer.

The Bank's credit risk associated with its Direct Note portfolio approximates that of the aggregate District Associations' portfolios as a whole. The Associations' credit portfolios are comprised of a number of segments having varying, and in some cases complementary, agricultural characteristics. Excluding accrued interest receivable, at December 31, 2021, the Bank's Direct Note portfolio totaled \$19.740 billion and aggregate District Associations' loan portfolios totaled \$26.103 billion. For geographic and commodity distributions for the District Associations' total loan portfolio, see *Direct Notes* in the *Loan Portfolio* section in Management's Discussion and Analysis.

The following table illustrates AgFirst's loan portfolio by geographic distribution at December 31, 2021. This table includes the Bank's Direct Notes in total and does not include accrued interest.

AgFirst Loan Portfolio by State						
<i>(dollars in thousands)</i>	At Period End			Year-to-Date Average Balance		
	Outstanding Loans	Unfunded Amounts	Total Exposure	Outstanding Loans	Unfunded Amounts	Total Exposure
North Carolina	\$ 1,339,277	\$ 241,881	\$ 1,581,158	\$ 1,361,853	\$ 174,709	\$ 1,536,562
Georgia	1,050,755	433,535	1,484,290	987,029	398,158	1,385,187
Florida	640,891	354,011	994,902	611,729	350,485	962,214
Texas	487,578	181,883	669,461	437,268	137,546	574,814
Minnesota	350,535	268,627	619,162	329,385	278,159	607,544
Virginia	443,402	111,440	554,842	457,209	78,531	535,740
South Carolina	432,280	86,685	518,965	435,133	59,598	494,731
Ohio	301,763	147,243	449,006	209,151	102,410	311,561
Pennsylvania	293,689	152,309	445,998	223,178	140,096	363,274
California	316,202	112,127	428,329	312,817	91,088	403,905
New York	295,164	125,823	420,987	277,175	106,439	383,614
Illinois	195,925	136,554	332,479	176,390	107,120	283,510
Missouri	161,780	159,984	321,764	178,097	110,982	289,079
Louisiana	167,705	131,329	299,034	174,542	124,354	298,896
Maryland	274,113	12,205	286,318	279,325	15,815	295,140
Kentucky	224,070	10,183	234,253	216,652	5,702	222,354
Mississippi	54,957	160,848	215,805	53,879	125,702	179,581
Tennessee	102,467	96,625	199,092	58,916	62,900	121,816
All other states	1,663,496	982,048	2,645,544	1,616,091	844,877	2,460,968
Direct Notes	19,739,633	2,601,766	22,341,399	18,540,983	2,527,629	21,068,612
Total loans	\$ 28,535,682	\$ 6,507,106	\$ 35,042,788	\$ 26,936,802	\$ 5,842,300	\$ 32,779,102

The following table shows the various major commodity groups in the portfolio based on borrower eligibility at December 31, 2021. This table includes the Bank's Direct Notes in total and does not include accrued interest.

AgFirst Loan Portfolio by Commodity Group Based on Eligibility						
<i>(dollars in thousands)</i>	At Period End			Year-to-Date Average Balance		
	Outstanding Loans	Unfunded Amounts	Total Exposure	Outstanding Loans	Unfunded Amounts	Total Exposure
Rural Home Loans	\$ 2,784,760	\$ 146,884	\$ 2,931,644	\$ 2,814,348	\$ 96,918	\$ 2,911,266
Processing	1,185,847	989,659	2,175,506	1,068,271	744,004	1,812,275
Utilities	1,145,380	891,568	2,036,948	1,055,237	726,804	1,782,041
Forestry	1,022,183	414,341	1,436,524	893,833	415,455	1,309,288
Field Crops	420,012	189,672	609,684	371,732	214,435	586,167
Tree Fruits and Nuts	265,350	180,081	445,431	227,088	171,586	398,674
Grains	162,746	137,999	300,745	187,990	104,334	292,324
Swine	212,321	78,063	290,384	175,119	76,197	251,316
Dairy	187,515	62,529	250,044	173,570	62,479	236,049
Nursery/Greenhouse	168,234	67,741	235,975	158,361	74,182	232,543
Other Real Estate	184,762	17,057	201,819	194,428	16,959	211,387
Cattle	151,193	48,334	199,527	146,092	45,961	192,053
Other	905,746	681,412	1,587,158	929,750	565,357	1,495,107
Direct Notes	19,739,633	2,601,766	22,341,399	18,540,983	2,527,629	21,068,612
Total loans	\$ 28,535,682	\$ 6,507,106	\$ 35,042,788	\$ 26,936,802	\$ 5,842,300	\$ 32,779,102

The following table segregates loans based upon repayment dependency by commodity at December 31, 2021. This table includes the Bank's Direct Notes in total and does not include accrued interest.

	At Period End			Year-to-Date Average Balance		
	Outstanding Loans	Unfunded Amounts	Total Exposure	Outstanding Loans	Unfunded Amounts	Total Exposure
<i>(dollars in thousands)</i>						
Non-Farm Income	\$ 3,142,629	\$ 195,963	\$ 3,338,592	\$ 3,127,162	\$ 153,144	\$ 3,280,306
Processing	1,178,669	1,004,206	2,182,875	1,074,566	752,119	1,826,685
Utilities	1,107,011	891,567	1,998,578	1,055,253	726,805	1,782,058
Forestry	893,668	387,643	1,281,311	761,082	397,500	1,158,582
Field Crops	452,628	195,525	648,153	393,802	225,146	618,948
Tree Fruits and Nuts	236,441	157,849	394,290	208,006	147,914	355,920
Grains	184,003	143,662	327,665	193,973	107,940	301,913
Swine	172,169	78,063	250,232	130,535	76,197	206,732
Dairy	181,924	62,529	244,453	172,140	61,932	234,072
Poultry	120,100	89,796	209,896	116,041	59,865	175,906
Other Real Estate	186,158	4,543	190,701	197,591	5,238	202,829
Other	940,649	693,994	1,634,643	965,668	600,871	1,566,539
Direct Notes	19,739,633	2,601,766	22,341,399	18,540,983	2,527,629	21,068,612
Total loans	\$ 28,535,682	\$ 6,507,106	\$ 35,042,788	\$ 26,936,802	\$ 5,842,300	\$ 32,779,102

A significant source of liquidity for the Bank is the repayments of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end. This table does not include accrued interest.

	December 31, 2021				
	Due Less Than 1 Year	Due 1 Through 5 Years	Due 5 to 15 Years	Due After 15 Years	Total
<i>(dollars in thousands)</i>					
Direct Notes	\$ 1,620,169	\$ 4,326,508	\$ 8,071,140	\$ 5,721,816	\$ 19,739,633
Real estate mortgage	4,901	279,019	590,138	279,671	1,153,729
Production and intermediate-term	183,792	609,410	239,086	—	1,032,288
Loans to cooperatives	96,181	298,575	132,362	—	527,118
Processing and marketing	73,348	1,079,525	508,894	19,015	1,680,782
Farm-related business	450	44,646	8,227	26,565	79,888
Communication	—	207,021	338,678	—	545,699
Power and water/waste disposal	62,205	294,432	254,744	137,182	748,563
Rural residential real estate	97,635	22,723	378,440	2,285,963	2,784,761
International	—	38,263	38,476	—	76,739
Lease receivables	—	—	2,273	—	2,273
Loans to OFIs	2,038	157,023	—	—	159,061
Other (including Mission Related)	—	334	1,171	3,643	5,148
Total loans	\$ 2,140,719	\$ 7,357,479	\$ 10,563,629	\$ 8,473,855	\$ 28,535,682
Percentage	7.50 %	25.78 %	37.02 %	29.70 %	100.00 %

The following table illustrates AgFirst's impaired loans by geographic distribution at December 31, 2021. This table does not include accrued interest.

Total Outstanding Impaired Loans by State			
<i>(dollars in thousands)</i>	At Period End		Year-to-Date Average Balance
North Carolina	\$	24,854	\$ 17,822
Texas		14,073	10,254
Georgia		4,988	3,684
South Carolina		4,396	2,862
Arkansas		3,643	3,720
Maryland		2,193	1,715
Virginia		1,911	2,071
Florida		1,878	2,191
Tennessee		1,513	844
Kentucky		1,318	1,206
Pennsylvania		1,124	1,131
All other states		3,716	3,551
Total impaired loans	\$	65,607	\$ 51,051

The Bank does not use credit default swaps as part of its credit risk management approach.

Credit Risk Mitigation Related to Investments

Credit risk in AgFirst's investment portfolio is largely mitigated by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies.

The following table shows the investment exposures covered by a guarantee as of December 31, 2021. This table does not include accrued interest.

<i>(dollars in thousands)</i>	Amortized Cost	Fair Value	% of Total Investments	Risk- Weighted Exposures
Unconditional Guarantee:				
U.S. Govt. Treasury Securities	\$ 342,762	\$ 342,113	4 %	\$ —
U.S. Govt. Guaranteed	4,131,704	4,165,087	45 %	—
Conditional Guarantee:				
U.S. Govt. Agency Guaranteed	4,469,097	4,456,902	48 %	874,635
Total	\$ 8,943,563	\$ 8,964,102	97 %	\$ 874,635

The remaining credit risk in the Bank's investment portfolio primarily relates to the three percent of the portfolio composed of asset-backed securities (ABS), Rural Housing Mortgage-Backed Securities (RHMS) and Rural America Bonds (RABs). The ABS securities must meet the applicable FCA regulatory guidelines, which require them to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve these ratings, the securities may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, priority of payments for senior classes over junior classes, or bond insurance.

All of the non-agency securities owned have one or more credit enhancement features. The RHMS portfolio must be fully guaranteed by a government agency or government sponsored enterprise. RABs are private placement securities, which generally have some form of credit enhancement. Credit risk in the investment portfolio also arises from the inability of guarantors and third-party providers of other credit enhancements, such as bond insurers or Farmer Mac, to meet their contractual obligations to the Bank.

COUNTERPARTY CREDIT RISK

Counterparty credit risk exposures may consist of derivative instruments and repurchase-style transactions. By using derivative instruments, the Bank exposes itself to credit and market risk. The amount of this exposure depends on the value of underlying market factors (e.g. interest rates and foreign exchange rates), which can be volatile and uncertain in nature. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the Bank is exposed to an economic loss if the counterparty defaults. When the fair value of the derivative contract is negative, the counterparty is exposed to an economic loss in the event of a Bank default and the Bank has no credit risk exposure.

To minimize the risk of credit losses, the Bank transacts with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of, and levels of exposure to, individual counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts.

Financial instruments qualifying as eligible collateral are specifically defined under individual counterparty credit support agreements, but generally include cash, U.S. Treasury debt obligations, debt obligations of certain federal agencies and mortgage-backed securities guaranteed by certain federal agencies. Federal agencies include the Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and the Federal Home Loan Banks. The value of the instrument when used as collateral may be discounted from its market price up to 10 percent, depending on the security type, issuer and term. Such discounts are defined in the credit support agreement.

At December 31, 2021, the Bank had one foreign currency forward outstanding with a notional value of \$2.3 million.

SECURITIZATION

Securitizations are transactions in which:

- The credit risk of the underlying exposure is transferred to third parties, and has been separated into two or more tranches;
- The performance of the securitization depends upon the performance of the underlying exposures or reference assets; and
- All or substantially all of the underlying exposures or reference assets are financial exposures.

Securitizations include on- or off-balance sheet exposures (including credit enhancements) that arise from a securitization or re-securitization transaction; or an exposure that directly or indirectly references a securitization (e.g., credit derivative). A re-securitization is a securitization transaction in which one or more of the underlying exposures that have been securitized is itself a securitization.

The Bank currently only participates in securitizations as an investor through the purchase of mortgage-backed securities (MBS) and ABS as included in its investment portfolio. As of December 31, 2021, the Bank did not retain any re-securitization exposures.

The Bank is subject to liquidity risk with respect to securitization exposures. In volatile market conditions, it could be difficult to sell such investments, if the need arises, and the discounts from face value would likely be significant. In addition, because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of these investments may differ significantly from the values that would have been used had a ready market existed for the investments.

The Bank has elected to utilize the simplified supervisory formula risk-based capital approach (SSFA) for securitization exposures related to investments. As such, the Bank's ABS portfolio is risk weighted on an individual security level. As of December 31, 2021, all securities in this portfolio were risk weighted 20.00 percent. Total risk-weighted assets for the investment securitization portfolio utilizing a 3-month average daily balance was \$72.5 million at December 31, 2021. At December 31, 2021, the Bank's ABS portfolio included \$11.7 million of automobile ABSs and \$342.3 million of credit card ABSs.

As of December 31, 2021, the Bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital. For the year ended December 31, 2021, there were no sales of ABS securities that resulted in realized gains or losses.

Refer to Note 4, *Investments*, in the Notes to the Financial Statements for additional information related to purchases and sales of securitization exposures as well as the amortized cost, unrealized gains/(losses) and fair value of MBSs and ABSs held in the Bank's investment portfolio.

EQUITIES

At December 31, 2021, the Bank had no equity investments other than equity investments in other Farm Credit institutions.

INTEREST RATE RISK

See *Interest Rate Risk Management* in the *Risk Management* section of Management's Discussion and Analysis for the disclosures on the Bank's interest rate risk management practices.

Report on Internal Control Over Financial Reporting

The Bank'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 purposes of this report, "internal control over financial reporting" is defined as a process designed by or under the supervision of the Bank's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America (GAAP).

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Bank, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Bank, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its Financial Statements.

The Bank'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 Bank'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 Bank's management determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2021.

The Bank's internal control over financial reporting as of December 31, 2021 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in the Report of Independent Registered Public Accounting Firm which expresses an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting as of December 31, 2021.



Leon T. Amerson
President and Chief Executive Officer



Stephen Gilbert
Senior Vice President and Chief Financial Officer

March 10, 2022

Report of the Audit Committee

The Audit Committee of the Board of Directors (the Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of AgFirst Farm Credit Bank (the Bank) and in the opinion of the Board of Directors, each is free of any relationship with the Bank 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 Bank's audited financial statements with management, which has primary responsibility for the financial statements. The financial statements were prepared under the oversight of the Committee.

PricewaterhouseCoopers LLP (PwC), the Bank's independent registered public accounting firm for 2021, is responsible for expressing an opinion on the conformity of the Bank's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by PCAOB Auditing Standard No. 16, *Communications with Audit Committees*. The Committee discussed with PwC its independence from the Bank. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Bank's Annual Report for 2021. The foregoing report is provided by the following independent directors, who constitute the Committee:



Sherry E. Bowden
Chairman of the Audit Committee

Members of Audit Committee

Gary L. Baldosser
Jack W. Bentley, Jr.
David L. Richesin
Ellis W. Taylor

March 10, 2022



Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of AgFirst Farm Credit Bank

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying balance sheets of AgFirst Farm Credit Bank (the “Company”) as of December 31, 2021, 2020 and 2019, and the related statements of comprehensive income, of changes in shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021, 2020, and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the Report on Internal Control over Financial Reporting appearing on page 48 of the 2021 Annual Report to Shareholders. Our responsibility is to express opinions on the Company’s financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the relevant ethical requirements relating to our audit, which include standards of the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct and the Farm Credit Administration’s independence rules set forth in 12 CFR Part 621, *Accounting and Reporting Requirements*, Subpart E, *Auditor Independence*.

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses – Loans Collectively Evaluated for Impairment

As described in Notes 2 and 3 to the financial statements, the allowance for loan losses was \$20.1 million, of which \$17.9 million is related to loans collectively evaluated for impairment as of December 31, 2021. Management estimates the allowance for loan losses related to loans collectively evaluated for impairment on a pool basis for those loans with similar characteristics. Management uses a two-dimensional model 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. The probability of default is management's estimate of the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating, and the loss given default is management's estimate as to the anticipated loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months. The level of the allowance may be adjusted for other relevant factors reflecting the current environment.

The principal considerations for our determination that performing procedures relating to the allowance for loan losses – loans collectively evaluated for impairment is a critical audit matter are the significant judgment by management in determining the allowance for loan losses, which in turn led to a high degree of auditor judgment, subjectivity and effort in performing audit procedures and evaluating audit evidence relating to management's estimated probability of default and estimated loss given default assumptions.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures included testing the effectiveness of controls relating to management's allowance for loan losses estimation process, which included controls over the estimated probability of default and estimated loss given default assumptions used within the allowance for loan losses related to loans collectively evaluated for impairment. These procedures also included, among others, testing management's process for determining the allowance for

loan losses, which included (i) testing the completeness and accuracy of certain data used in the estimate; (ii) evaluating the appropriateness of the methodology and models; and (iii) evaluating the reasonableness of management's estimated probability of default and estimated loss given default assumptions.

PricewaterhouseCoopers LLP

Charlotte, NC
March 10, 2022

We have served as the Company's auditor since 1985.

Balance Sheets

<i>(dollars in thousands)</i>	As of December 31,		
	2021	2020	2019
Assets			
Cash	\$ 625,288	\$ 693,685	\$ 444,559
Cash equivalents	400,000	520,000	650,000
Investments in debt securities:			
Available-for-sale (amortized cost of \$9,295,565, \$8,294,821, and \$7,843,244, respectively)	9,317,572	8,485,350	7,895,569
Held-to-maturity (fair value of \$21,632, \$35,235, and \$40,842, respectively)	19,133	30,078	37,266
Total investments in debt securities	9,336,705	8,515,428	7,932,835
Loans	28,535,682	26,224,989	25,111,659
Allowance for loan losses	(20,147)	(18,257)	(18,032)
Net loans	28,515,535	26,206,732	25,093,627
Accrued interest receivable	84,532	81,564	94,806
Accounts receivable	110,935	145,300	126,865
Equity investments in other Farm Credit institutions	84,922	80,647	76,710
Premises and equipment, net	83,891	61,164	54,219
Other property owned	—	—	3,041
Other assets	32,746	33,686	28,427
Total assets	\$ 39,274,554	\$ 36,338,206	\$ 34,505,089
Liabilities			
Systemwide bonds payable	\$ 31,440,802	\$ 25,693,876	\$ 27,291,279
Systemwide notes payable	4,915,969	7,662,337	4,432,488
Accrued interest payable	40,941	27,097	104,587
Accounts payable	525,841	428,425	300,141
Other liabilities	48,221	48,607	45,776
Total liabilities	36,971,774	33,860,342	32,174,271
Commitments and contingencies (Note 11)			
Shareholders' Equity			
Perpetual preferred stock	32,500	49,250	49,250
Capital stock and participation certificates	299,131	311,859	325,278
Additional paid-in-capital	63,673	58,883	58,883
Retained earnings			
Allocated	416	416	418
Unallocated	1,888,462	1,871,594	1,848,506
Accumulated other comprehensive income	18,598	185,862	48,483
Total shareholders' equity	2,302,780	2,477,864	2,330,818
Total liabilities and equity	\$ 39,274,554	\$ 36,338,206	\$ 34,505,089

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

Statements of Comprehensive Income

<i>(dollars in thousands)</i>	For the Year Ended December 31,		
	2021	2020	2019
Interest Income			
Investments	\$ 131,067	\$ 158,756	\$ 218,826
Loans	696,450	765,690	895,560
Other	90	1,987	5,017
Total interest income	827,607	926,433	1,119,403
Interest Expense	179,209	345,086	711,741
Net interest income	648,398	581,347	407,662
Provision for (reversal of) allowance for loan losses	3,552	(6,220)	(935)
Net interest income after provision for (reversal of) allowance for loan losses	644,846	587,567	408,597
Noninterest Income			
Loan fees	12,508	11,326	8,710
Gains on investments, net	330	7,215	—
Losses on debt extinguishment	(9,204)	(65,475)	(30,034)
Gains on other transactions	2,745	11,433	1,281
Insurance premium refund	—	2,622	2,620
Patronage refunds from other Farm Credit institutions	18,597	14,444	13,196
Other noninterest income	8,704	8,492	9,245
Total noninterest income	33,680	(9,943)	5,018
Noninterest Expenses			
Salaries and employee benefits	76,604	73,467	65,405
Occupancy and equipment	7,080	7,494	6,927
Insurance Fund premiums	17,927	10,578	9,104
Purchased services	43,231	26,996	17,506
Data processing	25,965	18,954	17,643
Other operating expenses	21,678	22,009	25,199
Losses from other property owned	35	448	150
Total noninterest expenses	192,520	159,946	141,934
Net income	\$ 486,006	\$ 417,678	\$ 271,681
Other comprehensive income (loss):			
Unrealized gains (losses) on investments	(168,522)	138,205	101,753
Change in value of cash flow hedges	(86)	(246)	(353)
Employee benefit plans adjustments	1,344	(580)	(1,265)
Other comprehensive income (loss) (Note 7)	(167,264)	137,379	100,135
Comprehensive income	\$ 318,742	\$ 555,057	\$ 371,816

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

Statements of Changes in Shareholders' Equity

<i>(dollars in thousands)</i>	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-In- Capital	Retained Earnings		Accumulated Other Comprehensive Income	Total Shareholders' Equity
				Allocated	Unallocated		
Balance at December 31, 2018	\$ 49,250	\$ 317,840	\$ 58,883	\$ 440	\$ 1,848,936	\$ (51,652)	\$ 2,223,697
Cumulative effect of change in accounting principle					(149)		(149)
Comprehensive income					271,681	100,135	371,816
Capital stock/participation certificates issued/(retired), net		4,170					4,170
Stock dividends declared/paid		3,112			(3,112)		—
Dividends paid on perpetual preferred stock					(1,798)		(1,798)
Patronage distribution							
Cash					(266,942)		(266,942)
Nonqualified allocated retained earnings				2	(2)		—
Retained earnings retired				(24)			(24)
Patronage distribution adjustment		156			(108)		48
Balance at December 31, 2019	\$ 49,250	\$ 325,278	\$ 58,883	\$ 418	\$ 1,848,506	\$ 48,483	\$ 2,330,818
Comprehensive income					417,678	137,379	555,057
Capital stock/participation certificates issued/(retired), net		(16,887)					(16,887)
Stock dividends declared/paid		3,468			(3,468)		—
Dividends paid on perpetual preferred stock					(963)		(963)
Patronage distribution							
Cash					(390,382)		(390,382)
Nonqualified allocated retained earnings				2	(2)		—
Retained earnings retired				(4)			(4)
Patronage distribution adjustment					225		225
Balance at December 31, 2020	\$ 49,250	\$ 311,859	\$ 58,883	\$ 416	\$ 1,871,594	\$ 185,862	\$ 2,477,864
Comprehensive income					486,006	(167,264)	318,742
Redemption of perpetual preferred stock (Note 7)	(16,750)		4,790				(11,960)
Capital stock/participation certificates issued/(retired), net		(16,719)					(16,719)
Stock dividends declared/paid		3,991			(3,991)		—
Dividends paid on perpetual preferred stock					(521)		(521)
Cash patronage					(463,555)		(463,555)
Patronage distribution adjustment					(1,071)		(1,071)
Balance at December 31, 2021	\$ 32,500	\$ 299,131	\$ 63,673	\$ 416	\$ 1,888,462	\$ 18,598	\$ 2,302,780

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

Statements of Cash Flows

(dollars in thousands)	For the Year Ended December 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income	\$ 486,006	\$ 417,678	\$ 271,681
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation on premises and equipment	13,588	8,594	8,473
Amortization of net deferred loan costs and premium amortization	7,792	9,314	3,320
Premium amortization on investment securities	20,965	21,245	6,563
Discount accretion on bonds and notes	17,154	68,061	118,515
Provision for loan losses	3,552	(6,220)	(935)
(Gains) losses on other property owned, net	(19)	452	74
Gains on investments, net	(330)	(7,215)	—
Losses on debt extinguishment	9,204	65,475	30,034
Gains on other transactions	(2,745)	(11,433)	(1,281)
Net change in loans held for sale	(1)	8,177	4,153
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	(2,968)	13,242	(4,012)
(Increase) decrease in accounts receivable	34,365	(18,435)	(55,804)
Increase (decrease) in accrued interest payable	13,844	(77,490)	(5,072)
Increase (decrease) in accounts payable	24,090	4,997	3,714
Change in other, net	4,255	420	3,789
Total adjustments	142,746	79,184	111,531
Net cash provided by operating activities	628,752	496,862	383,212
Cash flows from investing activities:			
Investment securities purchased	(3,784,464)	(3,339,782)	(2,188,559)
Proceeds from maturities and prepayments of investment securities	2,729,720	2,818,253	2,331,809
Proceeds from sales of investment securities	44,224	62,865	—
Net (increase) decrease in loans	(2,320,539)	(1,116,396)	(842,707)
(Increase) decrease in equity investments in other Farm Credit System institutions	(4,275)	(3,937)	(1,912)
Purchase of premises and equipment, net	(36,165)	(15,834)	(6,940)
Proceeds from sale of premises and equipment	239	123	281
Proceeds from sale of other property owned	411	2,786	103
Net cash used in investing activities	(3,370,849)	(1,591,922)	(707,925)
Cash flows from financing activities:			
Bonds and notes issued	27,009,200	63,523,112	35,834,051
Bonds and notes retired	(24,035,000)	(62,024,202)	(34,640,535)
Redemption of perpetual preferred stock	(11,960)	—	—
Capital stock and participation certificates issued/retired, net	(16,719)	(16,887)	4,170
Distribution to shareholders	(391,300)	(266,870)	(298,077)
Dividends paid on perpetual preferred stock	(521)	(963)	(1,798)
Retained earnings retired	—	(4)	(24)
Net cash provided by financing activities	2,553,700	1,214,186	897,787
Net increase (decrease) in cash and cash equivalents	(188,397)	119,126	573,074
Cash and cash equivalents, beginning of period	1,213,685	1,094,559	521,485
Cash and cash equivalents, end of period	\$ 1,025,288	\$ 1,213,685	\$ 1,094,559
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	\$ 392	\$ 197	\$ 376
Change in unrealized gains (losses) on investments, net	(168,522)	138,205	101,753
Employee benefit plans adjustments	(1,344)	580	1,265
Supplemental information:			
Interest paid	\$ 148,211	\$ 354,515	\$ 598,297

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

Notes to the Financial Statements

Note 1 — Organization and Operations

Organization: AgFirst Farm Credit Bank (the Bank or AgFirst) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers. The Bank is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of Ohio, Tennessee, Kentucky and Louisiana.

AgFirst is a lending institution in the Farm Credit System (the System), a nationwide network of cooperatively owned banks, associations and related service organizations. The System was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (the 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. The System Banks obtain a substantial majority of the funds for their lending operations through the sale of consolidated Systemwide bonds and notes to the public, but may also obtain a portion from internally generated earnings, the issuance of common and preferred stock and, to a lesser extent, the issuance of subordinated debt.

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 and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders jointly own AgFirst. As of year-end, the AgFirst District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (FCSIC) 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 FCSIC to provide assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System Bank has been required to pay premiums, which may be passed on to the Associations, into the Insurance Fund until the assets in the 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 FCSIC at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC 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.

Premiums are charged based upon each System Bank's pro rata share of outstanding Insured Debt. Premiums of up to 20 basis points on average adjusted Insured Debt obligations can be assessed along with a risk surcharge of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments. The premium rate was 16 basis points in 2021. The premium rate was 8 basis points for the first half of 2020 and 11 basis points for the second half of 2020. For 2019, the premium rate was 9 basis points. The premium rate is 16 basis points for at least the first half of 2022.

AgFirst, in conjunction with other System Banks, jointly owns organizations that were created to provide a variety of services for the System:

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) – provides for the issuance and marketing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- FCS Building Association – leases premises and equipment to the FCA.
- Farm Credit System Association Captive Insurance Company – being a reciprocal insurer, provides insurance services to its member organizations.

In addition, The Farm Credit Council acts as a full-service federated trade association which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

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

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

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' earning assets. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a lending agreement between the Bank and each 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' interest rate risk is primarily transferred to the Bank.

In addition to providing loan funds, 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 interest charges to the Associations, or in some cases billed directly to certain Associations that use a specific service.

The Bank is also authorized to provide, in participation with other lenders and the secondary market, 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 Bank may also lend to OFIs qualified to engage in lending to eligible borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Bank conform to 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 the management of the Bank to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying Financial Statements include the accounts of the Bank, and reflect the investments in and allocated earnings of the service organizations in which the Bank has partial ownership interests.

Certain amounts in the prior year financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

- A. **Cash and Cash Equivalents:** Cash and Cash Equivalents include cash on hand and short-term investments with original maturities of three months or less. Certain highly liquid equity securities, such as money market funds, may also be included. At the most recent year-end, the Bank held \$161.1 million in cash in excess of insured amounts.
- B. **Loans and Allowance for Loan Losses:** The loan portfolios include originated wholesale loans (i.e. Direct Notes), purchased capital markets loans, and purchased rural residential mortgage loans.

Long-term real estate mortgage loans generally have original maturities up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

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 is deferred as part of the carrying amount of the loan and the net difference is amortized over the life of the related loan as an adjustment to interest income using the 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 or more (unless adequately secured 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) and/or charged against the allowance for loan losses (if accrued in prior years).

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 Bank 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 Bank 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 periods presented. 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 Bank 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 Bank considers the following factors, among others, when determining the allowance for loan losses:

- Credit risk classifications,
- Collateral values,
- Risk concentrations,
- Weather-related, disease or other adverse conditions,
- Current production and economic conditions, and
- Prior loan loss experience.

A specific allowance may be established for impaired loans. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, 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 to reflect estimated probable credit losses incurred in the remainder of the loan portfolio at the financial statement date, which excludes loans included 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.

Allowances for certain loan pools acquired from District Associations may incorporate the selling Association's methodologies for assigning general and/or specific allowances.

The credit risk rating methodology is a key component of the Bank's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Bank 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.

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

- D. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses and carrying value adjustments related to other property owned are included in Losses from Other Property Owned in the 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, which range from 3 to 40 years. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements that extend the useful life of the asset 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 writedown of property held for sale is recorded as a loss in the period identified.

- F. **Investments:** The Bank holds investments and investment securities as described below.

Equity Investments in Other Farm Credit System Institutions

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

Investments in Debt Securities

The Bank 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 Balance Sheets as securities on the trade date.

Securities for which the Bank 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 Securities

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. Certain equity securities with high turnover rates and high volume amounts, such as money market funds, may be considered cash equivalents but are subject to the accounting and disclosure requirements for investment securities.

Other Investments

As discussed in Note 8, *Fair Value Measurement*, 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 Statements of Comprehensive Income and the balance of these investments is included in Other Assets on the accompanying Balance Sheets.

Impairment

The Bank 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. 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 Bank 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 Bank 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 Bank will record an additional other-than-temporary impairment (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 equity investments in other Farm Credit institutions are generally recorded as patronage income and included in Noninterest Income.

- G. **Debt:** Any discount or premium resulting from cash or noncash debt transactions is not an asset or liability separable from the instrument that gives rise to it. Therefore, the discount or premium is reported in the balance sheet as a direct deduction from or addition to the face amount of the note. Direct expenses incurred in issuing debt and mandatorily redeemable preferred stock are deferred and amortized using the interest method over the contractual term of the related indebtedness or mandatorily redeemable preferred stock. Debt issuance costs are presented in the Balance Sheets as a direct deduction from the carrying amount of the respective debt liability. All amortization and accretion of reductions or additions to the face amount of debt instruments is reported in Interest Expense.

The Bank issues both callable and noncallable debt instruments. A call feature is an agreement, stated in a financial instrument's terms, detailing how an issuance may be retired fully, or in part, before its contractual maturity date. The first call option date, and whether the instrument is continuously callable, or callable only on certain dates, is also explicitly stated. When a call option is exercised, it is accounted for as an extinguishment of debt. Any difference between the reacquisition price and the net carrying amount of the extinguished debt is recognized as losses or gains in current period earnings. Gains and losses are not amortized to future periods.

- H. **Employee Benefit Plans:** Employees participate in District and multi-district sponsored benefit plans. These plans may include defined benefit final average pay retirement, defined benefit other postretirement benefits, and defined contribution plans.

Defined Contribution Plans

Substantially all employees are eligible to participate in a defined contribution 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. Employer contributions to the plan are expensed as funded.

The Bank also offers a Farm Credit Benefits Alliance (FCBA) supplemental 401(k) plan for certain key employees. This plan is nonqualified. Employer contributions to the plan are expensed as funded.

Additional information may be found in Note 9, *Employee Benefit Plans*.

Multiemployer Defined Benefit Plans

Certain employees may participate in one or more defined benefit plans. The Plans are noncontributory and include eligible Bank and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

The Bank provides certain health care and life insurance benefits for retired employees (Other Postretirement Benefits) through a retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Bank. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits. This Other Postretirement Benefits plan is unfunded with expenses paid as incurred.

Since the foregoing plans are multiemployer, the Bank does not apply the provisions of Financial Accounting Standards Board (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, *Employee Benefit Plans*, and in the Notes to the Annual Information Statement of the Farm Credit System.

Single Employer Defined Benefit Plan

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

The foregoing defined benefit plan is considered single employer, therefore the Bank applies the provisions of FASB guidance on employers' accounting for defined benefit pension plans in its stand-alone financial statements.

Additional information may be found in Note 9, *Employee Benefit Plans*.

I. Income Taxes: The Bank is exempt from federal and other income taxes as provided in the Farm Credit Act.

The Bank 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 or tax-exempt entity.

J. Derivative Instruments and Hedging Activity: The Bank may be party to derivative financial instruments, primarily interest rate swaps, which are principally used to reduce funding costs. The Bank may also enter into forward contracts to create a fixed purchase price. Derivatives are included in the Balance Sheets as assets and liabilities and reflected at fair value.

Changes in the fair value of a derivative are recorded in current period earnings or Accumulated Other Comprehensive Income (AOCI) depending on the risk being hedged. For fair value hedge transactions, which hedge the changes in the fair value of assets, liabilities, or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value and reported in current earnings. For cash flow hedge transactions, which hedge the variability of future cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative will generally be deferred and reported in AOCI. The gains and losses on the derivative that are deferred and reported in AOCI will be reclassified into earnings in the periods during which earnings are impacted by the variability of the cash flows of the hedged item. For derivatives not designated as hedging instruments, if any, the related change in fair value is recorded in current period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the balance sheet or (2) firm commitments or forecasted transactions. The Bank also formally assesses at the hedge's inception whether the derivatives that are used in hedging transactions will be highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The Bank uses regression or other statistical analyses to assess the effectiveness of its hedges. On an ongoing basis, effectiveness may be determined quantitatively using the foregoing methodology, or qualitatively if there has been no change to the hedging arrangement. The Bank discontinues hedge accounting prospectively when the Bank determines that a derivative has not been or is not expected to be effective as a hedge. For cash flow hedges, any remaining AOCI would be amortized into earnings over the remaining life of the original hedged item. For fair value hedges, changes in the fair value of the derivative would be recorded in current period earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

The Bank may occasionally purchase a financial instrument in which a derivative instrument is embedded. Upon purchasing the financial instrument, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and may be designated as either a fair value or cash flow hedge. However, if the entire contract were to be measured at fair value, with changes in fair value reported in current earnings, or if the Bank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and not be designated as a hedging instrument.

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 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter 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 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

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

The Bank may use 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.

Any transfers between fair value levels occur at the end of the period.

Additional information may be found in Note 8, *Fair Value Measurement*.

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

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

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

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

Financial Instruments

The largest source of revenue for the Bank 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.

Contracts with Customers

The Bank maintains contracts with customers, primarily other System entities, 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 Bank maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. The Bank 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 Bank 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 expense. These gains and losses are recognized, and the nonfinancial asset is derecognized, when the Bank has entered into a valid contract and transferred control of the asset. If the criteria to meet the definition of a contract have not been met, the Bank 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. In the course of normal operations, the Bank may enter into leases for various business purposes.

Lessee

Contracts entered into are evaluated at inception to determine if they contain a lease. Assets and liabilities are recognized on the 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.

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

Lessor

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

Lease income is recognized on a straight-line basis over the lease term. Lease and nonlease components are accounted for separately in the 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 Balance Sheets and Other Noninterest Income in the Statements of Comprehensive Income.

- O. **Accounting Standards Updates (ASUs):** In January 2021, the FASB issued ASU 2021-01—Reference Rate Reform (Topic 848): Scope. The amendments clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. This Update to the expedients and exceptions in Topic 848 captures the incremental consequences of the scope clarification and tailors the existing guidance to derivative instruments affected by the discounting transition.

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 in 2021 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 August 2018, the FASB issued ASU 2018-14 Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this Update remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of certain disclosures, and add new disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the FASB's efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements. The amendments were effective for fiscal years ending after December 15, 2020, for public business entities. Adoption of this guidance in 2021 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 Bank's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2, *Summary of Significant Accounting Policies*, subsection B, *Loans and Allowance for Loan Losses*, above.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. The Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank 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 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). See further discussion in Note 2, *Summary of Significant Accounting Policies*, subsection B, *Loans and Allowance for Loan Losses*, above.

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

- Direct Notes and loans to OFIs — revolving lines of credit provided to financing institutions to fund the lending needs of their borrowers.
- 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 follows:

<i>(dollars in thousands)</i>	December 31,		
	2021	2020	2019
Direct Notes	\$ 19,739,633	\$ 17,945,905	\$ 16,830,432
Real estate mortgage	1,153,729	1,116,668	1,135,611
Production and intermediate-term	1,032,288	1,163,424	1,089,174
Loans to cooperatives	527,118	561,335	473,462
Processing and marketing	1,680,782	1,229,744	1,091,959
Farm-related business	79,888	46,732	62,595
Communication	545,699	462,287	356,584
Power and water/waste disposal	748,563	569,315	519,111
Rural residential real estate	2,784,761	2,899,911	3,325,122
International	76,739	84,948	76,775
Lease receivables	2,273	2,274	2,917
Loans to OFIs	159,061	137,098	142,384
Other (including Mission Related)	5,148	5,348	5,533
Total loans	\$ 28,535,682	\$ 26,224,989	\$ 25,111,659

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations. As described in Note 1, *Organization and Operations*, these notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore, the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist

when there are amounts loaned to multiple borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly, which further mitigates credit risk to the Bank. In addition, the allowance for loan losses is maintained to provide for probable and estimable credit losses within the loan portfolio. See further discussion in *Note 2, Summary of Significant Accounting Policies*, subsection B, *Loans and Allowance for Loan Losses*.

The Bank may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. During 2021, the Bank purchased \$629.0 million of residential mortgage loans from various System associations and sold \$5.4 million from the portfolio. These amounts are not included in the table below. The following tables present the principal balance of participation loans at periods ended:

<i>(dollars in thousands)</i>	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
Direct Notes	\$ —	\$ —	\$ —	\$ 1,207,458	\$ —	\$ —	\$ —	\$ 1,207,458
Real estate mortgage	1,094,172	264,859	417,944	222,116	9,167	—	1,521,283	486,975
Production and intermediate-term	938,030	326,938	599,514	339,299	163,456	—	1,701,000	666,237
Loans to cooperatives	—	82,727	611,092	—	—	—	611,092	82,727
Processing and marketing	619,044	491,104	742,446	394,633	1,231,307	23,209	2,592,797	908,946
Farm-related business	68,074	3,127	15,000	—	—	—	83,074	3,127
Communication	—	124,573	671,467	—	—	—	671,467	124,573
Power and water/waste disposal	—	27,564	777,742	—	—	—	777,742	27,564
International	—	37,465	114,375	—	—	—	114,375	37,465
Lease receivables	—	—	2,273	—	—	—	2,273	—
Other (including Mission Related)	5,189	—	—	—	—	—	5,189	—
Total	\$ 2,724,509	\$ 1,358,357	\$ 3,951,853	\$ 2,163,506	\$ 1,403,930	\$ 23,209	\$ 8,080,292	\$ 3,545,072

<i>(dollars in thousands)</i>	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
Direct Notes	\$ —	\$ —	\$ —	\$ 1,140,679	\$ —	\$ —	\$ —	\$ 1,140,679
Real estate mortgage	925,168	268,995	461,829	139,113	—	—	1,386,997	408,108
Production and intermediate-term	1,006,855	289,335	566,819	414,651	293,111	—	1,866,785	703,986
Loans to cooperatives	—	100,108	662,244	—	—	—	662,244	100,108
Processing and marketing	427,406	492,099	585,801	374,018	1,105,058	16,095	2,118,265	882,212
Farm-related business	34,777	3,127	15,197	—	—	—	49,974	3,127
Communication	—	147,445	610,556	—	—	—	610,556	147,445
Power and water/waste disposal	—	23,332	593,855	—	—	—	593,855	23,332
International	—	40,659	125,704	—	—	—	125,704	40,659
Lease receivables	1,829	—	445	—	—	—	2,274	—
Other (including Mission Related)	5,392	—	—	—	—	—	5,392	—
Total	\$ 2,401,427	\$ 1,365,100	\$ 3,622,450	\$ 2,068,461	\$ 1,398,169	\$ 16,095	\$ 7,422,046	\$ 3,449,656

<i>(dollars in thousands)</i>	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
Direct Notes	\$ —	\$ —	\$ —	\$ 1,092,698	\$ —	\$ —	\$ —	\$ 1,092,698
Real estate mortgage	928,422	245,058	456,642	157,797	—	—	1,385,064	402,855
Production and intermediate-term	751,733	282,692	589,825	265,239	298,008	—	1,639,566	547,931
Loans to cooperatives	—	77,971	553,178	—	—	—	553,178	77,971
Processing and marketing	481,562	383,051	453,766	343,047	886,066	1,000	1,821,394	727,098
Farm-related business	45,819	3,127	15,000	—	5,000	—	65,819	3,127
Communication	—	117,239	474,208	—	—	—	474,208	117,239
Power and water/waste disposal	—	55,933	576,547	—	—	—	576,547	55,933
International	—	37,465	114,375	—	—	—	114,375	37,465
Lease receivables	2,572	—	345	—	—	—	2,917	—
Other (including Mission Related)	5,580	—	—	—	—	—	5,580	—
Total	\$ 2,215,688	\$ 1,202,536	\$ 3,233,886	\$ 1,858,781	\$ 1,189,074	\$ 1,000	\$ 6,638,648	\$ 3,062,317

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 writedown 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		2021	2020	2019
Direct Notes:				Power and water/waste disposal:			
Acceptable	100.00 %	92.09 %	91.96 %	Acceptable	98.54 %	100.00 %	91.17 %
OAEM	—	7.91	8.04	OAEM	—	—	5.72
Substandard/doubtful/loss	—	—	—	Substandard/doubtful/loss	1.46	—	3.11
	100.00 %	100.00 %	100.00 %		100.00 %	100.00 %	100.00 %
Real estate mortgage:				Rural residential real estate:			
Acceptable	96.89 %	97.58 %	95.57 %	Acceptable	99.46 %	99.56 %	99.66 %
OAEM	2.68	1.20	3.59	OAEM	—	—	—
Substandard/doubtful/loss	0.43	1.22	0.84	Substandard/doubtful/loss	0.54	0.44	0.34
	100.00 %	100.00 %	100.00 %		100.00 %	100.00 %	100.00 %
Production and intermediate-term:				International:			
Acceptable	95.34 %	94.17 %	96.37 %	Acceptable	100.00 %	100.00 %	100.00 %
OAEM	2.33	4.67	2.33	OAEM	—	—	—
Substandard/doubtful/loss	2.33	1.16	1.30	Substandard/doubtful/loss	—	—	—
	100.00 %	100.00 %	100.00 %		100.00 %	100.00 %	100.00 %
Loans to cooperatives:				Lease receivables:			
Acceptable	95.38 %	96.15 %	98.66 %	Acceptable	100.00 %	100.00 %	100.00 %
OAEM	4.62	3.85	—	OAEM	—	—	—
Substandard/doubtful/loss	—	—	1.34	Substandard/doubtful/loss	—	—	—
	100.00 %	100.00 %	100.00 %		100.00 %	100.00 %	100.00 %
Processing and marketing:				Loans to OFIs:			
Acceptable	98.70 %	97.96 %	98.56 %	Acceptable	100.00 %	100.00 %	100.00 %
OAEM	0.98	2.04	1.44	OAEM	—	—	—
Substandard/doubtful/loss	0.32	—	—	Substandard/doubtful/loss	—	—	—
	100.00 %	100.00 %	100.00 %		100.00 %	100.00 %	100.00 %
Farm-related business:				Other (including Mission Related):			
Acceptable	100.00 %	100.00 %	100.00 %	Acceptable	100.00 %	100.00 %	100.00 %
OAEM	—	—	—	OAEM	—	—	—
Substandard/doubtful/loss	—	—	—	Substandard/doubtful/loss	—	—	—
	100.00 %	100.00 %	100.00 %		100.00 %	100.00 %	100.00 %
Communication:				Total Loans:			
Acceptable	100.00 %	100.00 %	100.00 %	Acceptable	99.45 %	94.00 %	93.93 %
OAEM	—	—	—	OAEM	0.34	5.85	5.84
Substandard/doubtful/loss	—	—	—	Substandard/doubtful/loss	0.21	0.15	0.23
	100.00 %	100.00 %	100.00 %		100.00 %	100.00 %	100.00 %

The table above reflects credit quality improvement during 2021, which was primarily due to the classification change from OAEM to acceptable of a Direct Note to an Association. At December 31, 2021, this Association's Direct Note totaled approximately \$1.566 billion.

The following tables provide an aging analysis of the recorded investment in past due loans as of:

December 31, 2021						
<i>(dollars in thousands)</i>	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	
Direct Notes	\$ —	\$ —	\$ —	\$ 19,778,813	\$ 19,778,813	
Real estate mortgage	1,643	—	1,643	1,158,223	1,159,866	
Production and intermediate-term	—	—	—	1,035,686	1,035,686	
Loans to cooperatives	—	—	—	527,727	527,727	
Processing and marketing	—	—	—	1,684,429	1,684,429	
Farm-related business	—	—	—	80,138	80,138	
Communication	—	—	—	545,840	545,840	
Power and water/waste disposal	55,251	10,980	66,231	684,273	750,504	
Rural residential real estate	25,945	11,828	37,773	2,753,193	2,790,966	
International	—	—	—	77,121	77,121	
Lease receivables	—	—	—	2,280	2,280	
Loans to OFIs	—	—	—	159,327	159,327	
Other (including Mission Related)	—	—	—	5,225	5,225	
Total	\$ 82,839	\$ 22,808	\$ 105,647	\$ 28,492,275	\$ 28,597,922	

December 31, 2020						
<i>(dollars in thousands)</i>	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	
Direct Notes	\$ —	\$ —	\$ —	\$ 17,982,813	\$ 17,982,813	
Real estate mortgage	205	1,939	2,144	1,120,679	1,122,823	
Production and intermediate-term	5,459	—	5,459	1,161,619	1,167,078	
Loans to cooperatives	—	—	—	562,094	562,094	
Processing and marketing	208	—	208	1,232,500	1,232,708	
Farm-related business	112	—	112	46,705	46,817	
Communication	—	—	—	462,394	462,394	
Power and water/waste disposal	—	—	—	570,922	570,922	
Rural residential real estate	48,459	10,606	59,065	2,848,659	2,907,724	
International	—	—	—	85,328	85,328	
Lease receivables	—	—	—	2,281	2,281	
Loans to OFIs	—	—	—	137,379	137,379	
Other (including Mission Related)	—	—	—	5,428	5,428	
Total	\$ 54,443	\$ 12,545	\$ 66,988	\$ 26,218,801	\$ 26,285,789	

December 31, 2019						
<i>(dollars in thousands)</i>	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	
Direct Notes	\$ —	\$ —	\$ —	\$ 16,876,144	\$ 16,876,144	
Real estate mortgage	1,752	480	2,232	1,141,420	1,143,652	
Production and intermediate-term	8,511	—	8,511	1,085,457	1,093,968	
Loans to cooperatives	—	—	—	474,352	474,352	
Processing and marketing	—	—	—	1,095,537	1,095,537	
Farm-related business	—	—	—	62,810	62,810	
Communication	—	—	—	356,779	356,779	
Power and water/waste disposal	—	—	—	521,278	521,278	
Rural residential real estate	44,981	6,072	51,053	3,281,945	3,332,998	
International	—	—	—	77,274	77,274	
Lease receivables	—	—	—	2,925	2,925	
Loans to OFIs	—	—	—	142,754	142,754	
Other (including Mission Related)	293	—	293	5,323	5,616	
Total	\$ 55,537	\$ 6,552	\$ 62,089	\$ 25,123,998	\$ 25,186,087	

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

<i>(dollars in thousands)</i>	December 31,		
	2021	2020	2019
Nonaccrual loans:			
Real estate mortgage	\$ 1,537	\$ 3,169	\$ 1,123
Production and intermediate-term	—	6,960	—
Loans to cooperatives	—	—	6,352
Processing and marketing	5,365	—	—
Power and water/waste disposal	10,980	—	—
Rural residential real estate	17,297	16,124	16,019
Total	<u>\$ 35,179</u>	<u>\$ 26,253</u>	<u>\$ 23,494</u>
Accruing restructured loans:			
Real estate mortgage	\$ 1,050	\$ 418	\$ 440
Production and intermediate-term	1,257	1,385	8,391
Rural residential real estate	19,106	2,990	2,852
Other (including Mission Related)	3,687	3,829	3,956
Total	<u>\$ 25,100</u>	<u>\$ 8,622</u>	<u>\$ 15,639</u>
Accruing loans 90 days or more past due:			
Real estate mortgage	\$ —	\$ 596	\$ —
Rural residential real estate	5,781	534	—
Total	<u>\$ 5,781</u>	<u>\$ 1,130</u>	<u>\$ —</u>
Total nonperforming loans	\$ 66,060	\$ 36,005	\$ 39,133
Other property owned	—	—	3,041
Total nonperforming assets	<u>\$ 66,060</u>	<u>\$ 36,005</u>	<u>\$ 42,174</u>
Nonaccrual loans as a percentage of total loans	0.12 %	0.10 %	0.09 %
Nonperforming assets as a percentage of total loans and other property owned	0.23 %	0.14 %	0.17 %
Nonperforming assets as a percentage of capital	<u>2.87 %</u>	<u>1.45 %</u>	<u>1.81 %</u>

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2, *Summary of Significant Accounting Policies*. 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.

<i>(dollars in thousands)</i>	December 31,		
	2021	2020	2019
Impaired nonaccrual loans:			
Current as to principal and interest	\$ 13,601	\$ 11,971	\$ 12,090
Past due	21,578	14,282	11,404
Total impaired nonaccrual loans	<u>\$ 35,179</u>	<u>\$ 26,253</u>	<u>\$ 23,494</u>
Impaired accrual loans:			
Restructured	\$ 25,100	\$ 8,622	\$ 15,639
90 days or more past due	5,781	1,130	—
Total impaired accrual loans	<u>\$ 30,881</u>	<u>\$ 9,752</u>	<u>\$ 15,639</u>
Total impaired loans	<u>\$ 66,060</u>	<u>\$ 36,005</u>	<u>\$ 39,133</u>
Additional commitments to lend	<u>\$ 7,360</u>	<u>\$ 1,889</u>	<u>\$ 2,109</u>

Additional impaired loan information at period end is summarized as follows:

<i>(dollars in thousands)</i>	December 31, 2021			Year Ended December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
Impaired Loans						
With a related allowance for credit losses:						
Real estate mortgage	\$ 100	\$ 99	\$ —	\$ 241	\$ —	
Production and intermediate-term	—	—	—	—	—	
Processing and marketing	—	—	—	2,179	—	
Power and water/waste disposal	10,980	10,999	1,760	6,777	—	
Rural residential real estate	19,092	18,749	436	11,685	—	
Other (including Mission Related)	3,687	3,681	92	3,735	232	
Total	\$ 33,859	\$ 33,528	\$ 2,288	\$ 24,617	\$ 232	
With no related allowance for credit losses:						
Real estate mortgage	\$ 2,487	\$ 2,516	\$ —	\$ 3,277	\$ 219	
Production and intermediate-term	1,257	1,252	—	4,573	418	
Processing and marketing	5,365	5,429	—	1,415	—	
Power and water/waste disposal	—	—	—	—	—	
Rural residential real estate	23,092	22,342	—	17,169	1,636	
Other (including Mission Related)	—	—	—	—	—	
Total	\$ 32,201	\$ 31,539	\$ —	\$ 26,434	\$ 2,273	
Total:						
Real estate mortgage	\$ 2,587	\$ 2,615	\$ —	\$ 3,518	\$ 219	
Production and intermediate-term	1,257	1,252	—	4,573	418	
Processing and marketing	5,365	5,429	—	3,594	—	
Power and water/waste disposal	10,980	10,999	1,760	6,777	—	
Rural residential real estate	42,184	41,091	436	28,854	1,636	
Other (including Mission Related)	3,687	3,681	92	3,735	232	
Total	\$ 66,060	\$ 65,067	\$ 2,288	\$ 51,051	\$ 2,505	
<i>(dollars in thousands)</i>						
	December 31, 2020			Year Ended December 31, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
Impaired Loans						
With a related allowance for credit losses:						
Real estate mortgage	\$ 103	\$ 103	\$ 1	\$ 105	\$ —	
Production and intermediate-term	—	—	—	—	—	
Loans to cooperatives	—	—	—	4,654	1,247	
Rural residential real estate	9,420	9,268	338	5,680	—	
Other (including Mission Related)	3,829	3,824	92	3,887	241	
Total	\$ 13,352	\$ 13,195	\$ 431	\$ 14,326	\$ 1,488	
With no related allowance for credit losses:						
Real estate mortgage	\$ 4,080	\$ 4,084	\$ —	\$ 3,094	\$ 80	
Production and intermediate-term	8,345	8,988	—	9,418	1,814	
Loans to cooperatives	—	—	—	—	—	
Rural residential real estate	10,228	9,659	—	15,475	764	
Other (including Mission Related)	—	—	—	—	—	
Total	\$ 22,653	\$ 22,731	\$ —	\$ 27,987	\$ 2,658	
Total:						
Real estate mortgage	\$ 4,183	\$ 4,187	\$ 1	\$ 3,199	\$ 80	
Production and intermediate-term	8,345	8,988	—	9,418	1,814	
Loans to cooperatives	—	—	—	4,654	1,247	
Rural residential real estate	19,648	18,927	338	21,155	764	
Other (including Mission Related)	3,829	3,824	92	3,887	241	
Total	\$ 36,005	\$ 35,926	\$ 431	\$ 42,313	\$ 4,146	

(dollars in thousands)

Impaired Loans	December 31, 2019			Year Ended December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
With a related allowance for credit losses:						
Real estate mortgage	\$ 106	\$ 105	\$ 14	\$ 105	\$ —	
Production and intermediate-term	—	—	—	—	—	
Loans to cooperatives	6,352	7,433	1,053	6,984	5	
Processing and marketing	—	—	—	—	—	
Rural residential real estate	3,879	3,819	176	3,499	—	
Other (including Mission Related)	3,956	3,958	92	4,028	249	
Total	\$ 14,293	\$ 15,315	\$ 1,335	\$ 14,616	\$ 254	
With no related allowance for credit losses:						
Real estate mortgage	\$ 1,457	\$ 1,452	\$ —	\$ 1,731	\$ 216	
Production and intermediate-term	8,391	16,204	—	8,628	980	
Loans to cooperatives	—	—	—	—	—	
Processing and marketing	—	—	—	48	—	
Rural residential real estate	14,992	14,820	—	14,552	784	
Other (including Mission Related)	—	—	—	—	—	
Total	\$ 24,840	\$ 32,476	\$ —	\$ 24,959	\$ 1,980	
Total:						
Real estate mortgage	\$ 1,563	\$ 1,557	\$ 14	\$ 1,836	\$ 216	
Production and intermediate-term	8,391	16,204	—	8,628	980	
Loans to cooperatives	6,352	7,433	1,053	6,984	5	
Processing and marketing	—	—	—	48	—	
Rural residential real estate	18,871	18,639	176	18,051	784	
Other (including Mission Related)	3,956	3,958	92	4,028	249	
Total	\$ 39,133	\$ 47,791	\$ 1,335	\$ 39,575	\$ 2,234	

Unpaid principal balance represents the contractual principal balance of the loan.

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

<i>(dollars in thousands)</i>	Direct Notes	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Other**	Total
Activity related to the allowance from credit losses:										
Balance at December 31, 2020	\$ —	\$ 1,551	\$ 3,289	\$ 4,553	\$ 923	\$ 1,024	\$ 6,394	\$ 130	\$ 393	\$ 18,257
Charge-offs	—	—	—	—	—	—	(1,881)	—	—	(1,881)
Recoveries	—	—	21	—	—	—	198	—	—	219
Provision for loan losses	—	(38)	273	979	71	1,830	438	(46)	45	3,552
Balance at December 31, 2021	\$ —	\$ 1,513	\$ 3,583	\$ 5,532	\$ 994	\$ 2,854	\$ 5,149	\$ 84	\$ 438	\$ 20,147
Balance at December 31, 2019	\$ —	\$ 1,667	\$ 3,448	\$ 5,112	\$ 771	\$ 1,438	\$ 5,046	\$ 137	\$ 413	\$ 18,032
Charge-offs	—	—	—	—	—	—	(104)	—	—	(104)
Recoveries	—	—	6,549	—	—	—	—	—	—	6,549
Provision for loan losses	—	(116)	(6,708)	(559)	152	(414)	1,452	(7)	(20)	(6,220)
Balance at December 31, 2020	\$ —	\$ 1,551	\$ 3,289	\$ 4,553	\$ 923	\$ 1,024	\$ 6,394	\$ 130	\$ 393	\$ 18,257
Balance at December 31, 2018	\$ —	\$ 1,518	\$ 2,614	\$ 6,959	\$ 784	\$ 794	\$ 4,808	\$ 134	\$ 438	\$ 18,049
Charge-offs	—	—	—	—	—	—	(39)	—	—	(39)
Recoveries	—	—	777	—	—	—	180	—	—	957
Provision for loan losses	—	149	57	(1,847)	(13)	644	97	3	(25)	(935)
Balance at December 31, 2019	\$ —	\$ 1,667	\$ 3,448	\$ 5,112	\$ 771	\$ 1,438	\$ 5,046	\$ 137	\$ 413	\$ 18,032
Allowance on loans evaluated for impairment:										
Individually	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,760	\$ 436	\$ —	\$ 92	\$ 2,288
Collectively	—	1,513	3,583	5,532	994	1,094	4,713	84	346	17,859
Balance at December 31, 2021	\$ —	\$ 1,513	\$ 3,583	\$ 5,532	\$ 994	\$ 2,854	\$ 5,149	\$ 84	\$ 438	\$ 20,147
Individually	\$ —	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ 338	\$ —	\$ 92	\$ 431
Collectively	—	1,550	3,289	4,553	923	1,024	6,056	130	301	17,826
Balance at December 31, 2020	\$ —	\$ 1,551	\$ 3,289	\$ 4,553	\$ 923	\$ 1,024	\$ 6,394	\$ 130	\$ 393	\$ 18,257
Individually	\$ —	\$ 14	\$ —	\$ 1,053	\$ —	\$ —	\$ 176	\$ —	\$ 92	\$ 1,335
Collectively	—	1,653	3,448	4,059	771	1,438	4,870	137	321	16,697
Balance at December 31, 2019	\$ —	\$ 1,667	\$ 3,448	\$ 5,112	\$ 771	\$ 1,438	\$ 5,046	\$ 137	\$ 413	\$ 18,032
Recorded investment in loans evaluated for impairment:										
Individually	\$ 19,778,813	\$ 128,017	\$ 1,257	\$ 5,365	\$ —	\$ 10,980	\$ 636,322	\$ —	\$ 3,687	\$ 20,564,441
Collectively	—	1,031,849	1,034,429	2,286,929	545,840	739,524	2,154,644	77,121	163,145	8,033,481
Balance at December 31, 2021	\$ 19,778,813	\$ 1,159,866	\$ 1,035,686	\$ 2,292,294	\$ 545,840	\$ 750,504	\$ 2,790,966	\$ 77,121	\$ 166,832	\$ 28,597,922
Individually	\$ 17,982,813	\$ 148,634	\$ 8,345	\$ —	\$ —	\$ —	\$ 814,606	\$ —	\$ 3,829	\$ 18,958,227
Collectively	—	974,189	1,158,733	1,841,619	462,394	570,922	2,093,118	85,328	141,259	7,327,562
Balance at December 31, 2020	\$ 17,982,813	\$ 1,122,823	\$ 1,167,078	\$ 1,841,619	\$ 462,394	\$ 570,922	\$ 2,907,724	\$ 85,328	\$ 145,088	\$ 26,285,789
Individually	\$ 16,876,144	\$ 158,497	\$ 8,371	\$ 6,352	\$ —	\$ —	\$ 1,039,294	\$ —	\$ 3,956	\$ 18,092,614
Collectively	—	985,155	1,085,597	1,626,347	356,779	521,278	2,293,704	77,274	147,339	7,093,473
Balance at December 31, 2019	\$ 16,876,144	\$ 1,143,652	\$ 1,093,968	\$ 1,632,699	\$ 356,779	\$ 521,278	\$ 3,332,998	\$ 77,274	\$ 151,295	\$ 25,186,087

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

**Includes Loans to OFIs, Lease receivables, and Other loans (including Mission Related).

To mitigate risk of loan losses, the Bank and Associations may enter into guarantee arrangements with certain government-sponsored enterprises (GSEs), including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Bank or the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was \$2.703 billion, \$2.869 billion, and \$2.877 billion at December 31, 2021, 2020, and 2019, respectively. Fees paid for such guarantee commitments totaled \$3.4 million, \$4.1 million, and \$4.5 million for 2021, 2020, and 2019, respectively. These amounts are classified as noninterest expense.

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

(dollars in thousands)

Year Ended December 31, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 644	\$ 698	\$ —	\$ 1,342	
Rural residential real estate	20,769	—	—	20,769	
Total	\$ 21,413	\$ 698	\$ —	\$ 22,111	
Post-modification:					
Real estate mortgage	\$ 651	\$ 698	\$ —	\$ 1,349	\$ —
Rural residential real estate	22,328	—	—	22,328	(1,344)
Total	\$ 22,979	\$ 698	\$ —	\$ 23,677	\$ (1,344)

(dollars in thousands)

Year Ended December 31, 2020					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 685	\$ 59	\$ —	\$ 744	
Production and intermediate term	—	13	—	13	
Rural residential real estate	744	85	—	829	
Total	\$ 1,429	\$ 157	\$ —	\$ 1,586	
Post-modification:					
Real estate mortgage	\$ 685	\$ 59	\$ —	\$ 744	\$ —
Production and intermediate term	—	13	—	13	—
Rural residential real estate	766	87	—	853	—
Total	\$ 1,451	\$ 159	\$ —	\$ 1,610	\$ —

(dollars in thousands)

Year Ended December 31, 2019					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ —	\$ 781	\$ —	\$ 781	
Loans to cooperatives	—	9,364	—	9,364	
Rural residential real estate	1,273	186	—	1,459	
Total	\$ 1,273	\$ 10,331	\$ —	\$ 11,604	
Post-modification:					
Production and intermediate-term	\$ —	\$ 781	\$ —	\$ 781	\$ —
Loans to cooperatives	—	9,240	—	9,240	—
Rural residential real estate	1,347	189	—	1,536	—
Total	\$ 1,347	\$ 10,210	\$ —	\$ 11,557	\$ —

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.

(dollars in thousands)	December 31,		
	2021	2020	2019
Defaulted troubled debt restructurings:			
Real estate mortgage	\$ 605	\$ —	\$ —
Rural residential real estate	1,675	174	1,405
Total	\$ 2,280	\$ 174	\$ 1,405

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

<i>(dollars in thousands)</i>	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2021	2020	2019	2021	2020	2019
Real estate mortgage	\$ 1,231	\$ 1,344	\$ 643	\$ 181	\$ 926	\$ 203
Production and intermediate-term	1,257	1,444	8,437	—	59	46
Loans to cooperatives	—	—	5,817	—	—	5,817
Rural residential real estate	23,491	5,801	5,526	4,385	2,811	2,674
Other (including Mission Related)	3,687	3,829	3,956	—	—	—
Total	\$ 29,666	\$ 12,418	\$ 24,379	\$ 4,566	\$ 3,796	\$ 8,740
Additional commitments to lend	\$ —	\$ —	\$ 2,109			

Note 4 — Investments

Equity Investments in Other Farm Credit System Institutions

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA.

Investments in Debt Securities

The Bank's investments in debt securities consist primarily of mortgage-backed securities (MBSs) collateralized by U.S. government or U.S. agency guaranteed residential and commercial mortgages. Also included are asset-backed securities (ABSs) which are issued through the Small Business Administration and are guaranteed by the full faith and credit of the U.S. government. They are held to maintain a liquidity reserve, manage short-term surplus funds, and manage interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

Non-agency ABSs are included in AFS investments. These securities must meet the applicable FCA regulatory guidelines, which require them to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve these ratings, the securities may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, priority of payments for senior classes over junior classes, or bond insurance. All of the non-agency securities owned have one or more credit enhancement features.

HTM investments in debt securities consist primarily of Mission Related Investments acquired primarily under the Rural America Bond (RAB) pilot programs. RABs are private placement securities which generally have some form of credit enhancement.

An agreement with a commercial bank requires AgFirst to maintain \$50.0 million as a compensating balance. At December 31, 2021, the Bank held \$42.2 million in U.S. Treasury securities for that purpose. The remainder of the compensating balance is held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

Available-for-sale

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments at each period end follows:

<i>(dollars in thousands)</i>	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	\$ 342,763	\$ 1	\$ (651)	\$ 342,113	0.13 %
U.S. Govt. Guaranteed	4,131,704	67,541	(34,158)	4,165,087	1.76
U.S. Govt. Agency Guaranteed	4,468,622	20,502	(32,689)	4,456,435	1.36
Non-Agency ABSs	352,476	1,461	—	353,937	1.80
Total	\$ 9,295,565	\$ 89,505	\$ (67,498)	\$ 9,317,572	1.51 %

<i>(dollars in thousands)</i>	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	\$ 317,755	\$ 1,121	\$ (6)	\$ 318,870	0.50 %
U.S. Govt. Guaranteed	4,229,674	134,591	(2,841)	4,361,424	2.19
U.S. Govt. Agency Guaranteed	3,105,575	50,946	(964)	3,155,557	1.25
Non-Agency ABSs	641,817	7,699	(17)	649,499	1.30
Total	\$ 8,294,821	\$ 194,357	\$ (3,828)	\$ 8,485,350	1.70 %

December 31, 2019

<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	\$ 143,260	\$ 581	\$ (2)	\$ 143,839	2.04 %
U.S. Govt. Guaranteed	4,495,273	60,110	(15,996)	4,539,387	2.60
U.S. Govt. Agency Guaranteed	2,465,080	16,581	(11,146)	2,470,515	2.32
Non-Agency ABSs	739,631	2,343	(146)	741,828	2.16
Total	\$ 7,843,244	\$ 79,615	\$ (27,290)	\$ 7,895,569	2.46 %

Held-to-maturity

A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments at each period end follows:

December 31, 2021

<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	\$ 475	\$ —	\$ (8)	\$ 467	5.94 %
RABs and Other	18,658	2,507	—	21,165	5.94
Total	\$ 19,133	\$ 2,507	\$ (8)	\$ 21,632	5.94 %

December 31, 2020

<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	\$ 1,121	\$ —	\$ (22)	\$ 1,099	5.67 %
RABs and Other	28,957	5,179	—	34,136	5.99
Total	\$ 30,078	\$ 5,179	\$ (22)	\$ 35,235	5.98 %

December 31, 2019

<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	\$ 1,239	\$ —	\$ (26)	\$ 1,213	3.41 %
RABs and Other	36,027	3,620	(18)	39,629	6.07
Total	\$ 37,266	\$ 3,620	\$ (44)	\$ 40,842	5.99 %

A summary of the contractual maturity, estimated fair value, and amortized cost of investment securities at December 31, 2021, follows:

Available-for-sale

<i>(dollars in thousands)</i>	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Treasury Securities	\$ 215,057	0.08 %	\$ 127,056	0.23 %	\$ —	— %	\$ —	— %	\$ 342,113	0.13 %
U.S. Govt. Guaranteed	—	—	7,069	2.57	397,166	2.00	3,760,852	1.74	4,165,087	1.76
U.S. Govt. Agency Guaranteed	22,421	(0.12)	219,082	0.94	831,258	0.67	3,383,674	1.56	4,456,435	1.36
Non-Agency ABSs	1,439	2.96	352,498	1.79	—	—	—	—	353,937	1.80
Total fair value	\$ 238,917	0.08 %	\$ 705,705	1.25 %	\$ 1,228,424	1.10 %	\$ 7,144,526	1.65 %	\$ 9,317,572	1.51 %
Total amortized cost	\$ 239,006		\$ 706,892		\$ 1,220,197		\$ 7,129,470		\$ 9,295,565	

Held-to-maturity

<i>(dollars in thousands)</i>	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	\$ —	— %	\$ —	— %	\$ —	— %	\$ 475	5.94 %	\$ 475	5.94 %
RABs and Other	—	—	5,492	6.12	—	—	13,166	5.87	18,658	5.94
Total amortized cost	\$ —	— %	\$ 5,492	6.12 %	\$ —	— %	\$ 13,641	5.87 %	\$ 19,133	5.94 %
Total fair value	\$ —		\$ 5,699		\$ —		\$ 15,933		\$ 21,632	

A substantial portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities will 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. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following tables show the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	December 31, 2021					
	Less Than 12 Months		12 Months Or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
U.S. Govt. Treasury Securities	\$ 242,079	\$ (651)	\$ —	\$ —	\$ 242,079	\$ (651)
U.S. Govt. Guaranteed	1,502,188	(29,512)	244,954	(4,646)	1,747,142	(34,158)
U.S. Govt. Agency Guaranteed	2,367,203	(32,340)	96,074	(357)	2,463,277	(32,697)
Total	<u>\$ 4,111,470</u>	<u>\$ (62,503)</u>	<u>\$ 341,028</u>	<u>\$ (5,003)</u>	<u>\$ 4,452,498</u>	<u>\$ (67,506)</u>

	December 31, 2020					
	Less Than 12 Months		12 Months Or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
U.S. Govt. Treasury Securities	\$ 49,955	\$ (6)	\$ —	\$ —	\$ 49,955	\$ (6)
U.S. Govt. Guaranteed	443,230	(1,371)	442,431	(1,470)	885,661	(2,841)
U.S. Govt. Agency Guaranteed	225,320	(378)	161,265	(608)	386,585	(986)
Non-Agency ABSs	17,589	(17)	—	—	17,589	(17)
Total	<u>\$ 736,094</u>	<u>\$ (1,772)</u>	<u>\$ 603,696</u>	<u>\$ (2,078)</u>	<u>\$ 1,339,790</u>	<u>\$ (3,850)</u>

	December 31, 2019					
	Less Than 12 Months		12 Months Or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
U.S. Govt. Treasury Securities	\$ 14,972	\$ (2)	\$ —	\$ —	\$ 14,972	\$ (2)
U.S. Govt. Guaranteed	947,579	(6,832)	1,103,003	(9,164)	2,050,582	(15,996)
U.S. Govt. Agency Guaranteed	824,382	(4,078)	879,926	(7,094)	1,704,308	(11,172)
Non-Agency ABSs	78,037	(108)	99,098	(38)	177,135	(146)
RABs and Other	—	—	272	(18)	272	(18)
Total	<u>\$ 1,864,970</u>	<u>\$ (11,020)</u>	<u>\$ 2,082,299</u>	<u>\$ (16,314)</u>	<u>\$ 3,947,269</u>	<u>\$ (27,334)</u>

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 Bank intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss recognized equals the full difference between amortized cost and fair value of the security. When the Bank 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 Bank performs periodic credit reviews, including OTTI analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

The Bank has not recognized any credit losses for the periods presented as the impairments were deemed temporary and result from non-credit related factors. The Bank has the ability and intent to hold these 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. Substantially all of these investments were in U.S. government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost.

Note 5 — Premises and Equipment

Premises and equipment consisted of the following:

<i>(dollars in thousands)</i>	December 31,		
	2021	2020	2019
Land	\$ 12,217	\$ 12,217	\$ 12,217
Buildings and improvements	46,285	45,997	44,950
Furniture and equipment	62,791	52,769	48,089
Work in progress	27,131	6,995	787
	148,424	117,978	106,043
Less: accumulated depreciation	64,533	56,814	51,824
Total	\$ 83,891	\$ 61,164	\$ 54,219

Note 6 — Debt

Bonds and Notes

AgFirst, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued jointly by the System Banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets, at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks. The System Banks and the Funding Corporation have entered into the Third Amended and Restated Market Access Agreement (MAA), which establishes criteria and procedures for the banks to provide certain information and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System Banks' exposure to statutory joint and several liabilities. At December 31, 2021, AgFirst was in compliance with the conditions of participation for the issuances of Systemwide Debt Securities.

In accordance with FCA regulations, each issuance of Systemwide Debt Securities ranks equally with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The following table provides a summary of AgFirst's recorded liability for outstanding Systemwide Debt Securities by maturity.

Maturities	December 31, 2021					
	Bonds		Discount Notes		Total	
	Cost	Weighted Average Interest Rate	Cost	Weighted Average Interest Rate	Cost	Weighted Average Interest Rate
	<i>(dollars in thousands)</i>					
2022	\$ 8,340,765	0.22%	\$ 4,915,969	0.07%	\$ 13,256,734	0.17%
2023	6,787,646	0.21%	—	—	6,787,646	0.21%
2024	3,556,278	0.38%	—	—	3,556,278	0.38%
2025	2,732,294	0.68%	—	—	2,732,294	0.68%
2026	2,305,311	0.90%	—	—	2,305,311	0.90%
2027 and after	7,718,508	1.47%	—	—	7,718,508	1.47%
Total	\$ 31,440,802	0.63%	\$ 4,915,969	0.07%	\$ 36,356,771	0.56%

Discount notes are issued with maturities of one year or less. The weighted average maturity of discount notes at period end was 118 days.

Systemwide debt includes callable bonds consisting of the following as of the most recent year-end:

Amortized Cost	First Call Date	Year of Maturity
<i>(dollars in thousands)</i>		
\$ 20,063,360	2022	2022 - 2036
29,930	2023	2028
\$ 20,093,290	Total	

Most callable debt may be called on the first call date and any time thereafter.

As described in Note 1, *Organization and Operations*, the Insurance Fund is available to ensure the timely payment of principal and interest on Systemwide Debt Securities (Insured Debt) of System Banks to the extent net assets are available in the Insurance Fund and not designated for specific use.

Note 7 — Shareholders’ Equity

Descriptions of the Bank’s capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below:

- A. **Description of Equities:** In accordance with the Farm Credit Act and the Bank’s capitalization bylaws (Bylaws), the Bank is authorized to issue and have outstanding Classes B, C, D, and E Common Stock, Participation Certificates, Preferred Stock, and other classes of equity as may be provided for in the Bylaws. All Common Stock and Participation Certificates have a par or face value of five dollars per share.

The Bank had the following shares of common equities outstanding at December 31, 2021:

Class	Protected Status	Shares Outstanding <i>(dollars in thousands)</i>	
		Number	Aggregate Par Value
B Common/Non-OFI	No	1,077,258	\$ 5,386
C Common/Voting	No	50,990,736	254,954
D Common/Nonvoting	No	6,801,168	34,006
E Common/Nonvoting	No	—	—
Participation Certificates/Nonvoting	No	956,961	4,785
Total Capital Stock and Participation Certificates		59,826,123	\$ 299,131

- B. **Perpetual Preferred Stock:** On June 8, 2007, AgFirst issued \$250.0 million of Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock, Series 1. Dividends on the stock are non-cumulative and are payable quarterly in arrears on the 15th day of March, June, September, and December in each year, at an annual rate equal to 3-Month U.S. dollar (USD) LIBOR plus 1.13 percent. In the event dividends are not declared on the Class B, Series 1 Preferred Stock for payment on any dividend payment date, then such dividends shall not accumulate and shall cease to accrue and be payable. The stock may be redeemed on June 15th on any five-year anniversary of its year of issuance at a price of \$1 thousand per share plus accrued and unpaid dividends for the then current dividend period to the date of redemption. At December 31, 2021, \$32.5 million in perpetual preferred stock remained outstanding.

Payment of dividends or redemption price on the Preferred Stock may be restricted if the Bank fails to satisfy applicable minimum capital adequacy, surplus, and collateral requirements.

During 2021, the Bank repurchased, through privately negotiated transactions, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with par value totaling \$16.8 million. The effect of the repurchases on shareholders’ equity was to reduce preferred stock outstanding by \$16.8 million and to increase additional paid-in capital by \$4.8 million.

- C. **Capital Stock:** District Associations are required to maintain ownership in the Bank in the form of Class B or Class C Common Stock as determined by the Bank. Associations fund stock purchases through Direct Note advances. A stock equalization computation is made annually. The Bank may require additional capital contributions to maintain its capital levels. At December 31, 2021, 2020, and 2019, the Associations’ minimum stock requirement was 1.10 percent, 1.26 percent, and 1.40 percent, respectively, of Association Direct Note balances based on a risk-adjusted asset formula. Effective December 31, 2020, the Bank modified its stock equalization methodology from a required investment of 7.00 percent of the average risk-adjusted Direct Note balance to a required investment equal to the percentage of the Association with the lowest investment percentage of its average risk-adjusted Direct Note balance as of the measurement date.

Additionally, the Bank has issued Class D Common Stock through patronage distributions in connection with participations purchased by the Bank from certain other System institutions selling loans to the Bank in accordance with the provisions of the Bank’s capitalization plan. Class D Common Stock issued in connection with participations has no voting rights except to the extent that voting rights are granted to the Class D Common Stock pursuant to the Act, the FCA Regulations, or the Bylaws. Such stock may be retired at the discretion of the Board, and if retired, shall be retired at book value not to exceed its par value.

Effective April 2019, Class E Common Stock may be issued for any lawful purpose subject to a plan adopted by the Board. Class E Common Stock has no voting rights except to the extent voting rights are granted to the Class E Common Stock pursuant to the Act, the FCA regulations, or the Bylaws. Such stock may be retired at the discretion of the Board, and if retired, shall be retired at book value, not to exceed its par value.

- D. **Other Equity:** OFIs make cash purchases of participation certificates and are required to capitalize their loans. At December 31, 2021, 2020, and 2019, the OFIs’ minimum stock requirement was 2.76 percent, 3.15 percent, 3.50 percent of Direct Note balances, respectively.

E. Order of Priority Upon Impairment or Liquidation:

Impairment

Net losses, to the extent they exceed unallocated surplus, shall, except as otherwise provided in the Act, be treated as impairing stock in the following order:

First, Class B Common Stock, Class C Common Stock, Class D Common Stock, Class E Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of stock then issued and outstanding, until such stock is fully impaired; and

Second, Preferred Stock in proportion to the number of shares of each class and series thereof then issued and outstanding (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in reverse order of priority first to the most junior ranking series and then successively to each next most junior ranking series) and consistent with the terms of each such class or series until such stock is fully impaired; and

Third, subject to the Act, as amended, and the regulations thereunder, in such manner as shall be determined by the Board.

Liquidation

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

First, to the holders of Preferred Stock, in proportion to the number of shares of each class and series thereof then issued and outstanding and consistent with the terms of each such series until an amount equal to the liquidation preference provided for in the terms of such series of Preferred Stock has been distributed to such holders (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in order of priority first to the most senior ranking series and then successively to each next most senior ranking series); and

Second, to the holders of Class B Common Stock, Class C Common Stock, Class D Common Stock, Class E Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of stock then issued and outstanding, until an amount equal to the aggregate par or face value of all such shares or units has been distributed to such holders; and

Third, in accordance with the memorandum of accounting established in the Agreement and Plan of Consolidation between The Farm Credit Bank of Columbia and The Farm Credit Bank of Baltimore, dated as of October 31, 1994; and

Fourth, all remaining assets of AgFirst after such distributions shall be to the extent practicable distributed to all stockholders and holders of Participation Certificates on a patronage basis.

- F. 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 Bank has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

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 regulatory 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 revolvment, 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 regulatory 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 PCR 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 revolvment 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	4.50%	2.50%	7.00%	18.47%	18.99%	18.90%
Tier 1 Capital	6.00%	2.50%	8.50%	18.70%	19.36%	19.29%
Total Regulatory Capital	8.00%	2.50%	10.50%	18.85%	19.51%	19.45%
Permanent Capital	7.00%	0.00%	7.00%	18.73%	19.39%	19.32%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.00%	1.00%	5.00%	6.87%	7.09%	7.10%
URE and UREE Leverage	1.50%	0.00%	1.50%	6.09%	6.18%	6.17%

*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.

G. **Accumulated Other Comprehensive Income:** The following presents activity related to AOCI for the periods presented.

<i>(dollars in thousands)</i>	Changes in Accumulated Other Comprehensive Income by Component <i>(a)</i>		
	For the Year Ended December 31,		
	2021	2020	2019
Investment Securities:			
Balance at beginning of period	\$ 190,529	\$ 52,324	\$ (49,429)
OCI before reclassifications	(168,192)	145,420	101,753
Amounts reclassified from AOCI	(330)	(7,215)	—
Net current period OCI	(168,522)	138,205	101,753
Balance at end of period	\$ 22,007	\$ 190,529	\$ 52,324
Cash Flow Hedges:			
Balance at beginning of period	\$ 287	\$ 533	\$ 886
OCI before reclassifications	69	—	—
Amounts reclassified from AOCI	(155)	(246)	(353)
Net current period OCI	(86)	(246)	(353)
Balance at end of period	\$ 201	\$ 287	\$ 533
Employee Benefit Plans:			
Balance at beginning of period	\$ (4,954)	\$ (4,374)	\$ (3,109)
OCI before reclassifications	494	(1,170)	(1,593)
Amounts reclassified from AOCI	850	590	328
Net current period OCI	1,344	(580)	(1,265)
Balance at end of period	\$ (3,610)	\$ (4,954)	\$ (4,374)
Total AOCI:			
Balance at beginning of period	\$ 185,862	\$ 48,483	\$ (51,652)
OCI before reclassifications	(167,629)	144,250	100,160
Amounts reclassified from AOCI	365	(6,871)	(25)
Net current period OCI	(167,264)	137,379	100,135
Balance at end of period	\$ 18,598	\$ 185,862	\$ 48,483

<i>(dollars in thousands)</i>	Reclassifications Out of Accumulated Other Comprehensive Income <i>(b)</i>			Income Statement Line Item
	For the Year Ended December 31,			
	2021	2020	2019	
Investment Securities:				
Sales gains & losses	\$ 330	\$ 7,215	\$ —	Gains (losses) on investments, net
Net amounts reclassified	330	7,215	—	
Cash Flow Hedges:				
Interest income	\$ 86	\$ 246	\$ 353	Interest income on investment securities
Gains (losses) on other transactions	69	—	—	Gains (losses) on other transactions
Net amounts reclassified	\$ 155	\$ 246	\$ 353	
Employee Benefit Plans:				
Periodic pension costs	\$ (850)	\$ (590)	\$ (328)	See Note 9, <i>Employee Benefit Plans</i>
Net amounts reclassified	\$ (850)	\$ (590)	\$ (328)	
Reclassifications for the period	\$ (365)	\$ 6,871	\$ 25	

(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. See Note 2, *Summary of Significant Accounting Policies*, Subsection K, *Valuation Methodologies*, for further information.

Estimating the fair value of equity investments in other Farm Credit institutions is not practicable because the stock is not traded. The net investment is carried at cost.

The classifications within the fair value hierarchy are as follows:

Level 1

Level 1 assets consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. These funds may be redeemed on any business day on which the New York Stock Exchange is open for regular trading.

For cash and cash equivalents, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

The fair value of substantially all investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

Level 2 assets include investments in U.S. government and agency mortgage-backed securities and U.S. agency debt securities, all of which use unadjusted values from third parties or internal pricing models. The underlying loans for these investment securities are residential mortgages or commercial loans.

Also included are non-agency ABSs, federal funds sold, securities purchased under resale agreements, and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments that are highly-liquid, readily convertible to cash, and short-term in nature is generally their face value, plus accrued interest.

The fair value of derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal valuation models which use an income approach. Interest rate derivative models incorporate benchmark interest rate curves, primarily the LIBOR swap and Overnight Index Swap (OIS) curves, potential volatilities of future interest rate movements, and other inputs which are observable directly or indirectly in the marketplace. The models used for other types of derivatives may take inputs such as market price changes, exchange rates, benchmark interest rates, and other inputs observable directly or indirectly in the marketplace. The Bank compares internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

Collateral liabilities may also be considered Level 2. The majority of derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit exposure are reached. Face value approximates the fair value of collateral liabilities.

Level 3

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

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

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

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 primarily 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 Bank'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.

Systemwide Debt Securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between Systemwide Debt Securities and Treasury securities. An appropriate yield-spread is estimated, taking into consideration selling group member (banks and securities dealers) yield indications, observed new GSE debt security pricing, and pricing levels in the related USD interest rate swap market.

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.

<i>(dollars in thousands)</i>	December 31, 2021				Total Fair Value
	Total Carrying Amount	Level 1	Level 2	Level 3	
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury Securities	\$ 342,113	\$ —	\$ 342,113	\$ —	\$ 342,113
U.S. Govt. Guaranteed	4,165,087	—	4,165,087	—	4,165,087
U.S. Govt. Agency Guaranteed	4,456,435	—	4,456,435	—	4,456,435
Non-Agency ABSs	353,937	—	353,937	—	353,937
Total investments in debt securities available-for-sale	9,317,572	—	9,317,572	—	9,317,572
Cash equivalents	400,000	—	400,000	—	400,000
Assets held in trust funds	20,426	20,426	—	—	20,426
Recurring Assets	\$ 9,737,998	\$ 20,426	\$ 9,717,572	\$ —	\$ 9,737,998
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 31,571	\$ —	\$ —	\$ 31,571	\$ 31,571
Nonrecurring Assets	\$ 31,571	\$ —	\$ —	\$ 31,571	\$ 31,571
Other Financial Instruments					
Assets:					
Cash	\$ 625,288	\$ 625,288	\$ —	\$ —	\$ 625,288
Investments in debt securities held to maturity	19,133	—	467	21,165	21,632
Loans	28,483,964	—	—	28,315,436	28,315,436
Other Financial Assets	\$ 29,128,385	\$ 625,288	\$ 467	\$ 28,336,601	\$ 28,962,356
Liabilities:					
Systemwide debt securities	\$ 36,356,771	\$ —	\$ —	\$ 36,110,567	\$ 36,110,567
Other Financial Liabilities	\$ 36,356,771	\$ —	\$ —	\$ 36,110,567	\$ 36,110,567

(dollars in thousands)	December 31, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury Securities	\$ 318,870	\$ —	\$ 318,870	\$ —	\$ 318,870
U.S. Govt. Guaranteed	4,361,424	—	4,361,424	—	4,361,424
U.S. Govt. Agency Guaranteed	3,155,557	—	3,155,557	—	3,155,557
Non-Agency ABSs	649,499	—	649,499	—	649,499
Total investments in debt securities available-for-sale	8,485,350	—	8,485,350	—	8,485,350
Cash equivalents	520,000	—	520,000	—	520,000
Assets held in trust funds	18,463	18,463	—	—	18,463
Recurring Assets	\$ 9,023,813	\$ 18,463	\$ 9,005,350	\$ —	\$ 9,023,813
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 12,921	\$ —	\$ —	\$ 12,921	\$ 12,921
Nonrecurring Assets	\$ 12,921	\$ —	\$ —	\$ 12,921	\$ 12,921
Other Financial Instruments					
Assets:					
Cash	\$ 693,685	\$ 693,685	\$ —	\$ —	\$ 693,685
Investments in debt securities held to maturity	30,078	—	1,099	34,136	35,235
Loans	26,193,811	—	—	26,505,373	26,505,373
Other Financial Assets	\$ 26,917,574	\$ 693,685	\$ 1,099	\$ 26,539,509	\$ 27,234,293
Liabilities:					
Systemwide debt securities	\$ 33,356,213	\$ —	\$ —	\$ 33,459,724	\$ 33,459,724
Other Financial Liabilities	\$ 33,356,213	\$ —	\$ —	\$ 33,459,724	\$ 33,459,724

<i>(dollars in thousands)</i>	December 31, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury Securities	\$ 143,839	\$ —	\$ 143,839	\$ —	\$ 143,839
U.S. Govt. Guaranteed	4,539,387	—	4,539,387	—	4,539,387
U.S. Govt. Agency Guaranteed	2,470,515	—	2,470,515	—	2,470,515
Non-Agency ABSs	741,828	—	741,828	—	741,828
Total investments in debt securities available-for-sale	7,895,569	—	7,895,569	—	7,895,569
Cash equivalents	650,000	—	650,000	—	650,000
Assets held in trust funds	16,065	16,065	—	—	16,065
Recurring Assets	\$ 8,561,634	\$ 16,065	\$ 8,545,569	\$ —	\$ 8,561,634
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 12,958	\$ —	\$ —	\$ 12,958	\$ 12,958
Other property owned	3,041	—	—	3,671	3,671
Nonrecurring Assets	\$ 15,999	\$ —	\$ —	\$ 16,629	\$ 16,629
Other Financial Instruments					
Assets:					
Cash	\$ 444,559	\$ 444,559	\$ —	\$ —	\$ 444,559
Investments in debt securities held to maturity	37,266	—	1,213	39,629	40,842
Loans	25,080,669	—	—	25,130,187	25,130,187
Other Financial Assets	\$ 25,562,494	\$ 444,559	\$ 1,213	\$ 25,169,816	\$ 25,615,588
Liabilities:					
Systemwide debt securities	\$ 31,723,767	\$ —	\$ —	\$ 31,795,514	\$ 31,795,514
Other Financial Liabilities	\$ 31,723,767	\$ —	\$ —	\$ 31,795,514	\$ 31,795,514

Uncertainty in Measurements of Fair Value

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

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investments in Debt Securities

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

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

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

Inputs to Valuation Techniques

Management determines the Bank's valuation policies and procedures. Internal valuation processes are calibrated annually by an independent consultant. Fair value measurements are analyzed on a periodic basis. Documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing.

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Debt securities available-for-sale	Discounted cash flow	Constant prepayment rate
		Probability of default
	Loss severity	
	Quoted prices	Price for similar security
	Vendor priced	*
Federal funds sold, securities purchased under resale agreements and other	Carrying value	Par/principal and appropriate interest yield

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Cash and cash equivalents	Carrying value	Par/principal and appropriate interest yield
Debt securities held-to-maturity	Discounted cash flow	Constant prepayment rate
		Prepayment rates
		Probability of default
		Risk-adjusted spread
		Loss severity
	Quoted prices	Price for similar security
	Vendor priced	*
Systemwide debt securities	Discounted cash flow	Benchmark yield curve
		Derived yield spread
		Own credit risk
Cash collateral	Carrying value	Par/principal and appropriate interest yield

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

Note 9 — Employee Benefit Plans

The Bank participates in three District-sponsored qualified benefit plans. First is a multiemployer defined benefit pension plan, the AgFirst Farm Credit Retirement Plan, which is a final average pay plan (FAP Plan). Second, the Bank participates in a multiemployer defined benefit other postretirement benefits plan (OPEB Plan), the FCBA Retiree and Disabled Medical and Dental Plan. Third is 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 Bank chooses to stop participating in some of its multiemployer plans, the Bank may be required to contribute to eliminate the underfunded status of the plan.

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required to be filed. As such, the following information is 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 Bank. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Bank'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 Bank's Statements of Comprehensive Income were \$6.9 million for 2021, \$5.2 million for 2020, and \$4.3 million for 2019. At December 31, 2021, 2020, and 2019, the total liability balance for the FAP Plan

was \$39.1 million, \$114.4 million, and \$129.7 million, 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 Bank provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Bank employees may become eligible for the benefits if they reach early retirement age while working for the Bank. 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. In addition, substantially all District employees who retired on or before December 1, 2007, after reaching early retirement age are provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Bank or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Bank'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 Bank's Statements of Comprehensive Income were \$972 thousand for 2021, \$944 thousand for 2020, and \$991 thousand for 2019. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was \$209.6 million, \$220.0 million, and \$209.5 million at December 31, 2021, 2020, and 2019, respectively.

The Bank 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 Bank 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 Bank 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. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002. 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 employee benefit costs were \$4.1 million, \$3.7 million, and \$3.3 million, for the years ended December 31, 2021, 2020, and 2019, respectively.

In addition to the multiemployer plans above, the Bank sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Bank's Balance Sheets in Other Liabilities. The supplemental retirement plan is unfunded and had a projected benefit obligation of \$15.1 million and a net under-funded status of \$15.1 million at December 31, 2021. Assumptions used to determine the projected benefit obligation as of that date included a discount rate of 2.90 percent and a rate of compensation increase of 4.00 percent. Expenses of these nonqualified plans included in noninterest expenses were \$1.7 million, \$1.6 million, and \$1.4 million for 2021, 2020, and 2019, respectively.

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, \$1.3 million, \$(580) thousand, and \$(1.3) million, respectively, have been recognized as a net credit, a net debit, and a net debit to AOCI to reflect these elements.

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

Note 10 — Related Party Transactions

In the ordinary course of business, the Bank enters into loan transactions with related parties which may include loans to officers and directors, their immediate families and other organizations with which such persons may be affiliated. There were no material loans outstanding with related parties for any of the periods presented.

As discussed in Note 1, *Organization and Operations*, the Bank lends funds to the District Associations primarily to fund their loan portfolios. Further disclosure regarding these related party transactions is found in Note 3, *Loans and Allowance for Loan Losses*; Note 7, *Shareholders' Equity*; and Note 11, *Commitments and Contingencies*.

Interest income recognized, net of participations sold, on Direct Notes receivable from District Associations and OFIs was \$448.0 million, \$478.5 million, and \$555.8 million for 2021, 2020, and 2019, respectively.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Bank in which claims for money damages are asserted. On at least a quarterly basis, the Bank 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 and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Bank. Because it is remote that the Bank 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 Bank may participate in credit related financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers or the borrowers of the District Associations. These financial instruments may include commitments to extend credit, letters of credit, or various guarantees. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these financial instruments have off-balance-sheet credit risk because their amounts could be drawn upon at the option of the borrower. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. 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 loan collateral 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 period end, \$6.444 billion of commitments to extend credit were outstanding with a related reserve for unfunded commitments of \$588 thousand included in Other Liabilities in the Balance Sheets. No reserve for unfunded commitments is established for commitments related to the Bank's Direct Note portfolio.

The Bank 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 period end, standby letters of credit outstanding totaled \$63.5 million, with expiration dates ranging from January 2022 to September 2041. The maximum potential amount of future payments the Bank may be required to make under these existing guarantees is \$63.5 million.

Under the Farm Credit Act, each System Bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the four banks are jointly and severally liable for the bonds and notes of the other System Banks under the terms of the Joint and Several Liability Allocation Agreement. Published in the Federal Register, the agreement prescribes the payment mechanisms to be employed in the event one of the banks is unable to meet its debt obligations.

In the event a bank is unable to timely pay principal or interest on an insured debt obligation for which it is primarily liable, the FCSIC must expend amounts available in the Insurance Fund to ensure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. At December 31, 2021, the assets of the Insurance Fund totaled \$5.960 billion. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

Once the joint and several liability provisions are initiated, the FCA is required to make calls to satisfy the liability first on all non-defaulting banks in the proportion that each non-defaulting bank's available collateral (collateral in excess of the aggregate of the bank's collateralized obligations) bears to the aggregate available collateral of all non-defaulting banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting bank's remaining assets. Upon making a call on non-defaulting banks with respect to a Systemwide Debt Security issued on behalf of a defaulting bank, the FCA is required to appoint the FCSIC as the receiver for the defaulting bank. The receiver would be required to expeditiously liquidate the bank.

AgFirst did not anticipate making any payments on behalf of its co-obligors under the Joint and Several Liability Allocation Agreement for any of the periods presented. The total amount outstanding and the carrying amount of the Bank's liability under the agreement are as follows:

<i>(dollars in billions)</i>	December 31,		
	2021	2020	2019
Total System bonds and notes	\$ 352.823	\$ 322.655	\$293.538
AgFirst bonds and notes	36.357	33.356	31.724

Note 12 — Income Taxes

The Bank is exempt from federal and other income taxes as provided in the Farm Credit Act. There was no change in this status during the periods presented.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

<i>(dollars in thousands)</i>	2021				
	First	Second	Third	Fourth	Total
Net interest income	\$ 160,713	\$ 160,621	\$ 162,950	\$ 164,114	\$ 648,398
Provision for (reversal of) allowance for loan losses	1,084	831	760	877	3,552
Noninterest income (expense), net	(35,742)	(43,236)	(45,262)	(34,600)	(158,840)
Net income	\$ 123,887	\$ 116,554	\$ 116,928	\$ 128,637	\$ 486,006

<i>(dollars in thousands)</i>	2020				
	First	Second	Third	Fourth	Total
Net interest income	\$ 113,649	\$ 139,723	\$ 161,372	\$ 166,603	\$ 581,347
Provision for (reversal of) allowance for loan losses	38	875	(399)	(6,734)	(6,220)
Noninterest income (expense), net	(41,622)	(54,945)	(42,356)	(30,966)	(169,889)
Net income	\$ 71,989	\$ 83,903	\$ 119,415	\$ 142,371	\$ 417,678

<i>(dollars in thousands)</i>	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 96,695	\$ 99,071	\$ 104,161	\$ 107,735	\$ 407,662
Provision for (reversal of) allowance for loan losses	(91)	444	1,130	(2,418)	(935)
Noninterest income (expense), net	(29,397)	(35,454)	(41,737)	(30,328)	(136,916)
Net income	\$ 67,389	\$ 63,173	\$ 61,294	\$ 79,825	\$ 271,681

Offsetting of Financial and Derivative Assets

<i>(dollars in thousands)</i>	December 31,		
	2021	2020	2019
Reverse repurchase and similar arrangements	\$ 400,000	\$ 520,000	\$ 650,000
Gross Amount of Recognized Assets	400,000	520,000	650,000
Reverse repurchase and similar arrangements	—	—	—
Gross Amounts Offset in the Balance Sheets	—	—	—
Net Amounts of Assets Presented in the Balance Sheets	\$ 400,000	\$ 520,000	\$ 650,000
Financial Instruments	(400,000)	(520,000)	(650,000)
Cash Collateral Received	—	—	—
Gross Amounts Not Offset in the Balance Sheets	(400,000)	(520,000)	(650,000)
Net Amount	\$ —	\$ —	\$ —

There were no liabilities subject to master netting arrangements or similar agreements during the reporting periods.

The reverse repurchase agreements are accounted for as collateralized lending.

Combined Districtwide Financial Statements

The accompanying financial statements exclude financial information of the Bank's affiliated Associations. The Bank and its affiliated Associations are collectively referred to as the AgFirst District. The Bank separately publishes in a report certain unaudited combined financial information of the AgFirst District, including a statement of condition and statement of comprehensive income, which can be found on the Bank's website at www.agfirst.com.

Note 14 — Subsequent Events

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

Glossary of Certain Acronyms

ABS	Asset backed security
ACA	Agricultural Credit Association
ACB	Agricultural Credit Bank
AFS	Available-for-sale
ALCO	Asset/Liability Management Committee
AOCI	Accumulated Other Comprehensive Income
ASU	Accounting Standards Update
CARES Act	Coronavirus Aid Relief and Economic Security Act
CECL	Current expected credit losses
CET1	Common equity tier 1
CFAP	Coronavirus Food Assistance Program
CIPA	Contractual Interbank Performance Agreement
CMO	Collateralized Mortgage Obligation
FAP	Final average pay
FASB	Financial Accounting Standards Board
FCA	Farm Credit Administration
FCB	Farm Credit Bank
FCBA	Farm Credit Benefits Alliance
FCBT	Farm Credit Bank of Texas
FCSIC	Farm Credit System Insurance Corporation
FFB	Federal Financing Bank
FLCA	Federal Land Credit Association
FSA	Farm Service Agency
GAAP	Generally Accepted Accounting Principles
GFA	General Financing Agreement
GNMA	Government National Mortgage Association (Ginnie Mae)
GSE	Government-sponsored enterprise
HTM	Held-to-maturity
LGD	Loss given default
LIBOR	London Inter-Bank Offered Rate
LLC	Limited liability company
LTSP	Long-term standby commitment to purchase
MAA	Market Access Agreement
MBS	Mortgage-backed security
NII	Net interest income
NRSRO	Nationally Recognized Statistical Rating Organization
OAEM	Other Assets Especially Mentioned
OCI	Other Comprehensive Income
OFI	Other financing institution
OPEB	Other postretirement benefits plan
OPO	Other property owned
OTTI	Other-than-temporary impairment
PCA	Production Credit Association
PD	Probability of default
PPP	Paycheck Protection Program
RAB	Rural America Bond
RHMS	Rural Housing Mortgage-Backed Securities
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SOFR	Secured Overnight Financing Rate
SSFA	Simplified supervisory formula risk-based capital approach
TDR	Troubled debt restructuring
UBE	Unincorporated business entity
URE	Unallocated retained earnings
UREE	Unallocated retained earnings equivalents
USD	U.S. dollar
USDA	United States Department of Agriculture
YBS	Young, beginning, and small

