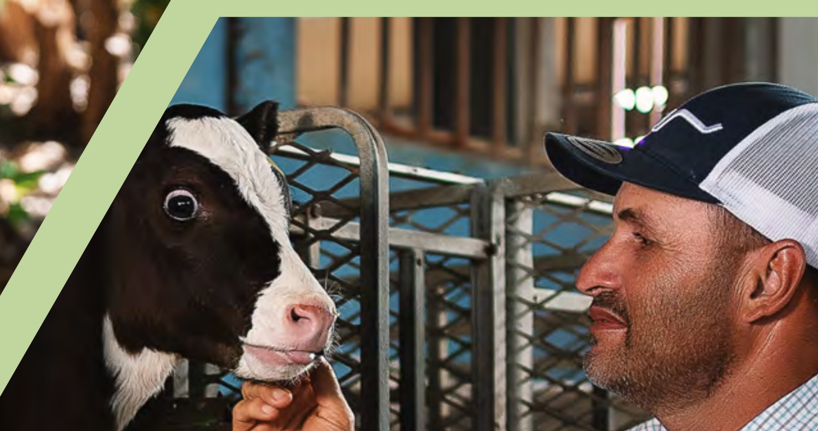
ANNUAL REPORT 2021

PUERTO RICO FARM CREDIT



PUERTO RICO FARM CREDIT, ACA
2021 ANNUAL REPORT

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Management

Ricardo L. Fernández .... President and Chief Executive Officer
Jorge A. Dulzaides .... Chief Credit Officer

Board of Directors

Rafael J. Borges .... Chairman
Michael J. Serrallés .... Vice Chairman
Felipe Ozonas .... Second Vice Chairman, External Director
Víctor M. Ayala .... Director
Pablo A Rodríguez .... Director
Héctor A. Santiago .... Director
Antonio E. Marichal .... External Director and Financial Expert

Message From the Chief Executive Officer

Dear Members:

After having experienced two years of “this new reality” as a result of Covid-19, we have progressively adapted to social and behavioral changes attributed mostly to our pliability as a society. We continue to live in a fast-paced world in which change is predispose to occur daily, driven by technology that under the pandemic has continued to shape this “new reality”. At Puerto Rico Farm Credit our team remains at the vanguard to meet the evolving financial needs and transformation to our lifestyles “in this new reality” so that we can continue to be a valuable business partner to you, our customers.

In 2021, despite the events that were taking place internationally and a pandemic that continued to mutate, adding uncertainty to our new modus operandi, we were able to generate new loans totaling $28 million in Puerto Rico and $12 million through our capital markets group. 2021 marked a fundamental period for Puerto Rico Farm Credit, since we reassured that with the commitment that characterizes us and working as a team, there is no obstacle that stands in the way of set goals, vision and mission we have as your cooperative. We worked on the implementation of a new online application to simplify doing business with us that will be available soon. We also increased loans originated through our network of agriculture equipment dealers by 68% and, we continue to adapt technology that makes it easier for our customer to transact with us.

In 2021 the Association reached $3.2 million in net income, up from $2.9 million in 2020. Net interest income increased $121.4 thousand versus 2020 as loan volume grew during the year. We received a special dividend from AgFirst totaling $1.5 million that helped offset higher operating expenses when compared to 2020. Total expenses increased 11% or $433 thousand from 2020 to 2021 as the economy re-opened and the association began operating under a more normal business environment. Our total loans net of allowance increased in 2021 $16 million, a record since I have been a part of PR Farm Credit. We expect the loan portfolio to remain stable in 2021 as demand for loans stabilizes. We continue our assurance to pay a substantial portion of our earnings to you, our shareholders. Given the strong results we are paying back 84% of the net income or $2.7 million to you, in the form of a cash dividend. As in previous year, our challenge continues to be growing the loan portfolio amidst the pandemic, difficult economic and political environments globally and on the island, that includes a new war and repaying Puerto Rico’s public debt. I will take this opportunity to reiterate our commitment to serve you no matter the challenges we face.

Our leaders, experts in agricultural funding, are focused on anticipating your needs so we can provide you the best financial solutions. We continue working determinedly at educating and supplying the necessary tools to the agrarian sector with our mission of shaping the future of agriculture on the island.

Thank you once again for making Puerto Rico Farm Credit you’re trusted business partners.

Sincerely,

Ricardo L. Fernández
Chief Executive Officer

March 10, 2022

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by the management of Puerto Rico Farm Credit, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been audited by independent auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2021 Annual Report of Puerto Rico Farm Credit, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Antonio E. Marichal
Chairman of the Audit Committee

Ricardo L. Fernández
Chief Executive Officer

March 10, 2022

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

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

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

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

Ricardo L. Fernández
Chief Executive Officer

March 10, 2022

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2021	2020	December 31, 2019	2018	2017
Balance Sheet Data					
Cash	**$ 96**	$ 192	$ 158	$ 662	$ 944
Loans	**169,144**	153,426	151,028	149,089	166,228
Allowance for loan losses	**(1,193)**	(1,482)	(1,645)	(1,686)	(1,563)
Net loans	**167,951**	151,944	149,383	147,403	164,665
Equity investments in other Farm Credit institutions	**1,304**	1,385	1,481	1,623	1,678
Other property owned	**2,058**	2,761	3,491	3,894	2,063
Other assets	**4,430**	3,697	3,180	3,556	3,824
Total assets	**$ 175,839**	$ 159,979	$ 157,693	$ 157,138	$ 173,174
Notes payable to AgFirst Farm Credit Bank*	**$ 116,482**	$ 101,357	$ 99,911	$ 97,533	$ 115,233
Accrued interest payable and other liabilities with maturities of less than one year	**4,047**	3,834	3,020	5,040	3,653
Total liabilities	**120,529**	105,191	102,931	102,573	118,886
Capital stock and participation certificates	**470**	444	430	453	485
Unallocated retained earnings	**54,840**	54,344	54,332	54,112	53,803
Total members' equity	**55,310**	54,788	54,762	54,565	54,288
Total liabilities and members' equity	**$ 175,839**	$ 159,979	$ 157,693	$ 157,138	$ 173,174
Statement of Income Data					
Net interest income	**$ 4,541**	$ 4,420	$ 5,048	$ 5,232	$ 3,806
Provision for (reversal of allowance for) loan losses	**(408)**	(165)	43	(270)	233
Noninterest income (expense), net	**(1,753)**	(1,673)	(2,785)	(2,193)	(1,842)
Net income	**$ 3,196**	$ 2,912	$ 2,220	$ 3,309	$ 1,731
Key Financial Ratios					
Rate of return on average:					
Total assets	**1.91%**	1.85%	1.43%	2.07%	1.05%
Total members' equity	**5.75%**	5.23%	3.99%	5.96%	3.13%
Net interest income as a percentage of average earning assets	**2.80%**	2.92%	3.40%	3.38%	2.38%
Net (chargeoffs) recoveries to average loans	**0.073%**	0.001%	(0.056)%	0.253%	(0.020)%
Total members' equity to total assets	**31.46%**	34.25%	34.73%	34.72%	31.35%
Debt to members' equity (:1)	**2.18**	1.92	1.88	1.88	2.19
Allowance for loan losses to loans	**0.71%**	0.97%	1.09%	1.13%	0.94%
Permanent capital ratio	**33.88%**	36.85%	37.51%	40.13%	36.67%
Common equity tier 1 capital ratio	**33.51%**	36.44%	37.11%	39.65%	36.36%
Tier 1 capital ratio	**33.51%**	36.44%	37.11%	39.65%	36.36%
Total regulatory capital ratio	**34.67%**	37.64%	38.25%	40.90%	37.23%
Tier 1 leverage ratio	**32.24%**	34.45%	34.83%	35.58%	31.96%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**32.69%**	35.02%	35.50%	36.28%	32.64%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 2,700**	$ 2,900	$ 2,000	$ 3,000	$ 1,700

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2022.*

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

(dollars in thousands)

GENERAL OVERVIEW

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

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

The Association is a cooperative, which is owned by the members served (also referred to throughout this Annual Report as stockholders or shareholders). The territory served by the Association covers the entire island of Puerto Rico (PR). Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses.

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

Copies of the Association's Annual and Quarterly reports are on the Association's website, ***www.prfarmcredit.com***, or may be obtained upon request free of charge by calling 1-800-981-3323, or writing Alice Rivera, Puerto Rico Farm Credit, ACA, P.O. Box 363649, San Juan, PR 00936. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

- political, legal, regulatory and economic conditions and developments in the United States, Puerto Rico and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in the United States and Puerto Rico governments support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned the vast majority of its employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for agriculture on the island. Today the team is still working half the time in the office and half the time remotely. The team has been divided into two teams alternating days at the office so we can ensure continuity of the operation.

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

During the first half of 2021, significant progress has been made in the fight against COVID-19 with the distribution of vaccines.

In Puerto Rico over 2.7 million eligible people over the age of 5 are fully vaccinated out of 3.2 million people on the island. Spread of the virus has slowed down significantly on the island after the Omicron variant of the virus affected a substantial portion of the population. We are proud that our entire team has been fully vaccinated with booster shots since January 2022. We will continue to monitor local conditions and conditions abroad that can impact both employees and customers.

The Association will adjust its business continuity plan to maintain the most effective and efficient business operations while safeguarding the health and safety of employees and customers.

COVID-19 Support Programs

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

The farm sector and farm households were among those impacted and were provided financial assistance through the U.S. Department of Agriculture (USDA) and other government agency programs. Among the many programs was the Paycheck Protection Program (PPP). The PPP provided support to small businesses to cover payroll and certain other expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States government. Over the life of the program, the District extended loans to approximately 9,900 borrowers. As of December 31, 2021, the Association had $204 thousand of these loans outstanding. In addition, through December 31, 2021, the volume of such loans that have received forgiveness from the SBA since the start of the program was $2.1 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 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.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Significant accounting policies are critical to the understanding of the Association's results of operations and financial position because some accounting policies require the Board and management to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. These policies are critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant Accounting Policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses — The allowance for loan losses is* management's best estimate of the amount of probable losses existing in and inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which generally considers relevant historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors. Management considers the allowance for loan losses to have been determined in accordance with generally accepted accounting principles appropriate to the periodic process utilized.

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

  Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

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

PUERTO RICO ECONOMIC CONDITIONS

Puerto Rico has endured a prolonged economic downturn for more than 16 years. GDP and employment continue a downward trend that started in 2006. Since then, Puerto Rico's economy has struggle for multiple reasons, including the lack of a sustainable economic plan, natural disasters and the pandemic. This economic environment is expected to continue over the next 12 months.

The Fiscal Planning Board continues to work on stabilizing the central government finances. A final plan has been approved to pay a reduced amount of debt beginning in 2022.

Besides Puerto Rico's high public debt, there are other critical problems such as, the reconstruction of the island after hurricane Maria, funding of the pension plan for government retirees. The federal government has begun releasing funds to rebuild the island and that should provide short-term economic stimulus. The government has to continue improving its operational efficiency to lower operating costs.

Puerto Rico's economy will remain stable but fragile amidst the continuing impact of the pandemic. The Association expects to continue to improve performance as interest in local agriculture grows. The Board of Directors and Management will continue to work with the government and other entities in moving forward the island's agricultural sector. Economists continue to forecast a minor increase in GDP of 1% due to additional federal funds being received. The forecast over the next three years is for a stable economy which is good for the island as it continues to recover from the pandemic and a plan to pay back the debt is implemented.

Through all this, the agricultural sector's outlook is stable and farmers will continue to fair well under the current market conditions. Additionally, grants from government and non-profit entities will continue to provide liquidity to farmers. This should allow farmers to continue managing their operations profitably and maintain the credit quality of the Association's portfolio while limiting loan growth opportunities.

The local dairy industry production remained stable in 2021 compared to 2020. Our member dairy farmers fared well versus the rest of the industry in 2020. The Association continues to monitor events within the industry and their potential impact on the performance of the dairy portfolio. The Association lends almost 33% of total chartered territory loans to the dairy industry and has implemented risk management practices to mitigate concentration risk.

Other agricultural sectors do not represent significant risk for the association. Management monitors all sectors and does not anticipate any adverse impact to the portfolio in 2021.

The Biden administration approved the American Rescue Plan in early 2021. Under the plan, USDA through Farm Services Agency (FSA) will deliver debt relief to socially disadvantage farmers and ranchers. It is not expected that loans originated by the Association with FSA guarantees will be paid-off as part of the program. Management believes that its FSA guaranteed portfolio will not be paid-off since the program was challenged in federal court and the program has been halted. USDA and the Department of Justice chose not to respond the claims presented in court. Congress is now working on a new program to assist all small farmers.

The Association will continue to find creative ways to fulfill its public mission. Leadership of the ACA believes that agriculture is still viable on the island and has many opportunities ahead. However, the Board of Directors and Management remain cautious of the Association's ability to grow the portfolio under the prevailing economic and political environment.

LOAN PORTFOLIO

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

The loan volume of the Association as of December 31, 2021 was $169,144, an increase of $15,718 or 10.24 percent as compared to $153,426 at December 31, 2020; and an increase of $18,116 or 12.00 percent compared to $151,028 at December 31, 2019. Net loans outstanding (loans net of the allowance for loan losses) at December 31, 2021 were $167,951 as compared to $151,944 at December 31, 2020 and $149,383 at December 31, 2019. Net loans accounted for 95.51 percent of total assets on December 31, 2021 as compared to 94.98 percent of total assets on December 31, 2020 and 94.73 percent of total assets on December 31, 2019.

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

Loan Type	12/31/21	12/31/20	12/31/19
Real estate mortgage	35.41%	38.07%	41.47%
Production and intermediate term	33.44	26.65	27.14
Agribusiness:			
Loans to cooperatives	1.07	1.11	0.69
Processing and marketing	21.30	19.80	16.55
Farm related business	0.05	0.07	0.15
Communication	3.34	7.59	5.81
Power and water/waste disposal	–	–	0.80
Rural residential real estate	4.27	5.48	6.14
International	1.12	1.23	1.25
Total	100.00%	100.00%	100.00%

While the Association makes loans and provides financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association's loan portfolio (gross principal balance, net of sold loans) are shown below. The predominant commodities on the island were dairy, tree fruits and processing which constituted 41.32 percent of the entire portfolio at December 31, 2021.

	Percent of Portfolio		
Commodity Group	**2021**	**2020**	**2019**
Participations (net)	37.10%	38.08%	32.87%
Dairy	20.25	20.25	24.18
Tree Fruits	15.07	15.72	15.55
Processing / Food Prep	6.00	5.55	5.25
Field Crops	4.81	5.02	5.13
Cattle / Livestock	4.27	4.38	4.27
Rural Housing	4.27	5.54	6.32
Ornamentals	3.25	2.88	3.01
Misc. Real Estate / Ag Services	3.23	1.16	1.60
Animal Specialties	1.13	0.73	0.81
Poultry	0.62	0.69	1.01
Total	100.00%	100.00%	100.00%

Repayment ability is closely related to the commodities produced by the Association's borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of island dairy producers. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's chartered territory. Even though the concentration of participation loans has steadily increased during the past several years, the agricultural enterprise mix of these loans is diversified, as well as the geographic risk. Management and the Board of Directors continue to believe a major factor protecting the balance sheet and income statement is diversification, spreading both geographic and industry concentration risks.

The increase in gross loan volume for the twelve months ended December 31, 2021 was mainly due to increases in both the originated and participation portfolios.

Additionally, the Association has sold participations of its chartered territory loan portfolio to the Bank for several years. This action has resulted in reductions of the gross principal chartered territory's loan volume of $16,527, $14,514, and $9,533 at December 31, 2021, 2020, and 2019, respectively. The Association did not have any loans sold with recourse. At December 31, 2021, the Association had no one single borrower that comprised more than 4.55 percent of the loans volume.

During the past several years, the Association has been engaged in the buying and selling of loan participations, both from within and outside of the System. This provides a means for the Association to spread geographic and credit concentration risks and realize non-patronage sourced interest and fee income, which strengthens the Association's capital position.

The following table presents the balances concerning the Association's participations purchased and sold portfolios at December 31:

Loan Participations	**2021**	**2020**	**2019**
		(dollars in thousands)	
Participations Purchased – FCS Institutions	$ 57,526	$ 57,835	$ 47,249
Participations Purchased – Non-FCS Institutions	5,539	1,556	2,670
Total Participations Purchased	$ 63,065	$ 59,391	$ 49,919
Participations Sold	$ 16,527	$ 14,514	$ 9,533

The unamortized premium on Participations purchased was $604, $72, and $146 as of December 31, 2021, 2020 and 2019, respectively. As part of the non-FCS participation portfolio, the Association has purchased participation interests in loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing geographic risk and managing surplus funds as allowable under FCA regulations. At December 31, 2021, the balance of these loans was $5,539 compared to $1,556 at December 31, 2020 and $2,670 at December 31, 2019.

MISSION RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the associations of the AgFirst District to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as loans or investments on the Consolidated Balance Sheets depending on the nature of the investment. The Association had no outstanding investment in Rural America Bonds, included as loans on the Consolidated Balance Sheets as of December 31, 2021.

CREDIT RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Under FCA regulations, appraisals are required for real estate mortgage loans of more than $250,000. The Association requires an appraisal for all real estate mortgage loans, no matter the size. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

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

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

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

Credit Quality	**2021**	**2020**	**2019**
Acceptable & OAEM	94.88%	96.43%	96.24%
Substandard	5.12	3.57	3.76
Doubtful	–	–	–
Loss	–	–	–
Total	100.00%	100.00%	100.00%

Credit quality declined due to an increase in substandard nonaccrual loans primarily in the Dairy commodity group offset by growth in new loan volume of acceptable credit quality.

NONPERFORMING ASSETS

The Association's loan portfolio is divided into performing and nonperforming categories. A Special Assets Management Department is responsible for servicing loans classified as nonperforming assets. The nonperforming assets, including accrued interest as of December 31, are detailed in the following table:

	12/31/21	**12/31/20**	**12/31/19**
	(dollars in thousands)		
Nonperforming Assets			
Nonaccrual loans	$ 6,517	$ 5,779	$ 6,445
Accruing restructured loans	4,224	4,088	4,118
Accruing loans 90 days past due	–	–	–
Total nonperforming loans	$ 10,741	$ 9,867	$ 10,563
Other property owned	2,058	2,761	3,491
Total nonperforming assets	$ 12,799	$ 12,628	$ 14,054
Ratios			
Nonaccrual loans to total loans	3.85%	3.77%	4.27%
Nonperforming assets to total assets	7.28%	7.89%	8.91%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. Nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $738 or 12.77 percent in 2021 primarily due to one CT loan transferred from accrual to nonaccrual in the Dairy commodity group. Of the $6,517 in nonaccrual loan volume at December 31, 2021, $4,538 or 69.63 percent, as compared to $135 or 2.34 percent at December 31, 2020, was considered current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Troubled Debt Restructuring (TDR) of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower. As of December 31, 2021, all TDR loans are current and are paying as agreed.

Other property owned decreased by $703 or 25.46 percent resulting from the sale of various acquired properties along with write downs due to updated appraisals performed during 2021.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses was $1,193 at December 31, 2021, as compared with $1,482 and $1,645 at December 31, 2020 and 2019, respectively.

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

Allowance for Loan Losses Activity:	2021	2020	2019
	(dollars in thousands)		
Balance at beginning of year	$ 1,482	$ 1,645	$ 1,686
Charge-offs:			
Real estate mortgage	–	(2)	(108)
Agribusiness	–	–	–
Rural residential real estate	–	–	–
Total charge-offs	$ –	$ (2)	$ (108)
Recoveries:			
Real estate mortgage	114	4	15
Agribusiness	2	–	–
Rural residential real estate	3	–	9
Total recoveries	$ 119	$ 4	$ 24
Net (charge-offs) recoveries	$ 119	$ 2	$ (84)
Provision for (reversal of allowance for) loan losses	$ (408)	$ (165)	$ 43
Balance at end of year	$ 1,193	$ 1,482	$ 1,645
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.073%	0.001%	(0.056)%

In 2020 and 2019, charge-offs were primarily associated with the tree fruits commodity group. Decreases in required reserves for collateral risk in the CT portfolio resulted in the Association recording a reversal of allowance for loan losses expense in 2021. Decreases in required reserves for the CT dairy industry resulted in the Association recording a reversal of allowance for loan losses expense in 2020. In 2019, the Association recorded a provision for loan losses expense resulting from charge-offs primarily in the tree fruits commodity group.

The allowance for loan losses by loan type for the most recent three years is as follows:

	December 31,		
Allowance for Loan Losses by Type	2021	2020	2019
	(dollars in thousands)		
Real estate mortgage	$ 414	$ 572	$ 682
Production and intermediate term	411	390	446
Agribusiness	261	307	287
Communication	39	111	95
Power and water/waste disposal	–	–	13
Rural residential real estate	55	84	101
International	13	18	21
Total allowance	$ 1,193	$ 1,482	$ 1,645

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

	December 31,		
Allowance for Loan Losses as a Percentage of:	2021	2020	2019
Total loans	0.71%	0.97%	1.09%
Nonperforming loans	11.11%	15.02%	15.57%
Nonaccrual loans	18.31%	25.64%	25.52%

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

RESULTS OF OPERATIONS

For the year ended December 31, 2021, the Association recorded net income which totaled $3,196, increases of $284 and $692 as compared to $2,912 and $2,220 for the same period of 2020 and 2019, respectively. The increase in net income for the year ended 2021 as compared to 2020 is primarily attributed to an increase in noninterest income and a decrease in noninterest expense. Major components of the change in net income for the past two years are outlined in the following table:

Change in Net Income:	2021-2020	2020-2019
	(dollars in thousands)	
Net income (loss) (prior year)	$ 2,912	$ 2,220
Increase (decrease) in net income (loss) due to:		
Interest income	(42)	(1,640)
Interest expense	163	1,012
Net interest income	$ 121	$ (628)
Provision for loan losses	243	208
Noninterest income	352	647
Noninterest expense	(432)	466
Provision for income taxes	–	(1)
Total change in net income	$ 284	$ 692
Net income	$ 3,196	$ 2,912

Net Interest Income

Net interest income was $4,541, $4,420 and $5,048 in 2021, 2020 and 2019, respectively. Net interest income from loans was the principal source of earnings for the Association and was impacted by volume, yields on assets and cost of debt. During 2021, net interest income increased by $121 mainly due to an increase in the average loan volume outstanding during 2021. Net interest income was negatively impacted by the amortization of premiums paid to acquire USDA guaranteed loans in the secondary market place. Premium amortization expense was $42, $74 and $60 in 2021, 2020 and 2019, respectively.

The effects of changes in average volume and interest rates on net interest income are summarized in the following table:

Change in Net Interest Income:

	Volume	Rate	Other	Total
12/31/21 – 12/31/20				
Interest income	$ 475	$ (517)	$ –	$ (42)
Interest expense	216	(379)	–	(163)
Change in net interest income	$ 259	$ (138)	$ –	$ 121
12/31/20 – 12/31/19				
Interest income	$ 166	$ (1,807)	$ –	$ (1,641)
Interest expense	97	(1,110)	–	(1,013)
Change in net interest income	$ 69	$ (697)	$ –	$ (628)

Please refer to the Consolidated Five-Year Summary of Selected Financial Data in this Annual Report to review key financial ratios pertaining to earnings and net interest income

Noninterest Income

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Income	**2021**	**2020**	**2019**	**2021/ 2020**	**2020/ 2019**
	(dollars in thousands)				
Loan fees	$ 131	$ 176	$ 92	(25.57)%	91.30 %
Fees for financially related services	3	5	5	(40.00)	–
Patronage refunds from other Farm Credit institutions	2,446	2,018	1,379	21.21	46.34
Gains (losses) on sales of premises and equipment, net	–	14	37	(100.00)	(62.16)
Gains (losses) on other transactions	20	16	66	25.00	(75.76)
Insurance Fund refunds	–	20	23	(100.00)	(13.04)
Other noninterest income	1	–	–	100.00	–
Total noninterest income	$ 2,601	$ 2,249	$ 1,602	15.65 %	40.39 %

The increase in noninterest income of $352 or 15.65 percent in 2021 compared to 2020 is primarily due to an increase in patronage refunds from other Farm Credit institutions.

Patronage refunds from other Farm Credit institutions increased $428 or 21.21 percent mainly due to an increase in the special patronage dividend from the Bank of $331. The special patronage dividend from the Bank was $1,500 in 2021 compared to $1,169 and $568 in 2020 and 2019, respectively.

In 2020 and 2019, the Association recorded $20 and $23, respectively, of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. This payment is nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest Expense

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Expense	**2021**	**2020**	**2019**	**2021/ 2020**	**2020/ 2019**
	(dollars in thousands)				
Salaries and employee benefits	$ 2,226	$ 1,789	$ 1,642	24.43%	8.95 %
Occupancy and equipment	194	174	193	11.49	(9.84)
Insurance Fund premiums	148	81	70	82.72	15.71
(Gains) losses on OPO, net	81	289	544	(71.97)	(46.88)
Other operating expenses	1,705	1,589	1,939	7.30	(18.05)
Total noninterest expense	$ 4,354	$ 3,922	$ 4,388	11.01%	(10.62)%

Noninterest expense increased $432 or 11.01 percent for the year ended December 31, 2021, as compared to the same period in 2020, and decreased $466 or 10.62 percent in 2020 compared to 2019. The increase in 2021 is primarily due to an increase in salaries and employee benefits.

Salaries and employee benefits increased $437 or 24.43 percent in 2021 mainly due to increases in employee incentives and retirement plan expenses. Net losses on OPO decreased $208 or 71.97% mainly due to higher writedowns in 2020 caused by updated appraisals. Other operating expenses increased $116 or

7.30 percent in 2021 due to higher operational expenses from professional services, training, and marketing related expenses.

Income Taxes

The Association recorded no provision for federal income tax for 2021, and no provision for federal income tax for 2020, and a $1 benefit for federal income tax for 2019. For 2010, the Association incurred a patronage sourced net operating loss which was carried forward to 2013 through 2015, which fully offset patronage sourced taxable income. Therefore, since 2012, any eligible patronage sourced income was not distributed, until 2017, 2018, 2019, and 2020 when $1,700 in 2017, $3,000 in 2018, $2,000 in 2019, $2,900 in 2020, and $2,700 in 2021 of eligible patronage source income was distributed to offset patronage source income in each year. As a result, in prior years the Association incurred an immaterial amount of alternative minimum tax due to the alternative minimum tax net operating loss limitation. At December 31, 2021 the Association has Federal loss carryforwards totaling approximately $4.0 million that expire in varying amounts beginning in 2030. Any portion of the Federal loss carryforwards generated post 2017 does not expire. The Association is exempt from Puerto Rico income tax under Article 23 of the General Cooperative Act of 2004. Please refer to Note 12, Income Taxes, for more specific information.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/21	For the 12 Months Ended 12/31/20	For the 12 Months Ended 12/31/19
Return on Average Assets	1.91%	1.85%	1.43%
Return on Average Members' Equity	5.75%	5.23%	3.99%
Net Interest Income as a Percentage of Average Earning Assets	2.80%	2.92%	3.40%
Net (Charge-offs) Recoveries to Average Loans	0.073%	0.001%	(0.056)%

Return on average assets and return on average members' equity increased during 2021 compared to 2020 as a result of an increase in net income in 2021 compared to 2020.

The Association recorded net recoveries of $119 in 2021 which is 0.073 percent of average loans compared to net recoveries of $2 or 0.001 percent of average loans in 2020. For the twelve months of 2021, the Association recognized $408 reversal of allowance for loan losses, compared to $165 reversal of allowance for loan losses in 2020 and $43 provision for loan losses for 2019. The $408 reversal of allowance for loan losses during 2021 was mainly the result of $105 and $475 reversals of allowance of loan losses for the general CT dairy industry and CT collateral risk reserves, respectively, partially offset by a $273 provision for loan losses for the PL general reserve industries.

The past years have been favorably impacted by the receipt of a special patronage dividend from AgFirst Farm Credit Bank which totaled $1,500 in 2021, $1,169 in 2020 and $568 in 2019. The Association does not forecast continued receipt of these distributions.

The Association's financial goals are operating within safe and sound parameters while generating sufficient income to maintain a highly capitalized Association and to declare and pay an attractive patronage dividend to the members/borrowers of the Association. To accomplish this, the Association must achieve its objectives, which include attracting and retaining quality loan volume, which is competitively priced, while effectively managing risk within the balance sheet and income statement.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The Association's capital level effectively creates a borrowing margin between the amount of loans outstanding and the direct loans to the Bank. The margin is commonly referred to as "loanable funds".

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The Association's liquidity practice is to maintain cash balances in a local depository bank at a level that maximizes reduction of the direct note by increasing loanable funds. As borrower payments are received, they are immediately applied to the respective notes payable to the Bank. The Association's participation in investments and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in the Association experiencing a liquidity deficiency.

Total notes payable to the Bank at December 31, 2021 were $116,482 as compared to $101,357 at December 31, 2020 and $99,911 at December 31, 2019. The increase of $15,125 or 14.92 percent mainly corresponds to an increase in loan volume. The average volume of notes payable to the Bank was $109,043 and $99,742 for the years ended December 31, 2021 and 2020, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

The Association had no available lines of credit from third party financial institutions as of December 31, 2021.

The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants. At December 31, 2021, the Association's notes payable were within the specified limitations.

See Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements for additional information on the status of compliance with requirements under the General Financing Agreement.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to either market indices such as the Prime Rate. Fixed rate loans are priced based on the current cost of Farm Credit System debt of similar terms to maturity. The Association does not offer or include adjustable rate mortgages (ARMS) in its portfolio of loan products.

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

RELATIONSHIP WITH THE BANK

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

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

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

CAPITAL RESOURCES

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan. There were no material changes to the capital plan for 2021 that affected the minimum stock purchase requirement or would have had an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2021 increased $522 or 0.95 percent to $55,310 from $54,788 at December 31, 2020. The increase in the total members' equity was primarily due to the 2021 net income from operations of $3,196 less the $2,700 patronage distribution declared.

Total capital stock and participation certificates were $470 on December 31, 2021, compared to $444 on December 31, 2020 and $430 on December 31, 2019. The Board of Directors continued its commitment to maintain the cooperative equity investment requirement at the regulatory minimum of 2.0 percent of the original loan or $1,000, whichever is less.

FCA sets minimum regulatory capital requirements for System banks and Associations. Capital adequacy is evaluated using a number of regulatory ratios.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2021	2020	2019
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	33.51%	36.44%	37.11%
Tier 1 Capital	6.0%	2.5%	8.5%	33.51%	36.44%	37.11%
Total Capital	8.0%	2.5%	10.5%	34.67%	37.64%	38.25%
Permanent Capital	7.0%	0.0%	7.0%	33.88%	36.85%	37.51%
Non-risk-adjusted ratios:						
Tier 1 Leverage **	4.0%	1.0%	5.0%	32.24%	34.45%	34.83%
URE and UREE Leverage	1.5%	0.0%	1.5%	32.69%	35.02%	35.50%

** Includes fully phased-in capital conservation buffers which became effective January 1, 2020.*
*** The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

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

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

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

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, if necessary, to increase surplus to meet Association capital adequacy standards, to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to the Association's FLCA subsidiary earned on a non-patronage basis, the remaining taxable earnings of the Association are eligible for allocation and distribution to eligible borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distribution. During the last three years, the Association has declared patronage distributions of $2,700 in 2021, $2,900 in 2020, and $2,000 in 2019.

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

The US Department of Agriculture National Agricultural Statistic Service (NASS) conducted the 2018 Census of Agriculture. They analyzed the data and prepared the 2018 Census of Agriculture for Puerto Rico and its municipalities as of June 9, 2020. The census provides a comprehensive picture of Puerto Rico agriculture in 2018, including Young and Beginning farmer's data. The data indicates that within the Association's chartered territory there were 8,230 reported farmers of which, 326 or 3.96% were Young and 2,243, or 27.25% were Beginning Farmers. The Puerto Rico census does not make available data identifying Small farmers. Between 2012 and 2018, the significant decrease in farmers is also evident in the numbers of Young and Beginning farmers, though the number of Beginning farmers had a greater percentage decrease than the general farmer population. Beginning farmers declined by 51%, while the general number of farmers declined by 37%. In 2012, 34.6% of total farmers were classified as Beginning farmers, while in 2018, this figure dropped to 27.3%.

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

The following table outlines the Association's YBS goal and actual number of loans and dollar amount (in thousands) in the loan portfolio as of December 31, 2021:

	Number of Loans		$ Amount of Loans	
	2021 Goal	2021 Actual	2021 Goal	2021 Actual
Young	41	54	$3,008	$3,424
Beginning	185	223	$25,553	$24,420
Small	208	264	$18,417	$23,149

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The following table outlines the Association YBS goal and the actual results for both number and dollar amount (in thousands) of new loans for the year ended December 31, 2021:

	Number of Loans		$ Amount of New Loans	
	2021 Goal	2021 Actual	2021 Goal	2021 Actual
Young	6	16	$246	$854
Beginning	19	69	$982	$8,417
Small	21	87	$737	$9,855

The following table outlines the Association YBS goal and the actual results as a percentage of number and dollar amount (in thousands) of new loans for the year ended December 31, 2021:

	Number of Loans		$ Amount of New Loans	
	2021 Goal	2021 Actual	2021 Goal	2021 Actual
Young	5%	8%	2%	1%
Beginning	15%	33%	8%	9%
Small	17%	41%	6%	11%

The Association also establishes annual goals for the total number of loans as well as loan volume for YBS borrowers. For 2021, the Association had goal of 6 loans to Young borrowers, 19 loans to Beginning borrowers, and 21 loans to Small borrowers. The actual number of loans closed during the year were well above these goals in all of these categories. The large number of loans to Beginning and Small borrowers, representing a large increase over previous years, was principally due to the success of the Farm Credit Express program, which typically covers loans with relatively low balances used for the purchase of equipment. The program, due to its expedited processing and reduced documentation, has attracted a large number of YBS borrowers, many of which are making their first financed purchase and are new to the Farm Credit System. Furthermore, volumes for the Beginning and Small borrowers were enhanced by the entrance of new state-side investors enticed to invest on the island under the Law 20-22 tax incentive law, which promotes investment by providing very attractive tax rates to individuals establishing residence on the island. Lastly, the volume of Beginning borrowers was also positively impacted by a handful of large loans made to members as part of the generational transfer process.

The Association began to offer equipment loans through the Farm Credit Express program in late 2019. Under this program, customers apply for loans to purchase farm equipment through a network of approved dealers. In 2021, the Association closed 59 loans through this program, which is 33% of all loans closed in our Chartered Territory. Of these 59 loans, 41 qualified under at least one of the YBS criteria, and most of these qualified under more than one YBS criteria. The credit process is expedited, as the credit decision is principally based on credit scores and not on the traditional credit analysis. The success of the program is reflected in the number of loans made to YBS borrowers, which are above the Association's goals by a significant amount.

Throughout 2020 and 2021, the Association has continued its efforts to serve our YBS borrowers and has actively promoted the YBS program. These promotions are normally done through one-on-one orientations, conferences, trade shows, farmer association meetings, and other similar efforts. The Association has also been proactive in assisting YBS farmers in dealing with the ongoing challenges related to the COVID-19 pandemic. Since the beginning of the COVID-19 pandemic, personal visits, conferences, trade shows, and other such activities have been reduced, and the Association has relied almost exclusively on telephone and videoconferencing to maintain contact with its borrowers. The Association has also experienced much success in its implementation of Hubspot customer management software. The number of borrower visits and activities have fluctuated in accordance with the COVID 19 situation, with visits and activities resuming in periods with low contagions, while being scaled back in periods of higher risk.

The following outreach programs were conducted in 2021 as part of the Association's efforts to achieve established goals:

- Participated in several sector-specific meetings, conferences, and trade fairs, where the YBS program was discussed. Many of these were done via virtual meetings and in-person gatherings, in accordance with the required COVID-19 protocols.
- Continued its personal orientations to potential YBS borrowers, mainly through telephone conversations.
- Experienced credit staff coordinated/participated in the development and implementation of business financial skills training for YBS farmers and students through presentations, conferences, and individual meetings.
- PRFC continues to offer financial education to members and prospective members through PR Farm Credit University portal.
- Supported and/or sponsored programs and activities with the University of Puerto Rico.
- Participated in various educational programs coordinated by the Department of Agriculture, Puerto Rico Farm Bureau and/or the Agronomist Association.
- The Association has been able to increase its services to YBS borrowers through the expansion of the Farm Credit Express equipment lending program, which has benefited many YBS borrowers.

The Chief Credit Officer coordinates the Association's efforts, with the assistance of the Lending Manager, and oversees the YBS program. The Association includes YBS goals in the annual strategic business plan, and reports on those goals and achievements to the board of directors on a quarterly basis. The Association is committed to the future success of Young, Beginning and Small farmers.

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

REGULATORY MATTERS

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

On August 26, 2021, the FCA issued a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The proposed rule would ensure that the FCA's rule remains comparable with the capital rule of other federal banking regulatory agencies and recognizes the increased risk posed by HVCRE exposures. The public comment period ended on January 24, 2022.

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

On September 23, 2019, the FCA issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's "Measurement of Credit Losses on Financial Instruments" are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk-weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the

CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ended on November 22, 2019.

Future of LIBOR

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

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

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

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

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

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

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

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

The following is a summary of variable-rate financial instruments tied to LIBOR at December 31, 2021:

(dollars in thousands)	Due in 2022	Due in 2023 (On or Before June 30)	Due After June 30, 2023	Total
Loans	$ 1,581	$ 2,397	$ 44,142	$ 48,120
Total Assets	$ 1,581	$ 2,397	$ 44,142	$ 48,120
Note Payable to AgFirst Farm Credit Bank	13,486	7,460	225,836	246,782
Total Liabilities	$13,486	$ 7,460	$ 225,836	$ 246,782

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after June 30, 2023 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. At December 31, 2021, less than 6 percent of total loans maturing after June 30, 2023 do not contain fallback provisions.

OTHER MATTERS

During 2021, the Association continued its service agreement with Farm Credit of Florida, ACA for a fee. The provided services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources and, loan on-boarding and servicing. On March 1, 2022, Farm Credit of Florida provided notice of non-renewal of the services agreement effective on the annual renewal date in September 2022. The Association is currently working on a transition plan for the provided services.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2023.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

The Association has an equity investment in a Rural Business Investment Company, Meritus Ventures, L.P, a Delaware Limited Partnership. Meritus Ventures, L.P. is licensed under the Rural Business Investment Program and provides guarantees and grants to promote rural economic development and job opportunities and supplies equity capital investment to small rural enterprises. The Association has a 2.06% ownership in the limited partnership. Additional information may be found in Note 4, *Investments*, of the Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

The Association holds an equity investment in two (2) LLC's, which are Ethanol Holding Company, LLC (formerly BFE Operating Company, LLC) and CBF Holding, LLC (formerly Clean Burn Fuels, LLC) until the end of 2015.

The Ethanol Holding Company, LLC is a Delaware Limited Liability Company, in which PRFC owns a 0.32900% equity. It was organized for the stated purpose of acquiring holding, managing, preserving and, if appropriate, operating the assets of BFE Operating Company, LLC, Buffalo Lakes Energy, LLC and Pioneer Trail Energy, LLC (the "BFE Entities") and Ethanol Holding Company Minnesota Sub, LLC and Ethanol Holding Company Nebraska Sub, LLC. Such assets have been disposed of pursuant to the terms of the Operating Agreement of Ethanol Holding Company, LLC. However, the entities have not been dissolved until certain legal matters are resolved.

The CBF Holding, LLC is a North Carolina Limited Liability Company, in which PRFC owns 2.89855% equity. Subject to and upon the terms of the Operating Agreement, the stated purpose of the company shall be to acquire, maintain, operate in an idle mode, market, and re-sell the Purchased Assets (an ethanol plant); and to engage in such activities as may be approved by the Majority Interest (collectively, the "Business"), in each case subject to any limitations of the Act or the Applicable Laws of any jurisdiction in which the company transacts business. The company shall be authorized to engage in any and all other activities related to the foregoing. As of the end of 2015, the company had disposed of its assets and is awaiting resolution of certain legal matters to dissolve the company.

Description of Property

The following table sets forth certain information regarding the property of the reporting entity, which is located in San Juan, Puerto Rico:

Location	Description	Form of Ownership
213 Domenech Ave Hato Rey	Administrative/ San Juan Branch	Owned

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

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

Senior Officer	Position
Ricardo L Fernández	*President & CEO* since February 2011. Former Member of Farm Credit System's Presidents Planning Committee (PPC)for 9 year. Former Chair and active member of the District's Sales & Marketing Committee. He has 25 years of experience in commercial banking, occupying various positions in strategic planning, finance and, small and middle-market commercial lending.
Jorge A. Dulzaides	*Chief Credit Officer* since January 2019, formerly CLO since July 2013. Has 33 years of experience in the Farm Credit System as credit analyst, lending officer, internal auditor and lending manager. Member of the System's FSA Workgroup since 2020.

The total amount of compensation earned by the CEO and the five most highly paid officers as a group, during the years ended December 31, 2021, 2020 and 2019, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value*	Perquisites/ Other**	Total (a)
Ricardo L. Fernández	2021	$ 240,000	$ 70,567	$ –	$ –	$ 29,597	$ 340,164
Ricardo L. Fernández	2020	$ 240,000	$ 60,930	$ –	$ –	$ 26,976	$ 327,906
Ricardo L. Fernández	2019	$ 239,262	$ 66,200	$ –	$ –	$ 24,594	$ 330,056
5	2021	$ 463,221	$ 88,436	$ –	$ 41,806	$ 45,965	$ 639,428
5	2020	$ 462,877	$ 83,148	$ –	$ 453,136	$ 38,914	$ 1,038,075
5	2019	$ 460,011	$ 68,850	$ –	$ 550,213	$ 54,918	$ 1,133,992

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

** *Includes company contributions to 401(k) plan (see Note 9, Employee Benefit Plans, to the Financial Statements), excess annual leave paid, and medical and dental insurance premiums.*

(a) Disclosure of information on the total compensation paid during 2020 to any senior officer, or to any other individual included in the aggregate, is available to shareholders upon request.

Pension Benefits Table
As of December 31, 2021

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2021
CEO:					
Ricardo L. Fernández	2021	AgFirst Farm Credit Cash Balance Retirement Plan		$ –	$ –
				$ –	$ –
Senior Officers and Highly Compensated Employees:					
3 employees, excluding the CEO	2021	AgFirst Farm Credit Retirement Plan	28.56*	$ 2,984,192	$ –
3 Total Officers				$ 2,984,192	$ –

* *Number of years credited service represents the average years of credited service for the group.*

The Board of Directors approved a new incentive plan for employees of the Association and separately for the CEO, none of the plans have any provisions, in any of the three years, which would allow for or facilitate the deferral of compensation, either salary or bonus.

The Board of Directors approved a three-year bonus plan for Mr. Fernández. Under the plan the Board of Directors is expected to approve a bonus payment to Mr. Fernandez for achievement of results in 2021. It is anticipated that Mr. Fernandez will receive a short-term bonus payment of $87,000.

In 2021, Mr. Fernández' compensation includes a performance bonus and other bonuses detailed as follows. The Board approved in 2021 additional executive compensation based on certain performance measures achieved in 2020. The amount paid was $68,617. The Bonus category also includes the Christmas bonus required by law in Puerto Rico and in 2021 a $750 award given to all employees for reaching certain years of service with the Association.

In 2020, Mr. Fernández' compensation includes a performance bonus and other bonuses detailed as follows. The Board approved in 2020 additional executive compensation based on certain performance measures achieved in 2019. The amount paid was $59,730. The Bonus category also includes the Christmas bonus required by law in Puerto Rico.

In 2019, Mr. Fernández' compensation includes a performance bonus and other bonuses detailed as follows. The Board approved in 2019 additional executive compensation based on certain performance measures achieved in 2018. The amount paid was $65,000. The Bonus category also includes the Christmas bonus required by law in Puerto Rico.

For the other senior officers or highly paid employees, bonus includes a discretionary bonus approved by the Board of Directors for performance achieved in 2020. It also includes the mandatory payment of a Christmas Bonus required by Commonwealth law each year.

Disclosure of information on the total compensation paid during 2021 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

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

The Association provides retirement benefit plans to all employees. Employees' participation in a plan is mostly determined by date of hire. Additional information on the Association's retirement plans can be found in Note 9, *Employee Benefit Plans,* of the Notes to the Consolidated Financial Statements.

Directors

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

The aggregate amount of expense or reimbursement for travel, subsistence and other related expenses for all directors as a group was $36,735 for 2021, $36,751 for 2020 and $103,050 for 2019. It is the practice of the Association not to provide noncash compensation to directors. For 2021, there was no noncash compensation provided.

The Board of Directors reviews and determines adequate director compensation to attract qualified directors. All elected stockholder directors are compensated at a per diem rate of $500 for all official activities. Honorarium for all external directors is paid at a per diem rate of $600 and $1,000 for the financial expert.

Directors are also paid honorarium at the per diem rate for travel to and from conferences and meetings when the distance and schedule requires travel on any portion of the day prior to or following the scheduled activity. In addition, all directors were paid a quarterly retainer fee as compensation for incidental services and review/preparation for meetings and assignments. The chairman's retainer fee is $1,000 per quarter and $750 per quarter for all the other directors, including external directors.

Additional information for each Director is provided below:

			Term of Office		Number of Days Served		Compensation Expensed on 2021		
Name of Director	**Position**	**Committee Assignments**	**Election Year**	**Current Term Expiration**	**Board Meetings**	**Other Official Activities***	**Compensation Regular Board Meetings & Retainer**	**Compensation for Other Activities**	**Total Compensation During 2021**
Rafael J. Borges	Chairman	Compensation & Audit	2021	2025	12.0	5.0	9,900	2,500	12,400
Michael J. Serrallés	Vice Chairman	Governance, Audit & Sales and Marketing	2019	2023	12.00	4.5	9,200	2,250	11,450
Felipe Ozonas	Second Vice Chairman & External Director	Governance & Compensation	2020	2024	9.0	4.5	8,600	2,550	11,150
Víctor M. Ayala	Director	Risk Management & Sales and Marketing	2020	2024	12.0	1.5	9,200	750	9,950
Pablo A. Rodríguez	Director	Compensation, Risk Management & Sales & Marketing	2017	2022	12.0	2.0	9,200	1,000	10,200
Héctor A. Santiago	Director	Risk Management & Sales & Marketing	2020	2024	11.0	1.5	8,700	750	9,450
Antonio E. Marichal	External Director & Financial Expert	Governance & Audit	2021	2025	12.0	4.5	$15,200	$3,750	$18,950
Total							$70,000	$13,550	$83,550

All directors shall make themselves available to serve on the loan committee, upon the scheduling of a meeting. Any four directors along with the CEO or his designee shall constitute a quorum for the loan committee. Committee meetings are normally scheduled and held the same day as monthly board of director's meetings. This scheduling method results in there being no separate and/or additional honorarium paid for the various committee meetings.

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years:

Mr. Rafael J. Borges Chairman of the Board since May 2021. He is an equine veterinary specialist and dairy farmer. As a veterinarian he may provide his services to members of the Association from time to time. His dairy farm is located in Isabela, PR. Mr. Borges is President of Isagro, Inc and is a member of "La Cooperativa Productores de Leche (COOPLE)", a dairy industry cooperative. He has been a member of the Board since 2018.

Mr. Michael J. Serrallés Vice Chairman of the Board since May 2021. Mr. Serrallés was elected to the AgFirst Legislative Advisory Council in January 2019. He is a manager and director of Sucesión J. Serrallés, Inc. The corporation grows sod, ornamental plants and coconut palms. The corporation also has farmland leased to seed research companies, for pasture, and to grow bananas, plantains and mangoes. He was first elected to the Board in 2013.

Mr. Felipe Ozonas Second Vice-Chairman of the Board since May 2021 and an external director. Mr. Ozonas is a coffee, citrus and plantain producer. He is owner of "Hacienda la Balear, Inc." and "Azamar de la Balear, Inc." Originally appointed by the Board in 2017.

Mr. Víctor M. Ayala Is a dairy farmer and cattle rancher with a farm in the neighborhood of Collores, in Humacao. He is the owner of VHE, Inc., who is an association member. Mr. Ayala is a member of "La Cooperativa Productores de Leche (COOPLE)", a dairy industry cooperative. He has been a member of the Board since 2004.

Mr. Pablo A. Rodríguez Is a farmer growing plantains on his farm in San Sebastian. He is a member of the Colegio de Agrónomos de Puerto Rico. He has been a Board member since 2010.

Mr. Héctor A. Santiago Is an ornamental grower in Barranquitas. He owns one of the largest diversified ornamental operations on the island, Cali Nurseries. He is also a member of the PR Farm Bureau. Mr. Santiago is the President of Puerto Rico Farmer's Market, a local farmer's market. He is a founding partner of Be Better, a start-up performing R&D on Hemp production in PR. He is President of the Porsche Club of America – PR Region. Mr. Santiago has been a PRFC director since 2020.

Mr. Antonio E. Marichal External Director and Financial Expert of the Board since May 2021. He is a retired partner of the firm Marichal, Hernandez, Santiago & Juarbe, LLC. He continues to practice law as an off counsel of the firm. His list of clients includes several association members and directors for whom he may perform work as the need arises. He practices tax, estate and business law. He is a member of the Bar Association and The Association of Public Notaries of Puerto Rico. He is admitted to practice in Puerto Rico, The U.S. District Court for The District of Puerto Rico, The First Circuit of the U.S. Court of Appeals and The U.S. Tax Court. Originally appointed by the board in 2006. He has been a member of the Board since 2006.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2021, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2021.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

There were no changes in or material disagreements with our independent auditors on any matter of the generally accepted accounting principles or financial statement disclosures during this period.

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

	2021
Independent Auditors	
PricewaterhouseCoopers LLP	
Audit services	$ 134,400
Total	$ 134,400

Audit services fees were for the annual audit of the Consolidated Financial Statements.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 10, 2022 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-787-753-5435, or writing Alice Rivera, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936 or accessing the web site, ***www.puertoricofarmcredit.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Puerto Rico Farm Credit, ACA (Association) and in the opinion of the Board of Directors; each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been reviewed, amended and approved by the Board of Directors in 2016. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 2021, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by the Statement on Auditing Standards No. 114 (The Auditor's Communication with those charged with Governance). The Committee discussed with PwC its independence from Puerto Rico Farm Credit, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

The members of the Committee are not professionally engaged in the practice of auditing or accounting. The members of the Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the Committee's considerations and discussions referred to above do not assure that the audit of the Association's financial statements has been carried out in accordance with auditing standards generally accepted in the United States of America or that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

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

Antonio E. Marichal, External Director
Chairman of the Audit Committee

Members of Audit Committee

Rafael J. Borges
Michael J. Serrallés

March 10, 2022

Report of Independent Auditors

To the Board of Directors and Management of Puerto Rico Farm Credit, ACA

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2021 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 10, 2022

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2021	2020	2019
Assets			
Cash	**$ 96**	$ 192	$ 158
Loans	**169,144**	153,426	151,028
Allowance for loan losses	**(1,193)**	(1,482)	(1,645)
Net loans	**167,951**	151,944	149,383
Accrued interest receivable	**709**	488	548
Equity investments in other Farm Credit institutions	**1,304**	1,385	1,481
Premises and equipment, net	**997**	1,112	1,131
Other property owned	**2,058**	2,761	3,491
Accounts receivable	**2,641**	2,029	1,391
Other assets	**83**	68	110
Total assets	**$ 175,839**	$ 159,979	$ 157,693
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 116,482**	$ 101,357	$ 99,911
Accrued interest payable	**188**	176	254
Patronage refunds payable	**2,701**	2,900	2,000
Accounts payable	**223**	221	175
Other liabilities	**935**	537	591
Total liabilities	**120,529**	105,191	102,931
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**470**	444	430
Unallocated retained earnings	**54,840**	54,344	54,332
Total members' equity	**55,310**	54,788	54,762
Total liabilities and members' equity	**$ 175,839**	$ 159,979	$ 157,693

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2021	2020	2019
Interest Income			
Loans	**$ 6,694**	$ 6,736	$ 8,376
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**2,153**	2,316	3,328
Net interest income	**4,541**	4,420	5,048
Provision for (reversal of allowance for) loan losses	**(408)**	(165)	43
Net interest income after provision for (reversal of allowance for) loan losses	**4,949**	4,585	5,005
Noninterest Income			
Loan fees	**131**	176	92
Fees for financially related services	**3**	5	5
Patronage refunds from other Farm Credit institutions	**2,446**	2,018	1,379
Gains (losses) on sales of premises and equipment, net	**—**	14	37
Gains (losses) on other transactions	**20**	16	66
Insurance Fund refunds	**—**	20	23
Other noninterest income	**1**	—	—
Total noninterest income	**2,601**	2,249	1,602
Noninterest Expense			
Salaries and employee benefits	**2,226**	1,789	1,642
Occupancy and equipment	**194**	174	193
Insurance Fund premiums	**148**	81	70
(Gains) losses on other property owned, net	**81**	289	544
Other operating expenses	**1,705**	1,589	1,939
Total noninterest expense	**4,354**	3,922	4,388
Income before income taxes	**3,196**	2,912	2,219
Provision (benefit) for income taxes	**—**	—	(1)
Net income	**$ 3,196**	$ 2,912	$ 2,220
Other comprehensive income	**—**	—	—
Comprehensive income	**$ 3,196**	$ 2,912	$ 2,220

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	**Capital Stock and Participation Certificates**	**Unallocated Retained Earnings**	**Total Members' Equity**
Balance at December 31, 2018	$ 453	$ 54,112	$ 54,565
Comprehensive income		2,220	2,220
Capital stock/participation certificates issued/(retired), net	(23)		(23)
Patronage distribution			
Cash		(2,000)	(2,000)
Balance at December 31, 2019	$ 430	$ 54,332	$ 54,762
Comprehensive income		2,912	2,912
Capital stock/participation certificates issued/(retired), net	14		14
Patronage distribution			
Cash		(2,900)	(2,900)
Balance at December 31, 2020	$ 444	$ 54,344	$ 54,788
Comprehensive income		**3,196**	**3,196**
Capital stock/participation certificates issued/(retired), net	**26**		**26**
Patronage distribution			
Cash		**(2,700)**	**(2,700)**
Balance at December 31, 2021	**$ 470**	**$ 54,840**	**$ 55,310**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2021	2020	2019
Cash flows from operating activities:			
Net income	**$ 3,196**	$ 2,912	$ 2,220
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**176**	147	149
Amortization (accretion) of net deferred loan costs (fees)	**239**	312	278
Provision for (reversal of allowance for) loan losses	**(408)**	(165)	43
(Gains) losses on other property owned	**18**	226	470
(Gains) losses on sales of premises and equipment, net	**—**	(14)	(37)
(Gains) losses on other transactions	**(20)**	(16)	(66)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**(221)**	60	104
(Increase) decrease in accounts receivable	**(612)**	(638)	341
(Increase) decrease in other assets	**(15)**	42	55
Increase (decrease) in accrued interest payable	**12**	(78)	(16)
Increase (decrease) in accounts payable	**2**	46	(781)
Increase (decrease) in other liabilities	**418**	(38)	(156)
Total adjustments	**(411)**	(116)	384
Net cash provided by (used in) operating activities	**2,785**	2,796	2,604
Cash flows from investing activities:			
Net (increase) decrease in loans	**(15,782)**	(3,065)	(2,458)
(Increase) decrease in equity investments in other Farm Credit institutions	**81**	96	142
Purchases of premises and equipment	**(61)**	(128)	(273)
Proceeds from sales of premises and equipment	**—**	14	37
Proceeds from sales of other property owned	**629**	861	90
Net cash provided by (used in) investing activities	**(15,133)**	(2,222)	(2,462)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**15,125**	1,446	2,378
Capital stock and participation certificates issued/(retired), net	**26**	14	(23)
Patronage refunds and dividends paid	**(2,899)**	(2,000)	(3,001)
Net cash provided by (used in) financing activities	**12,252**	(540)	(646)
Net increase (decrease) in cash	**(96)**	34	(504)
Cash, beginning of period	**192**	158	662
Cash, end of period	**$ 96**	$ 192	$ 158
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 56**	$ 55	$ 37
Receipt of property in settlement of loans	**—**	412	194
Estimated cash dividends or patronage distributions declared or payable	**2,700**	2,900	2,000
Supplemental information:			
Interest paid	**$ 2,141**	$ 2,394	$ 3,344
Taxes (refunded) paid, net	**—**	(45)	(45)

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Puerto Rico Farm Credit, ACA (Association) is a stockholder-owned cooperative that provides credit and credit-related services to qualified borrowers within the Commonwealth of Puerto Rico. The Association is also authorized by its charter from the Farm Credit Administration to provide the same credit and credit-related services for qualified purposes within the territory of the U.S. Virgin Islands.

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

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

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

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

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

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held no cash in excess of insured amounts.

B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Equity Investments in Other Farm Credit System Institutions

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

Investment Income

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

Other Equity Investments

The Association holds minority equity interests in a Rural Business Investment Company (RBIC). This investment is carried at cost less any impairment, plus or minus adjustments resulting from any observable price changes.

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

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

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

Additional information may be found in Note 9.

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

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

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

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

The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state, and certain other income taxes. However, for Puerto Rico tax purposes, the Association has had a ruling from the Puerto Rico Treasury Department since June 1993 determining that the Association and its subsidiaries will be treated as a domestic cooperative association. Thus, the Association enjoys the exemptions provided by Article 23 of the General Cooperative Association Act of Puerto Rico of 2004, Act No. 239 of September 1, 2004.

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

The Association distributes patronage on the basis of taxable income.

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

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

The Association has adopted a "pro-rata" method to tax effect only the portion of the Association's temporary differences expected to have a future tax consequence to the Association. The Association intends to have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends. This operating scenario results in zero federal taxable income. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences.

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

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

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

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

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

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

Additional information may be found in Note 8.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

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

A summary of loans outstanding at period end follows:

	December 31, 2021	December 31, 2020	December 31, 2019
Real estate mortgage	$ 59,897	$ 58,406	$ 62,625
Production and intermediate-term	56,557	40,894	40,982
Loans to cooperatives	1,821	1,703	1,049
Processing and marketing	36,032	30,379	24,998
Farm-related business	78	113	231
Communication	5,649	11,642	8,782
Power and water/waste disposal	–	–	1,204
Rural residential real estate	7,220	8,400	9,270
International	1,890	1,889	1,887
Total loans	$ 169,144	$ 153,426	$ 151,028

A substantial portion of the Association's chartered territory lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent, if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following tables present the principal balance of participation loans at periods ended:

December 31, 2021

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 7,634	$ 4,000	$ –	$ –	$ 41	$ –	$ 7,675	$ 4,000
Production and intermediate-term	16,718	204	–	–	4,693	–	21,411	204
Loans to cooperatives	1,826	–	–	–	–	–	1,826	–
Processing and marketing	23,790	12,323	–	–	805	–	24,595	12,323
Communication	5,666	–	–	–	–	–	5,666	–
International	1,892	–	–	–	–	–	1,892	–
Total	$ 57,526	$ 16,527	$ –	$ –	$ 5,539	$ –	$ 63,065	$ 16,527

December 31, 2020

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 7,400	$ 827	$ –	$ –	$ 46	$ –	$ 7,446	$ 827
Production and intermediate-term	12,827	1,022	–	–	1,510	–	14,337	1,022
Loans to cooperatives	1,707	–	–	–	–	–	1,707	–
Processing and marketing	22,325	12,665	–	–	–	–	22,325	12,665
Communication	11,684	–	–	–	–	–	11,684	–
International	1,892	–	–	–	–	–	1,892	–
Total	$ 57,835	$ 14,514	$ –	$ –	$ 1,556	$ –	$ 59,391	$ 14,514

December 31, 2019

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 6,856	$ 1,060	$ –	$ –	$ 220	$ –	$ 7,076	$ 1,060
Production and intermediate-term	11,031	–	–	–	2,228	–	13,259	–
Loans to cooperatives	1,053	–	–	–	–	–	1,053	–
Processing and marketing	16,402	8,473	–	–	–	–	16,402	8,473
Farm-related business	–	–	–	–	222	–	222	–
Communication	8,804	–	–	–	–	–	8,804	–
Power and water/waste disposal	1,211	–	–	–	–	–	1,211	–
International	1,892	–	–	–	–	–	1,892	–
Total	$ 47,249	$ 9,533	$ –	$ –	$ 2,670	$ –	$ 49,919	$ 9,533

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

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

	December 31, 2021	December 31, 2020	December 31, 2019
Real estate mortgage:			
Acceptable	98.67%	98.05%	97.69%
OAEM	0.66	0.05	0.10
Substandard/doubtful/loss	0.67	1.90	2.21
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	78.84%	76.13%	87.33%
OAEM	7.05	14.52	3.35
Substandard/doubtful/loss	14.11	9.35	9.32
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31, 2021	December 31, 2020	December 31, 2019
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	–%	–%	–%
OAEM	–	–	100.00
Substandard/doubtful/loss	–	–	–
	–%	–%	100.00%
Rural residential real estate:			
Acceptable	96.10%	91.88%	93.85%
OAEM	–	1.64	1.07
Substandard/doubtful/loss	3.90	6.48	5.08
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	92.29%	92.45%	94.43%
OAEM	2.59	3.98	1.81
Substandard/doubtful/loss	5.12	3.57	3.76
	100.00%	100.00%	100.00%

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

December 31, 2021	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 204	$ 454	$ 658	$ 59,537	$ 60,195
Production and intermediate-term	295	1,500	1,795	55,008	56,803
Loans to cooperatives	–	–	–	1,822	1,822
Processing and marketing	–	–	–	36,174	36,174
Farm-related business	–	–	–	78	78
Communication	–	–	–	5,650	5,650
Rural residential real estate	218	–	218	7,022	7,240
International	–	–	–	1,891	1,891
Total	$ 717	$ 1,954	$ 2,671	$ 167,182	$ 169,853

December 31, 2020	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 256	$ 786	$ 1,042	$ 57,564	$ 58,606
Production and intermediate-term	41	4,748	4,789	36,255	41,044
Loans to cooperatives	–	–	–	1,704	1,704
Processing and marketing	–	–	–	30,487	30,487
Farm-related business	–	–	–	114	114
Communication	–	–	–	11,643	11,643
Rural residential real estate	513	28	541	7,885	8,426
International	–	–	–	1,890	1,890
Total	$ 810	$ 5,562	$ 6,372	$ 147,542	$ 153,914

	December 31, 2019				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 265	$ 1,367	$ 1,632	$ 61,232	$ 62,864
Production and intermediate-term	88	4,632	4,720	36,399	41,119
Loans to cooperatives	–	–	–	1,049	1,049
Processing and marketing	–	–	–	25,130	25,130
Farm-related business	–	–	–	231	231
Communication	–	–	–	8,783	8,783
Power and water/waste disposal	–	–	–	1,205	1,205
Rural residential real estate	301	31	332	8,972	9,304
International	–	–	–	1,891	1,891
Total	$ 654	$ 6,030	$ 6,684	$ 144,892	$ 151,576

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

	December 31,		
	2021	2020	2019
Nonaccrual loans:			
Real estate mortgage	$ 1,604	$ 1,007	$ 1,673
Production and intermediate-term	4,913	4,744	4,741
Rural residential real estate	–	28	31
Total	$ 6,517	$ 5,779	$ 6,445
Accruing restructured loans:			
Real estate mortgage	$ 1,203	$ 1,633	$ 1,574
Production and intermediate-term	2,870	2,321	2,434
Rural residential real estate	151	134	110
Total	$ 4,224	$ 4,088	$ 4,118
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 10 741	$ 9,867	$ 10,563
Other property owned	2,058	2,761	3,491
Total nonperforming assets	$ 12,799	$ 12,628	$ 14,054
Nonaccrual loans as a percentage of total loans	3.85%	3.77%	4.27%
Nonperforming assets as a percentage of total loans and other property owned	7.48%	8.09%	9.10%
Nonperforming assets as a percentage of total members' equity	23.14%	23.05%	25.66%

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

	December 31,		
	2021	2020	2019
Impaired nonaccrual loans:			
Current as to principal and interest	$ 4,538	$ 135	$ 262
Past due	1,979	5,644	6,183
Total	$ 6,517	$ 5,779	$ 6,445
Impaired accrual loans:			
Restructured	$ 4,224	$ 4,088	$ 4,118
90 days or more past due	–	–	–
Total	$ 4,224	$ 4,088	$ 4,118
Total impaired loans	$ 10,741	$ 9,867	$ 10,563
Additional commitments to lend	$ –	$ –	$ –

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

	December 31, 2021			Year Ended December 31, 2021	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 200	$ 199	$ 2	$ 189	$ 7
Production and intermediate-term	422	403	22	400	16
Rural residential real estate	43	42	5	41	2
Total	$ 665	$ 644	$ 29	$ 630	$ 25
With no related allowance for credit losses:					
Real estate mortgage	$ 2,607	$ 2,872	$ –	$ 2,472	$ 99
Production and intermediate-term	7,361	8,567	–	6,979	278
Rural residential real estate	108	107	–	102	4
Total	$ 10,076	$ 11,546	$ –	$ 9,553	$ 381
Total impaired loans:					
Real estate mortgage	$ 2,807	$ 3,071	$ 2	$ 2,661	$ 106
Production and intermediate-term	7,783	8,970	22	7,379	294
Rural residential real estate	151	149	5	143	6
Total	$ 10,741	$ 12,190	$ 29	$ 10,183	$ 406

	December 31, 2020			Year Ended December 31, 2020	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 526	$ 640	$ 15	$ 561	$ 14
Production and intermediate-term	–	–	–	–	–
Rural residential real estate	20	20	4	21	1
Total	$ 546	$ 660	$ 19	$ 582	$ 15
With no related allowance for credit losses:					
Real estate mortgage	$ 2,114	$ 2,519	$ –	$ 2,253	$ 59
Production and intermediate-term	7,065	7,322	–	7,531	196
Rural residential real estate	142	141	–	152	3
Total	$ 9,321	$ 9,982	$ –	$ 9,936	$ 258
Total impaired loans:					
Real estate mortgage	$ 2,640	$ 3,159	$ 15	$ 2,814	$ 73
Production and intermediate-term	7,065	7,322	–	7,531	196
Rural residential real estate	162	161	4	173	4
Total	$ 9,867	$ 10,642	$ 19	$ 10,518	$ 273

	December 31, 2019			Year Ended December 31, 2019	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ –	$ –	$ –	$ –	$ –
With no related allowance for credit losses:					
Real estate mortgage	$ 3,247	$ 3,569	$ –	$ 3,312	$ 147
Production and intermediate-term	7,175	7,643	–	7,318	325
Rural residential real estate	141	140	–	144	6
Total	$ 10,563	$ 11,352	$ –	$ 10,774	$ 478
Total impaired loans:					
Real estate mortgage	$ 3,247	$ 3,569	$ –	$ 3,312	$ 147
Production and intermediate-term	7,175	7,643	–	7,318	325
Rural residential real estate	141	140	–	144	6
Total	$ 10,563	$ 11,352	$ –	$ 10,774	$ 478

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2020	$ 572	$ 390	$ 307	$ 111	$ –	$ 84	$ 18	$ 1,482
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	114	–	2	–	–	3	–	119
Provision for loan losses	(272)	21	(48)	(72)	–	(32)	(5)	(408)
Balance at December 31, 2021	$ 414	$ 411	$ 261	$ 39	$ –	$ 55	$ 13	$ 1,193
Balance at December 31, 2019	$ 682	$ 446	$ 287	$ 95	$ 13	$ 101	$ 21	$ 1,645
Charge-offs	(2)	–	–	–	–	–	–	(2)
Recoveries	4	–	–	–	–	–	–	4
Provision for loan losses	(112)	(56)	20	16	(13)	(17)	(3)	(165)
Balance at December 31, 2020	$ 572	$ 390	$ 307	$ 111	$ –	$ 84	$ 18	$ 1,482
Balance at December 31, 2018	$ 269	$ 1,095	$ 76	$ 44	$ 4	$ 197	$ 1	$ 1,686
Charge-offs	(108)	–	–	–	–	–	–	(108)
Recoveries	15	–	–	–	–	9	–	24
Provision for loan losses	506	(649)	211	51	9	(105)	20	43
Balance at December 31, 2019	$ 682	$ 446	$ 287	$ 95	$ 13	$ 101	$ 21	$ 1,645
Allowance on loans evaluated for impairment:								
Individually	$ 2	$ 22	$ –	$ –	$ –	$ 5	$ –	$ 29
Collectively	412	389	261	39	–	50	13	1,164
Balance at December 31, 2021	$ 414	$ 411	$ 261	$ 39	$ –	$ 55	$ 13	$ 1,193
Individually	$ 15	$ –	$ –	$ –	$ –	$ 4	$ –	$ 19
Collectively	557	390	307	111	–	80	18	1,463
Balance at December 31, 2020	$ 572	$ 390	$ 307	$ 111	$ –	$ 84	$ 18	$ 1,482
Individually	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Collectively	682	446	287	95	13	101	21	1,645
Balance at December 31, 2019	$ 682	$ 446	$ 287	$ 95	$ 13	$ 101	$ 21	$ 1,645
Recorded investment in loans evaluated for impairment:								
Individually	$ 2,721	$ 7,943	$ –	$ –	$ –	$ 151	$ –	$ 10,815
Collectively	57,474	48,860	38,074	5,650	–	7,089	1,891	159,038
Balance at December 31, 2021	$ 60,195	$ 56,803	$ 38,074	$ 5,650	$ –	$ 7,240	$ 1,891	$ 169,853
Individually	$ 2,609	$ 7,010	$ –	$ –	$ –	$ 134	$ –	$ 9,753
Collectively	55,997	34,034	32,305	11,643	–	8,292	1,890	144,161
Balance at December 31, 2020	$ 58,606	$ 41,044	$ 32,305	$ 11,643	$ –	$ 8,426	$ 1,890	$ 153,914
Individually	$ 3,135	$ 7,219	$ –	$ –	$ –	$ 110	$ –	$ 10,464
Collectively	59,729	33,900	26,410	8,783	1,205	9,194	1,891	141,112
Balance at December 31, 2019	$ 62,864	$ 41,119	$ 26,410	$ 8,783	$ 1,205	$ 9,304	$ 1,891	$ 151,576

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

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

	Year Ended December 31, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate	$ –	$ 667	$ –	$ 667	
Production and intermediate term	–	951	–	951	
Rural residential real estate	–	28	–	28	
Total	$ –	$ 1,646	$ –	$ 1,646	
Post-modification:					
Real estate	$ –	$ 665	$ –	$ 665	$ –
Production and intermediate term	–	953	–	953	–
Rural residential real estate	–	28	–	28	–
Total	$ –	$ 1,646	$ –	$ 1,646	$ –

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
	Year Ended December 31, 2020				
Pre-modification:					
Rural residential real estate	$ –	$ 21	$ –	$ 21	
Total	$ –	$ 21	$ –	$ 21	
Post-modification:					
Rural residential real estate	$ –	$ 21	$ –	$ 21	$ –
Total	$ –	$ 21	$ –	$ 21	$ –

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
	Year Ended December 31, 2019				
Pre-modification:					
Real estate mortgage	$ –	$ 324	$ –	$ 324	
Total	$ –	$ 324	$ –	$ 324	
Post-modification:					
Real estate mortgage	$ –	$ 323	$ –	$ 323	$ –
Total	$ –	$ 323	$ –	$ 323	$ –

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

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

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2021	2020	2019	2021	2020	2019
Real estate mortgage	$ 2,305	$ 1,633	$ 2,032	$ 1,102	$ –	$ 458
Production and intermediate-term	7,783	7,010	7,066	4,913	4,689	4,632
Rural residential real estate	151	134	110	–	–	–
Total loans	$ 10,239	$ 8,777	$ 9,208	$ 6,015	$ 4,689	$ 5,090
Additional commitments to lend	$ –	$ –	$ –			

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. At December 31, 2021, the Association's investment in the Bank was composed of purchased Class C stock and totaled $1,165. At December 31, 2020 and 2019, the Association's investment in the Bank was also composed of purchased Class C stock and totaled $1,246 and $1,348, respectively. In 2021, 2020, and 2019, the Association received refunds of excess stock of $81, $102, and $136, respectively, as part of the Bank's annual capital equalization program. The Association owned 0.45 percent of the issued stock of the Bank as of December 31, 2021 net of any reciprocal investment. As of that date, the Bank's assets totaled $39.3 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $486 million for 2021. In addition, the Association held $139 in investments related to other Farm Credit institutions at December 31, 2021.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2021	2020	2019
Land and improvements	$ 131	$ 131	$ 131
Buildings and improvements	2,046	2,017	1,923
Furniture and equipment	1,243	1,211	1,231
	$ 3,420	$ 3,359	$ 3,285
Less: accumulated depreciation	2,423	2,247	2,154
Total	$ 997	$ 1,112	$ 1,131

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2021, the Association's notes payable were within the specified limitations.

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA and which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

The weighted average interest rates on the variable rate advances were 1.42 percent for LIBOR-based loans and 1.56 percent for Prime-based loans, and the weighted average remaining maturities were 3.5 years and 4.9 years, respectively, at December 31, 2021. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.58 percent, and the weighted average remaining maturity was 7.7 years at December 31, 2021. The weighted-average interest rate on all interest-bearing notes payable was 1.96 percent and the weighted-average remaining maturity was 5.7 years at December 31, 2021. Variable rate and fixed rate notes payable represent approximately 32.88 percent and 67.12 percent, respectively, of total notes payable at December 31, 2021. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or Class C participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing.

   The initial borrower investment, through either purchase or transfer, must be in an amount equal to 2.0 percent or $1 thousand, whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs.

   Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation. At December 31, 2021, the Association had no loans designated for sale, nor were any loans previously sold into the Secondary Market.

   The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers.

   Retirement of such equities is at par ($5 per share). Repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates. Retirements of equity investments are subject to approval by the Board, at its sole discretion. Subject to any limitations of the Farm Credit Act, when the debt of a borrower/stockholder is in default, the Association may order retirement of stock or participation certificates owned by the borrower and apply the proceeds to the indebtedness.

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

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

   The capital regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. Regulatory ratios include common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based ratios. The regulations also include a tier 1 leverage ratio which includes an unallocated retained earnings (URE) and URE equivalents (UREE) component. The permanent capital ratio (PCR) remains in effect.

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

   - The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, and paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.

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

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2021	2020	2019
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	33.51%	36.44%	37.11%
Tier 1 Capital	6.0%	2.5%	8.5%	33.51%	36.44%	37.11%
Total Capital	8.0%	2.5%	10.5%	34.67%	37.64%	38.25%
Permanent Capital	7.0%	0.0%	7.0%	33.88%	36.85%	37.51%
Non-risk-adjusted ratios:						
Tier 1 Leverage**	4.0%	1.0%	5.0%	32.24%	34.45%	34.83%
URE and UREE Leverage	1.5%	0.0%	1.5%	32.69%	35.02%	35.50%

**Includes fully phased-in capital conservation buffers which became effective January 1, 2020.*
*** The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

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

C. **Description of Equities:** The Association is authorized to issue or have outstanding Class D Preferred Stock, Classes A and C Common Stock, Class C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All classes of stock and participation certificates have a par or face value of five dollars ($5.00) per share.

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

Class	Protected	Shares Outstanding Number	Aggregate Par Value
C Common/Voting	No	69,602	$ 348
C Participation Certificates/Nonvoting	No	24,418	122
Total Capital Stock and Participation Certificates		94,020	$ 470

Common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amount, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account. The minimum amount is determined annually by the Board. At the end of any fiscal year, if the retained earnings account would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board.

Equity Dividends

Equity dividends may be declared and paid on stock and participation certificates as determined by the Board's resolution. All equity dividends shall be paid on a per share basis. Dividends on common stock and participation certificates shall be noncumulative without preference between classes.

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

Patronage Dividends

The Board, by adoption of a resolution, may obligate the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net earnings for the fiscal year. By adoption of resolutions in December, the Board may obligate the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net taxable earnings. Patronage distributions declared are authorized to be paid 100 percent in cash, based on the proportion of each eligible borrower's net interest margin as compared to the total net interest margin earned by all eligible borrowers. The Board of Directors reserves the right to change the basis for the payment of patronage dividends.

If the Association meets its capital adequacy standards after accruing the patronage distribution, the dividend distribution may be paid in cash, authorized stock of the Association, allocations of earnings retained in an allocated member's equity account, or any one or more of such forms of distribution.

Transfer

Each owner or joint owners of Class C Common Stock is entitled to a single vote, regardless of the number of shares owned, while Class A Common Stock, Class D Preferred Stock and Class C Participation Certificates provide no voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock. Common stock and participation certificates may be transferred to any person eligible to hold such class of equity under the bylaws. Class D Preferred Stock may be transferred in the manner set forth in the resolution authorizing its issuance.

Impairment

Under the capitalization bylaw of the Association, all stock and participation certificates are considered to be issued "at risk" and are not protected under the Farm Credit Act. Any net losses recorded by the Association shall first be applied against unallocated retained earnings. To the extent that such losses would exceed unallocated retained earnings, resulting in impairment of the Association's capital stock, such losses would be applied pro rata to each share and/or unit outstanding in the class, in the following order:

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

Liquidation

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

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

Note 8 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

Estimating the fair value of the Association's equity investments in the Bank and other Farm Credit institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost.

The classifications within the fair value hierarchy (See Note 2) are as follows:

Level 1
For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2
The Association had no Level 2 assets or liabilities.

Level 3
Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

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

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

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

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

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

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

	December 31, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 636	$ –	$ –	$ 636	$ 636
Other property owned	2,058	–	–	2,256	2,256
Nonrecurring Assets	$ 2,694	–	$ –	2,892	2,892
Other Financial Instruments					
Assets:					
Cash	$ 96	$ 96	$ –	$ –	$ 96
Loans	167,315	–	–	167,132	167,132
Other Financial Assets	$ 167,411	$ 96	$ –	$ 167,132	$ 167,228
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 116,482	$ –	$ –	$ 116,908	$ 116,908
Other Financial Liabilities	$ 116,482	$ –	$ –	$ 116,908	$ 116,908

	December 31, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 527	$ –	$ –	$ 527	$ 527
Other property owned	2,761	–	–	2,964	2,964
Nonrecurring Assets	$ 3,288	–	$ –	3,491	3,491
Other Financial Instruments					
Assets:					
Cash	$ 192	$ 192	$ –	$ –	$ 192
Loans	151,417	–	–	153,648	153,648
Other Financial Assets	$ 151,609	$ 192	$ –	$ 153,648	$ 153,840
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 101,357	$ –	$ –	$ 102,696	$ 102,696
Other Financial Liabilities	$ 101,357	$ –	$ –	$ 102,696	$ 102,696

	December 31, 2019									
		Total Carrying Amount		Level 1		Level 2		Level 3		Total Fair Value
Recurring Measurements										
Assets:										
Recurring Assets	$	–	$	–	$	–	$	–	$	–
Liabilities:										
Recurring Liabilities	$	–	$	–	$	–	$	–	$	–
Nonrecurring Measurements										
Assets:										
Impaired loans	$	–	$	–	$	–	$	–	$	–
Other property owned		3,491		–		–		3,816		3,816
Nonrecurring Assets	$	3,491		–	$	–		3,816		3,816
Other Financial Instruments										
Assets:										
Cash	$	158	$	158	$	–	$	–	$	158
Loans		149,383		–		–		150,167		150,167
Other Financial Assets	$	149,541	$	158	$	–	$	150,167	$	150,325
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	$	99,911	$	–	$	–	$	100,667	$	100,667
Other Financial Liabilities	$	99,911	$	–	$	–	$	100,667	$	100,667

Uncertainty in Measurements of Fair Value

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 2,892	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 9 — Employee Benefit Plans

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

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

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

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

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Comprehensive Income were $704 for 2021, $479 for 2020, and $306 for 2019. At December 31, 2021, 2020, and 2019, the total liability balance for the FAP Plan was $39,135, $114,449, and $129,713, respectively. The FAP Plan was 96.17 percent, 89.63 percent, and 87.55 percent funded to the projected benefit obligation as of December 31, 2021, 2020, and 2019, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by Hacienda. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $102, $92, and $95 for the years ended December 31, 2021, 2020, and 2019, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

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

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2021 amounted to $1,225. During 2021, $538 of new loans and advances were made and repayments totaled $586. In the opinion of management, none of these loans outstanding at December 31, 2021 involved more than the normal risk of collectibility.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2021, $27,636 of commitments to extend credit and $3 of commercial letters of credit were outstanding with a related reserve for unfunded commitments of $103 included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2021, standby letters of credit outstanding totaled $338 with expiration dates ranging from January 1, 2022 to August 19, 2026. The maximum potential amount of future payments that may be required under these guarantees was $338.

Note 12 — Income Taxes

The Association recorded no provision for federal income tax for 2021, no provision for federal income tax for 2020, and a $1 benefit for federal income tax for 2019. For 2010, the Association incurred a patronage sourced net operating loss which was carried forward to 2013 through 2015, which fully offset patronage sourced taxable income. Therefore, since 2012, any eligible patronage sourced income was not distributed, until 2017, 2018, 2019, and 2020 when $1,700 in 2017, $3,000 in 2018, $2,000 in 2019, $2,900 in 2020, and $2,700 in 2021 of eligible patronage source income was distributed to offset patronage source income in each year. The Association is exempt from Puerto Rico income tax under Article 23 of the General Cooperative Act of 2004. The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31,		
	2021	2020	2019
Federal tax at statutory rate	$ 671	$ 612	$ 466
Patronage distributions	(567)	(609)	(248)
Tax-exempt FLCA earnings (losses)	(318)	(218)	(420)
Other	214	215	201
Provision (benefit) for income taxes	$ –	$ –	$ (1)

As discussed in Note 2, Income Taxes, the Board and management intend that the ACA will have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends, resulting in zero federal income tax. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences and has no net deferred tax assets.

There were no potential uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2021 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. At December 31, 2021 the Association has Federal loss carryforwards totaling approximately $4.0 million that expire in varying amounts beginning in 2030. Any portion of the Federal loss carryforwards generated post 2017 does not expire.

The tax years that remain open for Federal and Puerto Rico income tax jurisdictions are 2018 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2021				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,080	$ 1,138	$ 1,092	$ 1,231	$ 4,541
Provision for (reversal of allowance for) loan losses	(28)	(43)	274	(611)	(408)
Noninterest income (expense), net	(761)	(616)	(710)	334	(1,753)
Net income (loss)	$ 347	$ 565	$ 108	$ 2,176	$ 3,196

	2020				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,196	$ 1,097	$ 1,061	$ 1,066	$ 4,420
Provision for (reversal of allowance for) loan losses	(87)	109	1	(188)	(165)
Noninterest income (expense), net	(632)	(765)	(633)	357	(1,673)
Net income (loss)	$ 651	$ 223	$ 427	$ 1,611	$ 2,912

	2019				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,374	$ 1,278	$ 1,209	$ 1,187	$ 5,048
Provision for (reversal of allowance for) loan losses	(44)	45	(61)	103	43
Noninterest income (expense), net	(741)	(733)	(748)	(563)	(2,785)
Net income (loss)	$ 677	$ 500	$ 522	$ 521	$ 2,220

Note 14 — Subsequent Events

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

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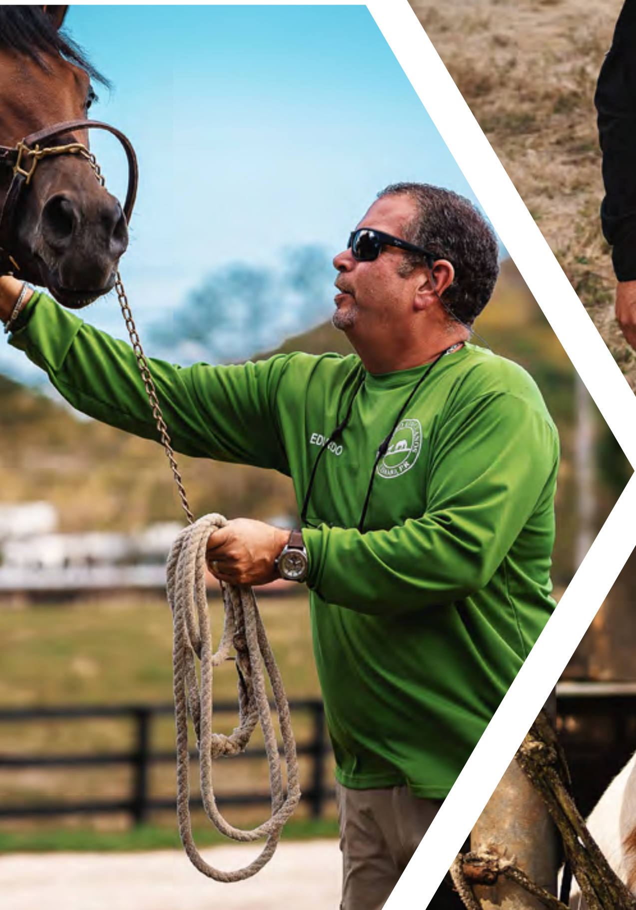

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