AgHeritage® Farm Credit Services

2021 ANNUAL REPORT

FARM CREDIT

ONE MISSION | MANY VOICES

Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow.

DEEP ROOTS IN RURAL AMERICA

Farm Credit is a nationwide network of customer-owned financial institutions that provides loans and related financial services to U.S. farmers and ranchers, farmer-owned cooperatives, rural homebuyers, agribusinesses and rural infrastructure providers.

As customer-owned cooperatives, Farm Credit institutions are governed by the customers they serve and have a specific mission to support rural communities and agriculture – in good times and bad. Farm Credit loans help U.S. agricultural producers feed the world, rural businesses grow and the rural economy thrive. Our infrastructure lending helps bring clean water to rural families, modern telecommunications to help rural businesses compete and reliable energy to rural communities.

Farm Credit's mission remains just as vital today as it was when we made our first loan more than 100 years ago. For more information about Farm Credit and how we support rural communities and agriculture, please visit **www.farmcredit.com.**

SUPPORT

Make loans to more than 500,000 customers, including farmers, ranchers, farmer-owned co-ops and agribusinesses in every state. Also finance exports of U.S. agriculture products.

RURAL COMMUNITIES

Support development of rural infrastructure, including water, telecommunications, electricity and transportation across the country.

AGRICULTURE

Serve approximately 40 percent of the agriculture sector's credit needs.

CREDIT & FINANCIAL SERVICES

Make loans for agriculture real estate and home mortgages, farm operations, equipment purchases, agribusiness operations, U.S. agricultural exports and infrastructure construction and operations. Provide financial services, including, crop insurance, credit life insurance and more.

RELIABLE & CONSISTENT

Provide a steady source of capital needed to support customers through good times and bad.

TODAY & TOMORROW

Lead the way in providing credit to young, beginning and small farmers and ranchers.

BIO-STAR:

Was designed to portray Farm Credit as a strong, unified national network ready to meet the challenges of a changing and competitive financial industry.

The BioStar is a symbol of progress and commitment consisting of five visual elements: three leaves, a root system and a star. The leaves represent the three types of lending done by the Farm Credit System – long-term real estate, short-term operating and cooperative financing. The roots represent our member-borrowers, and the star represents light and direction. The prefix "Bio" describes life, while the suffix "Star" captures the strong energetic shape within the symbol.



BOARD OF DIRECTORS

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Chairman

Clay Schaefer
Central Region
Vice Chairman

Russell Bonner
Central Region

Dow Brantley
Central Region

Jesse Briggs
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Chuck Culver
Outside Director

Mark Isbell
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Outside Director

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Northern Region

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Northern Region

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Southern Region

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Marketing Officer

Leslie Brown
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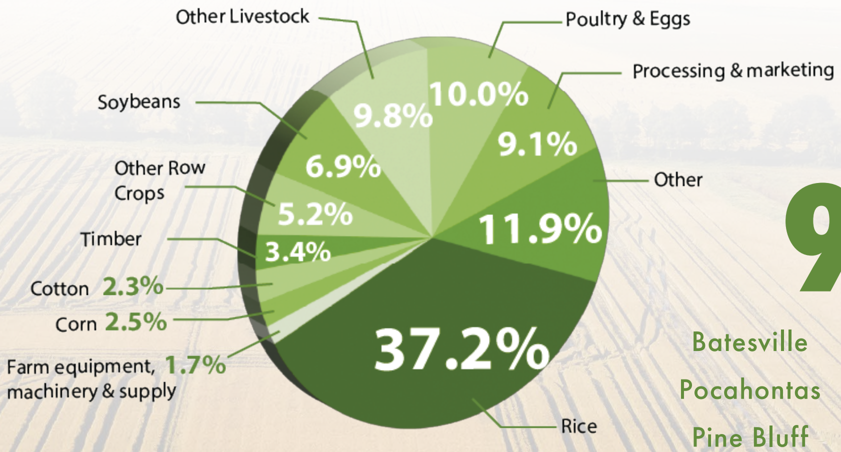
& Chief Human
Capital Officer

AgHeritage Farm Credit Services — AT A GLANCE

OUR PORTFOLIO



ASSETS & GROWTH

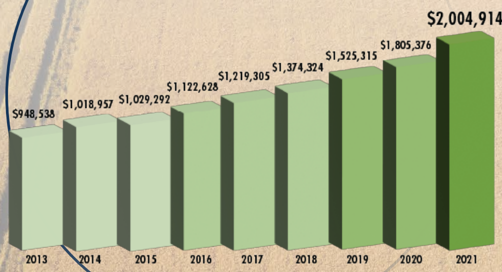
$2.00 BILLION
IN TOTAL ASSETS

9 BRANCH LOCATIONS

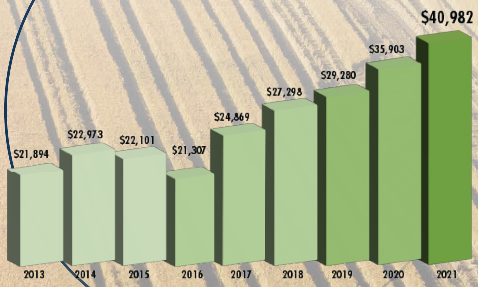
Batesville	Brinkley	Lonoke
Pocahontas	McGehee	Newport
Pine Bluff	Searcy	Stuttgart

SERVING
6,345
MEMBERS ACROSS 24 COUNTIES

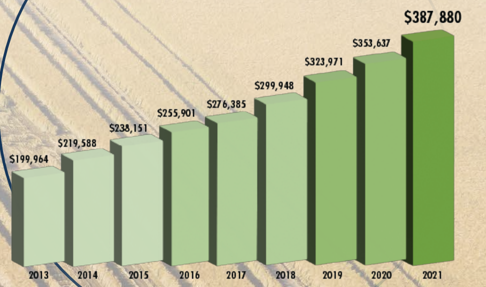
TOTAL ASSETS



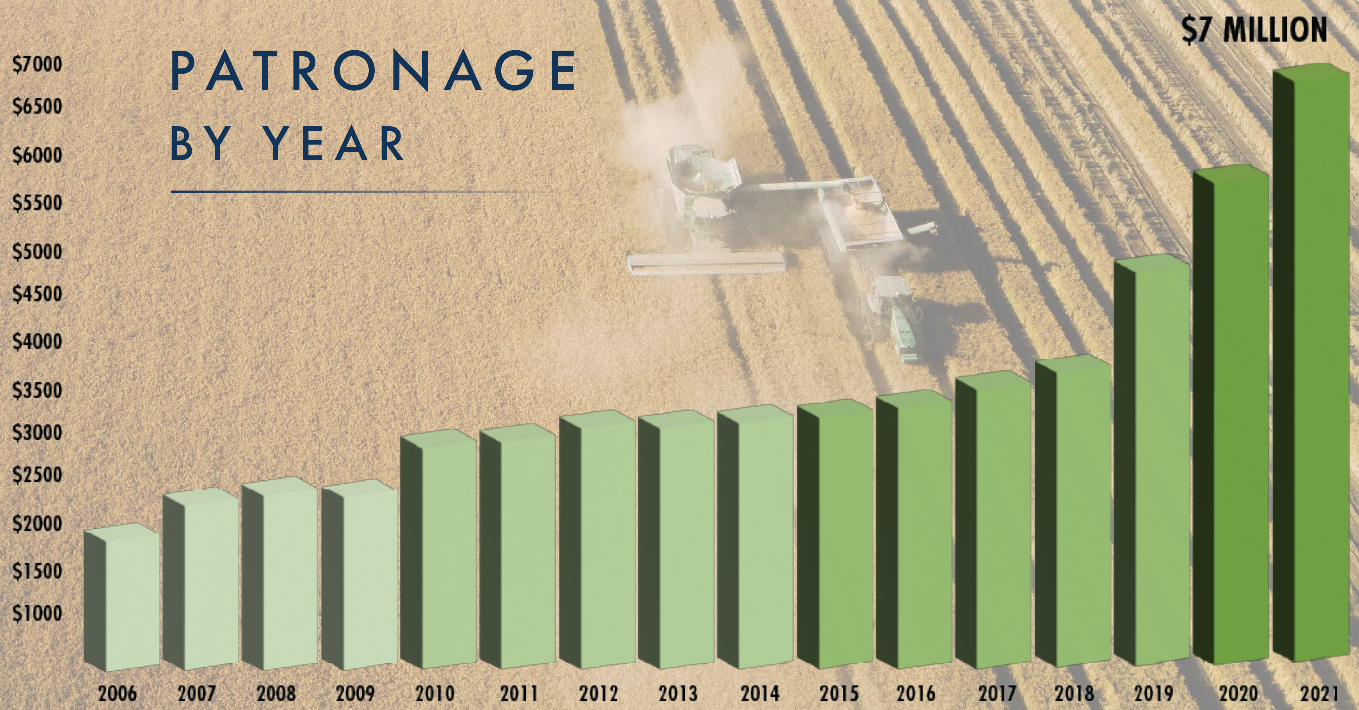
NET INCOME



TOTAL CAPITAL



PATRONAGE BY YEAR



BoBrook Farms: The Building of a Family Dream

By: Ashley Kemp Wimberley

When visiting with Bobby and Karen Bradford on their farm in west Little Rock near Pinnacle Mountain State Park, a few things are quickly evident – they are innovative, driven, witty and perfect partners in both life and business.

The couple named their farm after their children Bo, now 34, and Brook, now 29, when they purchased the 300-acre property in 1994. Today, not only do they enjoy a highly successful business on the land, they also relish in sharing it with their children and their spouses and their four grandchildren, who all live on the land nearby.

High School Sweethearts to Business Partners

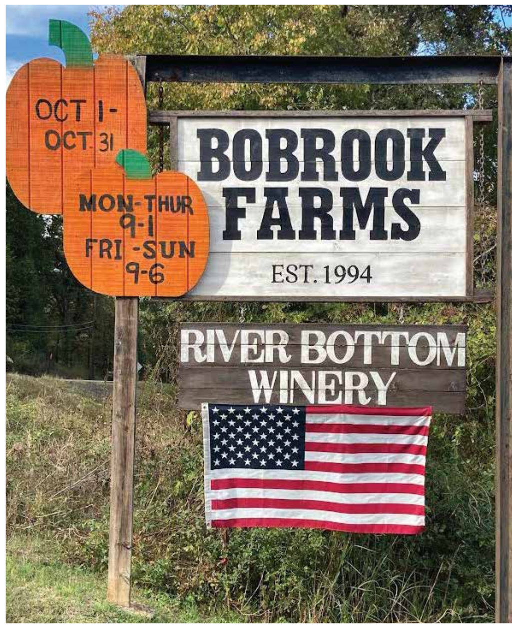
Bobby and Karen's love story started early when they attended school together in the Garrison Road/Ferndale area in Little Rock. "I guess he was in the 11th grade and I was in the 9th grade when we started dating," Karen said. "All through high school, we were sweethearts. After he graduated high school, the summer before my senior year, we got married. I was 17 and he was 19."

Both decided college wasn't their thing – they just wanted to work hard for a living. Early in the marriage, Bobby and Karen discussed returning to the farming lifestyle Bobby loved so much growing up. He was raised on a 30-acre farm with cows and a big garden, and this is something he knew he wanted for his own family.

Both worked in other trades as they saved money, and about a decade into their marriage, they took a leap of faith to realize their ultimate dream – the purchase of a farm.

"Of course, when Bobby and I decided farming was what we were going to do, it was scary, but it didn't take me long to realize it was for me too," said Karen. "When I could talk to an older farmer, and he talked about loving the smell of dirt, I was like yes, I know exactly what you mean. You're tilling up the ground, and just watching your little seeds sprout for as far as you can see – little green rows – silly stuff but it became something I loved."

Starting of the Operation



"When we purchased the farm, we wanted to row crop," said Bobby. "I visited with my neighbor, and he told me to call Farm Credit Services. I had experience with livestock, but neither Karen or I had any real background in the row crop aspect of farming. We didn't understand the money, so having Farm Credit help educate us was highly beneficial. I've always been told if you don't know something, you need to pay attention to someone who does."

That meeting between Farm Credit and Karen and Bobby resulted in a now nearly three-decade partnership that has turned into being what both say has been the key to their success.

"We were actually amazed at how easy it was, and they believed in us," Karen said. "They are so wonderful about being there when you need them. Now, after all of these years, we consider them more like family."

It turns out their desire to learn and hard work in this new endeavor helped make them successful, and they spent the next 18 years row cropping. However, when their kids were grown they weren't interested in row cropping, so Bobby and Karen started discussing ways to diversify the farm.

Shifting From Row Crops to Agritourism

The Bradfords started discussing agritourism. Karen explains this as inviting the public to come onto your farm and participate in some sort of agricultural activity, such as picking fruits, hayrides, petting zoos or gathering eggs.

"When we decided to try the agritourism route, AgHeritage was behind us 100 percent. We started doing pick-your-own stuff on the farm," said Karen. "The pumpkin patch is by far my favorite part of the operation. It's our harvest time! We've worked hard all summer, and you get to sit back and enjoy the rewards – not only making money, but the families coming out – the repeats, the smiling faces."

The Addition of a Wedding Venue

When Bobby and Karen's son was getting married about 10 years ago, he and his wife chose the location on their property that had once been their farm headquarters when row cropping.

The former farm headquarters, now totally transformed, offers a beautiful and private country wedding setting that includes a 4,200 square foot enclosed barn and a 6,000 square foot open span barn. The barns are nestled in a 10-acre field with 100-year-old pecan trees.

The wedding venue has continued to grow in popularity and has become an integral part of the operation. When the space isn't being used for weddings, it's utilized for other fun events such as murder mystery dinners, princess tea parties, Superman parties, Easter egg hunts and field trips.

Another Good Idea – The Winery

The next good idea came together in September 2014. "One day I was working in the blueberry patch, and there were two young boys out there picking blueberries like crazy," Karen said. "I thought, these boys are so sweet out there picking those for their grandma. I asked them what they were going to do with all of those blueberries, and they said they were making some homemade wine."

Karen says she was immediately intrigued, and she asked them for their wine recipe. They happily shared, and she made her first two-liter bottle of wine. This is when River Bottom Winery was born.

"That was my first wine making, and today I think I have about 26 different wines," she said. "I make wine with anything I have extra from the orchards. We don't try to grow the grapes here that won't grow in Arkansas, but we do make all the wine on site, and bottle and label it here. It's the only place you can get it."

Outside the winery shop boasts a large patio where many events are now held including Live Music on the Patio on Saturdays and Sundays, Mimosas and Masterpieces and seasonal events. "People come out, they get to listen to live music, have a snack and have a glass of wine with friends outside in the fresh air. It's a good draw," Karen said.

Advice for a New Farmer

Bobby says if giving advice to a new farmer, he would say it's critical to have a financial partner who is willing to stand with you through the good times and the bad.

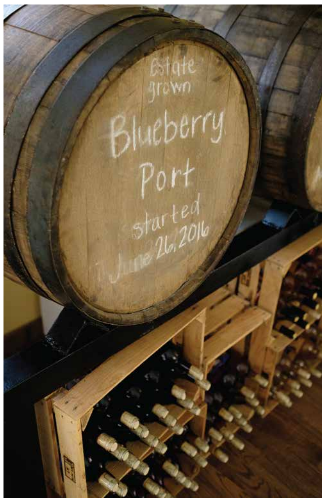
"In every aspect of our operation, AgHeritage just understands what we face. They know every year is different – that's just farming. Mother Nature is very hard to predict. And they kind of work together, Mother Nature and Farm Credit Services…I guess you can say they're partnered up."

"You have to have a strong work ethic to farm," he said. "There's a lot of times it can be very discouraging, but it can be very rewarding as well. And most of the time it's rewarding."

Looking to the Future

When asked about the future of BoBrook Farms, Bobby laughing quips, "Retired in a year or two, but that will never happen." Jokes aside, both say they are workaholics, love what they do and don't plan on retiring anytime soon.

"People say, 'I don't see how y'all stand each other all the time' but we've always been really close, and we've always worked closely together," said Karen. "The good thing about us is that our goals are always the same. It might be that he has to rein me in on something, or I have to rein him in on something, but we always have the same goal at the end of the day. I feel very fortunate that I found my true, exact soulmate."



Life on the Tate Farm: The Right Doors Always Open

By: Ashley Kemp Wimberley

Erick Tate, a fifth-generation farmer in Walnut Ridge in Lawrence County and Egypt in Craighead County, has learned throughout his life and farming career that some doors close, but new doors always open.

Since the age of nine, he's always worked on a farm. However, he isn't a multigenerational farmer who inherited land or equipment. Erick's great-great grandfather saw his operation taken out by the Great Depression. His grandfather, Cletus, started farming in 1973, and after his passing in 1991, Erick's father, Mark, stepped in and began farming the 830 acres. However, in 2001, Mark was unable to recover after a swift economic downturn at the turn of the century that greatly impacted crop prices.

In 2002, after the sale of the farm, Erick was 21 years old and studying Agribusiness at Arkansas State University. Mark was working full-time for a local farmer he had worked with in the 1980's, Rick Burris. Erick, who had also worked for Burris during the summers as a child, joined them during breaks from college, and then later full-time. The relationship that both he and his dad now share with Burris, and his son Hunter (who also farms with the group), is one that chokes Erick up to talk about. He calls his dad and Burris the two most influential people in his life and says Hunter, who like Erick is an only child, is now more like a brother. He laughs that he and Hunter both refer to Burris and his father as "the dads".

"I wouldn't have been able to do any of this if it weren't for Rick," said Erick. "I was lucky to have someone who loves me enough to back me."

Burris and his son Hunter currently farm about 8,000 acres of rice, corn and soybeans. While Mark and Erick continue to work for them, in 2008 Erick began individually accumulating some acreage that would allow him to have his own operation as well. Erick currently farms about 1600 acres – 950 acres of rice, 70 acres of corn and the remainder in soybeans.

Erick says he never had a plan to enter any other trade other than farming. "I started driving a tractor in my grandpa's lap," he says. "And I made my first paycheck from Rick when I was nine or 10."

In 1991, at the age of 11, he started helping his dad on the farm after the passing of his grandpa. "I sowed my first field of rice...I would have been about 14. I have been a part of putting in and taking out a crop for three decades. I have never sacked groceries, worked at a factory or done anything else."

The Hunt for Ol' Grandma

Part of reclaiming the history from these early days was a years-long search for his grandpa's favorite tractor, a John Deere 4430. Erick's grandpa purchased the tractor new from Smith Implement in 1973, and it was always his favorite. The tractor was sold at the sale of the farm in Walnut Ridge in 2001. "My grandpa called this tractor Ol' Grandma," he said, "because he loved it so much."

Erick's wife, Tashena, says many of the stories he's shared involve the beloved John Deere 4430. "I've heard about him learning to drive on that tractor, riding with his grandpa down White Oak gravel road," she said. "He's told me that he can still feel the buffalo gnats hitting his face while he plowed beans, and how he planted his first field of rice using the 4430 and a fertilizer buggy."

For 17 years, Erick and Tashena searched for Ol' Grandma, hoping to make her part of the family again. Tashena says they ran the serial numbers through the system at Greenway Equipment, made numerous Facebook posts, asked friends to share and searched the internet – always hitting a dead end. On Christmas Eve in 2020, after spending the evening with family and sharing memories, Erick logged into Facebook Marketplace to search again for the tractor and a promising post emerged. The tractor was located in Roland, northwest of Little Rock. After a few messages with the seller, who said his father had purchased the tractor at a farm sale in Walnut Ridge 19 years earlier, and confirmation of the serial numbers, it was certain – Ol' Grandma was coming home. "I've done some work on it," said Erick. "I've actually been using it on the farm."

Life on the Farm

Erick's day starts at about 5:45 a.m., when he wakes his two boys, Brogan (12) and Brigg (9), for school and heads to Lawrence County Seed Company, which is also owned by Rick Burris. It's here they meet up each morning to drink coffee, discuss the previous workday and make plans for the current day.

He says farming has changed drastically, with consolidation and technology. "Driving a tractor and not messing up your crop used to be a skillset," Erick said. "Today, the tractor pretty much drives itself, all you have to do is turn it. I've learned to multitask while on the tractor with my phone. I can make decisions about seed or fertilizer, or making banking decisions – whatever needs to be done."

Bo Tretenburg, Erick's loan officer of 10 years, added, "Erick knows his operation and knows his numbers. He's just an extremely hard worker and is a great manager, which is one of the most important aspects of farming today."

Erick says his relationship with AgHeritage has been key to his success. "The relationship means everything," he says. "I tell Bo all of the time I wouldn't be here without him. His opinion matters to me, and I want him to always be honest with me. I've changed directions many times after talking to him – it's a partnership."

As for expanding in the future, Erick leaves the possibility to his personal faith, which he says has always sustained him. "If it's the Lord's will, I will. The Lord opened this door and let me walk in," he said. "I'm not going to sit here and force something that's not His will. So far, whether my name has been on a farm or not, in 32 years, I've never been without a farm or a crop. He has always sustained me."

Family and Community

Erick credits much of his success to a close-knit family and community. "My wife is simply the strongest person I know," he said. Brogan and Brigg are both already showing interest in the farm, and help their dad any way they can. "We feel fortunate to be raising them on the farm and in Walnut Ridge," said Erick. "We attend church at the First Baptist Church in Walnut Ridge. Like other parents, we are just trying to raise our kids the best we can."

He says that Walnut Ridge will always be home. "There are good people in Lawrence County, some of the best in my opinion," he said. As he prepares for his future days in farming, Erick knows this support system – his family, faith and community – will continue to sustain him. And the right doors will always open.

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MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear AgHeritage Farm Credit Services Customer-Owners,

We are pleased to report AgHeritage Farm Credit Services, ACA (AgHeritage FCS), despite the disruption from the COVID-19 crisis, experienced robust business performance and generated strong financial ratios in terms of capital, efficiency ratio, asset growth, credit quality and earnings. The Association also continues to achieve excellent customer satisfaction survey results. Your cooperative has grown to exceed $2.0 billion in assets and enjoys a strong market share position confirming we are achieving our vision of being the agricultural lender of choice in our local marketplace.

The Association paid $7.0 million in patronage based on 2021 earnings to eligible customer-owners in February 2022. The Board of Directors remains committed to our customer-owners in sharing the success of your cooperative. The $7.0 million payout represents approximately 17.1 percent of net earnings, which allows retention of a portion of earnings to provide for future growth and capital stability. Your cooperative has distributed a portion of its annual earnings to its customer-owners for fifteen consecutive years. AgHeritage has distributed $57.95 million to customer-owners and plans to continue patronage distributions well into the future.

From an agricultural economy perspective, the profitability outlook in 2021 improved due to increases in crop prices, mainly attributed to an increase in export demand, coupled with strong harvest yields and government support payments. Although the protein industry was hit hard by the pandemic, there has been an improvement and production capacity has been restored.

In 2021, we made a significant investment in human capital by adding more staff. This allows us to continue to grow our business model, enhance customer service, and improve risk management and succession. Investments were also made in technology to help us meet customer expectations and improve efficiencies.

The Annual Report provides detailed documentation supporting the financial results of the Association. We encourage you to review it carefully, and if you have questions, contact our corporate office or any branch location.

AgHeritage FCS is proud to be your lending cooperative providing both customer and stockholder value to our customer-owners. We want to thank you for allowing us to serve your credit and financial services needs today and tomorrow. We also want to thank our staff for their dedication and hard work. Serving agriculture and Rural America is not just our mission; it’s our passion.

Sincerely,

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

March 10, 2022

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

AgHeritage Farm Credit Services, ACA

(dollars in thousands)

As of December 31	2021	2020	2019	2018	2017
Condensed Statement of Condition Data					
Loans	**$ 1,927,312**	$ 1,739,013	$ 1,459,978	$ 1,314,268	$ 1,166,229
Allowance for loan losses	**9,823**	10,919	7,693	4,458	4,404
Net loans	**1,917,489**	1,728,094	1,452,285	1,309,810	1,161,825
Investment in AgriBank, FCB	**46,626**	38,276	32,968	27,449	25,269
Investment securities	**315**	590	982	1,663	3,643
Other assets	**40,484**	38,416	39,080	35,402	28,568
Total assets	**$ 2,004,914**	$ 1,805,376	$ 1,525,315	$ 1,374,324	$ 1,219,305
Obligations with maturities of one year or less	**$ 21,229**	$ 18,138	$ 19,403	$ 15,979	$ 13,780
Obligations with maturities greater than one year	**1,595,805**	1,433,565	1,181,941	1,058,397	929,140
Total liabilities	**1,617,034**	1,451,703	1,201,344	1,074,376	942,920
Protected members' equity	**--**	--	1	1	1
Capital stock and participation certificates	**3,324**	3,093	2,943	2,839	2,759
Unallocated surplus	**385,814**	351,796	321,852	297,588	274,207
Accumulated other comprehensive loss	**(1,258)**	(1,216)	(825)	(480)	(582)
Total members' equity	**387,880**	353,673	323,971	299,948	276,385
Total liabilities and members' equity	**$ 2,004,914**	$ 1,805,376	$ 1,525,315	$ 1,374,324	$ 1,219,305

For the year ended December 31	2021	2020	2019	2018	2017
Condensed Statement of Income Data					
Net interest income	**$ 49,256**	$ 45,175	$ 40,294	$ 36,952	$ 34,602
(Reversal of) provision for credit losses	**(70)**	4,031	3,248	69	1,834
Other expenses, net	**8,344**	5,241	7,766	9,585	7,899
Net income	**$ 40,982**	$ 35,903	$ 29,280	$ 27,298	$ 24,869
Key Financial Ratios					
For the Year					
Return on average assets	**2.1%**	2.1%	2.0%	2.1%	2.1%
Return on average members' equity	**11.1%**	10.6%	9.4%	9.5%	9.3%
Net interest income as a percentage of average earning assets	**2.6%**	2.8%	2.8%	2.9%	3.0%
Net charge-offs as a percentage of average loans	**0.1%**	0.0%	0.0%	0.0%	0.2%
At Year End					
Members' equity as a percentage of total assets	**19.3%**	19.6%	21.2%	21.8%	22.7%
Allowance for loan losses as a percentage of loans	**0.5%**	0.6%	0.5%	0.3%	0.4%
Common equity tier 1 ratio	**16.2%**	16.8%	18.0%	18.5%	19.1%
Tier 1 capital ratio	**16.2%**	16.8%	18.0%	18.5%	19.1%
Total capital ratio	**16.7%**	17.3%	18.4%	18.8%	19.4%
Permanent capital ratio	**16.3%**	16.9%	18.1%	18.6%	19.2%
Tier 1 leverage ratio	**17.5%**	18.1%	19.5%	19.7%	20.8%
Net Income Distributed					
For the Year					
Patronage distributions:					
Cash	**$ 5,964**	$ 4,959	$ 3,911	$ 3,717	$ 3,587

MANAGEMENT'S DISCUSSION AND ANALYSIS

AgHeritage Farm Credit Services, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgHeritage Farm Credit Services, ACA (the Association) and its subsidiaries, AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, PCA and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations, established by Congress to meet the credit needs of American agriculture. As of January 1, 2022, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 65 borrower-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). We are an association in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System. The Farm Credit System Insurance Corporation (FCSIC) administers the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports, contact us at:

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www.agheritagefcs.com

AgriBank, FCB
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St. Paul, MN 55101
(651) 282-8800
www.AgriBank.com
FinancialReporting@AgriBank.com

Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as stated above.

FORWARD-LOOKING INFORMATION

This Annual Report includes 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 "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. The information in this report is based on current knowledge and is subject to many risks and uncertainties including, but not limited to:

- Political (including trade policies, environmental policies, and civil unrest), legal, regulatory, financial markets, and economic conditions, or other conditions and developments in the United States (U.S.) and abroad
- Length and severity of an epidemic or pandemic
- Economic fluctuations in the agricultural, international, rural and farm-related business sectors
- Weather-related, disease, and other adverse climatic or biological conditions that periodically occur and can impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry (including government support payments) and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Cybersecurity risks, including a failure or breach of our operational or security systems or infrastructure, or those of our third-party vendors or other service providers
- Credit, interest rate, and liquidity risks inherent in our lending activities
- Disruptive technologies impacting the banking and financial services industries or implemented by our competitors which negatively impact our ability to compete in the marketplace
- Changes in our assumptions for determining the allowance for loan losses, other-than-temporary impairment, and fair value measurements
- Industry outlooks for agricultural conditions
- Changes in interest rate indices utilized in our lending

COVID-19 PANDEMIC

As domestic public health measures have been implemented to limit the spread of COVID-19, including the availability of vaccines, many or all restrictions have been lifted across the U.S. While the emergence of COVID-19 variants may negatively impact economic conditions, the overall economy continues to recover, and the outlook is positive for many sectors, including agriculture.

The extent to which the COVID-19 pandemic continues to impact the Association will depend on future developments that are highly uncertain and cannot be predicted. However, we have weathered the significant challenges presented to date. Our business continuity response has allowed us to continue to serve our mission, and a remote work environment allowed us to continue to maintain the health of our employees and operate without loss of key functions due to illness. We have not had any significant changes to internal controls over financial reporting due to working remotely.

AGRICULTURAL AND ECONOMIC CONDITIONS

The 2021 crop conditions in our area were generally good, which resulted in good yields for most producers. As we have been renewing operating loans for the 2022 crop season, we have observed that a large majority of our producers realized positive cash flows for 2021. Although input costs are expected to be higher for 2022 due to inflation, commodity prices have increased significantly in recent months, which should help offset the majority of the increased input costs. If current conditions remain in place, we expect most producers will be able to realize positive cash flows in 2022. Real estate values in our area have been increasing. We expect credit quality to remain stable for our portfolio.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.9 billion at December 31, 2021, an increase of $188.3 million from December 31, 2020.

Components of Loans

(in thousands)

As of December 31	**2021**	2020	2019
Accrual loans:			
Real estate mortgage	**$ 1,093,732**	$ 928,016	$ 757,488
Production and intermediate-term	**477,644**	439,348	420,726
Agribusiness	**286,442**	295,371	205,642
Other	**65,782**	65,855	66,067
Nonaccrual loans	**3,712**	10,423	10,055
Total loans	**$ 1,927,312**	$ 1,739,013	$ 1,459,978

The other category is primarily composed of rural infrastructure and rural residential real estate loans.

The increase in total loans from December 31, 2020, was primarily due to growth in the real estate mortgage and production and intermediate-term loan portfolios.

We have sold to AgriBank participation interests in certain loans as part of a pool program. The total outstanding participation interests in this program were $11.8 million, $13.9 million, and $18.6 million at December 31, 2021, 2020, and 2019, respectively.

The Paycheck Protection Program (PPP) is a guaranteed loan program administered by the U.S. Small Business Administration (SBA) created in response to the COVID-19 pandemic. We obtained approval from the SBA in 2020 to participate as a lender in the PPP. The PPP provides for payment deferral, and under certain circumstances, loan forgiveness. Since inception of the program in 2020, we have successfully processed $3.9 million in PPP loans for customers. As of December 31, 2021, $572 thousand of loans under this program were outstanding.

Typically, our production and intermediate-term loan portfolio exhibits some seasonality relating to patterns of operating loans made to crop producers. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan programs to our borrowers. We determine interest margins charged on each lending program based on cost of funds, credit risk, market conditions, and the need to generate sufficient earnings.

Portfolio Distribution

We are chartered to serve certain counties in Arkansas. Approximately 33.6% of our total loan portfolio was in Lonoke, Lawrence, Arkansas, Pulaski, and Randolph counties at December 31, 2021.

Agricultural Concentrations

As of December 31	2021	2020	2019
Rice	**37.2%**	36.5%	38.3%
Poultry and eggs	**10.0%**	9.7%	6.7%
Other livestock	**9.8%**	9.5%	10.3%
Processing and marketing	**9.1%**	10.1%	9.6%
Soybeans	**6.9%**	7.4%	8.2%
Other row crops	**5.2%**	5.2%	4.7%
Timber	**3.4%**	3.2%	2.7%
Corn	**2.5%**	2.2%	2.7%
Cotton	**2.3%**	2.7%	2.6%
Farm equipment, machinery and supply	**1.7%**	1.8%	1.8%
Other	**11.9%**	11.7%	12.4%
Total	**100.0%**	100.0%	100.0%

Commodities are based on the borrower's primary intended commodity at the time of loan origination and may change due to borrower business decisions as a result of changes in weather, prices, input costs, and other circumstances.

Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2020. Adversely classified loans decreased to 1.7% of the portfolio at December 31, 2021, from 2.2% of the portfolio at December 31, 2020. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses. Additional credit quality information is included in Note 3 to the accompanying Consolidated Financial Statements.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At December 31, 2021, $13.9 million of our loans were substantially guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	2021	2020	2019
Loans:			
Nonaccrual	**$ 3,712**	$ 10,423	$ 10,055
Accruing restructured	**--**	--	--
Accruing loans 90 days or more past due	**--**	--	--
Total risk loans	**3,712**	10,423	10,055
Other property owned	**--**	--	--
Total risk assets	**$ 3,712**	$ 10,423	$ 10,055
Total risk loans as a percentage of total loans	**0.2%**	0.6%	0.7%
Nonaccrual loans as a percentage of total loans	**0.2%**	0.6%	0.7%
Current nonaccrual loans as a percentage of total nonaccrual loans	**59.0%**	21.9%	41.1%
Total delinquencies as a percentage of total loans	**0.3%**	0.6%	0.6%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2020, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

The decrease in nonaccrual loans was primarily due to principal pay downs, payoffs, or charge-offs on nonaccrual loans during 2021. Nonaccrual loans remained at an acceptable level at December 31, 2021, 2020, and 2019.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of December 31	**2021**	2020	2019
Allowance as a percentage of:			
Loans	**0.5%**	0.6%	0.5%
Nonaccrual loans	**264.6%**	104.8%	76.5%
Total risk loans	**264.6%**	104.8%	76.5%
Net charge-offs as a percentage of average loans	**0.1%**	0.0%	0.0%
Adverse assets to capital and allowance for loan losses	**8.3%**	10.7%	14.3%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2021. The increase in the allowance as a percentage of nonaccrual and total risk loans was primarily due to principal pay downs, payoffs, or charge-offs on nonaccrual loans during 2021.

Additional loan information is included in Notes 3, 10, 11, and 12 to the accompanying Consolidated Financial Statements.

INVESTMENT SECURITIES

In addition to loans, we held investment securities. Investment securities totaled $315 thousand, $590 thousand, and $982 thousand at December 31, 2021, 2020, and 2019, respectively. Our investment securities consisted of loans guaranteed by the SBA.

The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2021, 2020, and 2019, we have not recognized any impairment on our investment portfolio.

Additional investment securities information is included in Note 5 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	**2021**	2020	2019
Net income	**$ 40,982**	$ 35,903	$ 29,280
Return on average assets	**2.1%**	2.1%	2.0%
Return on average members' equity	**11.1%**	10.6%	9.4%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio and Investment Securities sections
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

	For the year ended December 31			Increase (decrease) in net income	
(in thousands)	**2021**	2020	2019	**2021 vs 2020**	2020 vs 2019
Net interest income	**$ 49,256**	$ 45,175	$ 40,294	**$ 4,081**	$ 4,881
(Reversal of) provision for credit losses	**(70)**	4,031	3,248	**4,101**	(783)
Non-interest income	**13,837**	13,397	10,131	**440**	3,266
Non-interest expense	**21,027**	17,893	16,913	**(3,134)**	(980)
Provision for income taxes	**1,154**	745	984	**(409)**	239
Net income	**$ 40,982**	$ 35,903	$ 29,280	**$ 5,079**	$ 6,623

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the year ended December 31	**2021 vs 2020**	2020 vs 2019
Changes in volume	**$ 6,564**	$ 4,896
Changes in interest rates	**(2,477)**	(513)
Changes in nonaccrual income and other	**(6)**	498
Net change	**$ 4,081**	$ 4,881

Net interest income included income on nonaccrual loans that totaled $938 thousand, $944 thousand, and $447 thousand in 2021, 2020, and 2019, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.6%, 2.8%, and 2.8% in 2021, 2020, and 2019, respectively. Our net interest margin is sensitive to interest rate changes and competition.

(Reversal of) Provision for Credit Losses

The change in the (reversal of) provision for credit losses was related to our estimate of losses in our portfolio for the applicable years. Additional information is included in Note 3 to the accompanying Consolidated Financial Statements.

Non-Interest Expense

Components of Non-interest Expense

(dollars in thousands)

For the year ended December 31	**2021**	2020	2019
Salaries and employee benefits	**$ 10,635**	$ 10,038	$ 9,401
Other operating expense:			
Purchased and vendor services	**2,897**	2,326	1,940
Communications	**339**	276	278
Occupancy and equipment	**1,156**	1,092	995
Advertising and promotion	**567**	529	580
Examination	**559**	509	464
Farm Credit System insurance	**2,481**	1,310	1,079
Other	**2,302**	1,736	1,973
Other non-interest expense	**91**	77	203
Total non-interest expense	**$ 21,027**	$ 17,893	$ 16,913
Operating rate	**1.1%**	1.1%	1.2%

Purchased and Vendor Services: The increase in purchased and vendor services is primarily due to an increase in recurring and project related information technology costs.

Farm Credit System Insurance: The Farm Credit System insurance expense increased in 2021 primarily due to a higher premium rate charged by FCSIC on accrual loans. The premium rate, which is primarily impacted by System growth, was 16 basis points for all of 2021, compared to a premium rate of 8 basis points for the first half of 2020 and 11 basis points for the second half of 2020. The FCSIC has announced premiums will be 16 basis points for 2022. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

Other: The increase in other operating expenses was due to an increase in compensation and travel related expenses for our Board of Directors, an increase in travel related expenses for employees, and an increase in loan servicing costs specifically related to lien searches and capital markets fees.

Provision for Income Taxes

The change in provision for income taxes was related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2021, 2020, and 2019. Additional disclosure is included in Note 8 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 6 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2021, we had $699.9 million available under our line of credit. We generally apply excess cash to this line of credit. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

Note Payable Information

(dollars in thousands)

For the year ended December 31	**2021**	2020	2019
Average balance	**$ 1,540,489**	$ 1,321,747	$ 1,151,541
Average interest rate	**1.4%**	1.9%	2.9%

Our average cost of funds is variable and may fluctuate based on the current interest rate environment.

In 2017, the United Kingdom's Financial Conduct Authority, which regulates the London Inter-bank Offer Rate (LIBOR), announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. ICE Benchmark Administration (the entity responsible for calculating LIBOR) ceased the publication of the one-week and two-month USD LIBOR settings immediately following the LIBOR publication on December 31, 2021, and has announced it intends to cease publication of the remaining USD LIBOR settings immediately following the LIBOR publication on June 30, 2023. It is widely anticipated that the Secured Overnight Financing Rate (SOFR) will become the benchmark to replace LIBOR.

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. However, we maintain some exposure to interest rates, including LIBOR, primarily from loans to customers which may not have a component of our line of credit with an exact repricing attribute. Furthermore, as AgriBank has shifted their funding, with no remaining LIBOR-indexed bonds as of December 31, 2021, we may see an increase to our basis risk. With limited exceptions in accordance with FCA guidance, we have ceased issuing new loans indexed to LIBOR, somewhat mitigating this basis risk.

The Farm Credit System has established a LIBOR transition workgroup to provide leadership in addressing the LIBOR phase-out across System entities. In coordination with this group, we have developed a comprehensive project plan to address the issues surrounding a transition away from LIBOR. This plan is consistent with regulatory guidance from the FCA, and it incorporates actions to address risk identification and reporting, mitigation strategies, development or adoption of products utilizing alternative reference rates, operational and system impacts, a process for monitoring regulatory and industry developments, as well as communication to stakeholders. While many factors can impact our net interest income, we do not expect a significant impact due to the LIBOR transition at this time.

CAPITAL ADEQUACY

Total members' equity was $387.9 million, $353.7 million, and $324.0 million at December 31, 2021, 2020, and 2019, respectively. Total members' equity increased $34.2 million from December 31, 2020, primarily due to net income for the year partially offset by patronage distribution accruals.

The FCA Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage.

Regulatory Capital Requirements and Ratios

As of December 31	**2021**	2020	2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**16.2%**	16.8%	18.0%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**16.2%**	16.8%	18.0%	6.0%	2.5%	8.5%
Total capital ratio	**16.7%**	17.3%	18.4%	8.0%	2.5%	10.5%
Permanent capital ratio	**16.3%**	16.9%	18.1%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**17.5%**	18.1%	19.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.6%**	19.0%	20.2%	1.5%	N/A	1.5%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

Capital ratios are directly impacted by changes in capital, assets, and off-balance sheet commitments. Refer to the Loan Portfolio and the Investment Securities sections for further discussion of the changes in assets. Additional information on regulatory ratios and members' equity information is included in Note 7 to the accompanying Consolidated Financial Statements and off-balance sheet commitments are discussed in Note 11 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum total capital target range. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target range is subject to revision as circumstances change. Our optimum total capital target range was 14% to 20% as of December 31, 2021.

If the capital ratios fall below the total 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. We do not foresee any events that would result in this prohibition in 2022.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 6 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

In the periods presented, we were not subject to the risk premium component. Certain factors may impact our cost of funds, which primarily include market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset/Liability Committee.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. As of December 31, 2021, we were required by AgriBank to maintain an investment equal to 2.5% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. As of March 31, 2022, the required investment is increasing to 2.55%.

We are also required to hold additional investment in AgriBank based on a contractual agreement under a pool program.

Patronage

AgriBank's capital plan is intended to provide for adequate capital at AgriBank under capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank; distributing available AgriBank earnings in the form of patronage, either cash or AgriBank stock, which is at the sole discretion of the AgriBank Board of Directors. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

Purchased Services

As of December 31, 2021, we purchased certain business services from AgriBank. Until the formation of SunStream Business Services (SunStream) on April 1, 2020, we also purchased financial and retail information technology, collateral, and tax reporting services from AgriBank. These services are now purchased from SunStream. For further discussion on our relationship with SunStream see the Other Relationships and Programs section. Additional related party information is included in Note 10 to the accompanying Consolidated Financial Statements.

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

AgCountry CFG: We participate as a preferred partner in AgCountry CFG, an alliance with certain other associations in the AgriBank District to better meet the financial needs of agricultural producers and agribusiness operations. The income, expense, and credit risks are allocated based on each association's participation interest of the AgCountry CFG volume. Each association determines its commitment for new volume opportunities based on its capacity and preferences. We had $230.6 million, $214.7 million, and $171.6 million of AgCountry CFG volume at December 31, 2021, 2020, and 2019, respectively. We also had $91.9 million of available commitment on AgCountry CFG loans at December 31, 2021.

CentRic Technology Collaboration: We participate in CentRic Technology Collaboration (CTC) with certain other AgriBank District associations. The CTC facilitates the development and maintenance of certain retail technology systems essential to providing credit and other services to our members. The CTC operations are governed by representatives of each participating association. The expenses of CTC are allocated to each of the participating associations based on an agreed upon formula. The systems developed are owned by each of the participating associations.

Farm Credit Leasing Services Corporation: We have an agreement with Farm Credit Leasing Services Corporation (FCL), a System service corporation, which specializes in leasing products and provides industry expertise. Leases are originated and serviced by FCL and we purchase a participation interest in the cash flows of the transaction. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $370 thousand at December 31, 2021, 2020, and 2019.

SunStream Business Services: We have a relationship with SunStream, which involves purchasing financial and retail information technology, collateral, and tax reporting services. SunStream was a division of AgriBank prior to April 1, 2020, when SunStream formed a separate System service corporation of which we are a partial owner. As of December 31, 2021, and 2020, our investment in SunStream was $329 thousand. Additional related party information is included in Note 10 to the accompanying Consolidated Financial Statements. We also guarantee the amounts borrowed by SunStream on their line of credit with AgriBank, up to $40.0 million. Refer to Note 11 to the accompanying Consolidated Financial Statements for further disclosure.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), a System service corporation, which involves purchasing human resource, benefit, payroll, and workforce management services. As of December 31, 2021, 2020, and 2019, our investment in Foundations was $13 thousand. Additional related party information is included in Note 10 to the accompanying Consolidated Financial Statements.

Programs

Farm Cash Management: We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank investment bond to optimize members' use of funds.

REPORT OF MANAGEMENT
AgHeritage Farm Credit Services, ACA

We prepare the Consolidated Financial Statements of AgHeritage Farm Credit Services, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Consolidated Financial Statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the Consolidated Financial Statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the Consolidated Financial Statements. They also consider internal controls to the extent necessary to design audit procedures that comply with auditing standards generally accepted in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report, which has been prepared in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Jerry Burkett
Chairperson of the Board
AgHeritage Farm Credit Services, ACA

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

Kenneth L. Sumner
Senior Vice President and Chief Financial Officer
AgHeritage Farm Credit Services, ACA

March 10, 2022

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

AgHeritage Farm Credit Services, ACA

The AgHeritage Farm Credit Services, ACA (the Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining effective internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

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

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 2013 framework in *Internal Control — Integrated Framework*, 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 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.

Greg Cole

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

Ken Sumner

Kenneth L. Sumner
Senior Vice President and Chief Financial Officer
AgHeritage Farm Credit Services, ACA

March 10, 2022

REPORT OF AUDIT COMMITTEE

AgHeritage Farm Credit Services, ACA

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of AgHeritage Farm Credit Services, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Consolidated Financial Statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2021, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditor directly provided reports on any significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the audited Consolidated Financial Statements be included in the Annual Report for the year ended December 31, 2021.

Sandra Morgan

Sandra Morgan
Chairperson of the Audit Committee
AgHeritage Farm Credit Services, ACA

Additional Audit Committee members:
Dow Brantley
Mark Isbell
Jeff Rutledge
Rhonda Stone

March 10, 2022

Report of Independent Auditors

To the Board of Directors of AgHeritage Farm Credit Services, ACA,

Opinion

We have audited the accompanying consolidated financial statements of AgHeritage Farm Credit Services, ACA, and its subsidiaries (the "Association"), which comprise the consolidated statements of condition as of December 31, 2021, 2020 and 2019, and the related consolidated statements of comprehensive income, changes in members' equity and 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 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 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 financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the 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 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

Minneapolis, Minnesota
March 10, 2022

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
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CONSOLIDATED STATEMENTS OF CONDITION

AgHeritage Farm Credit Services, ACA

(in thousands)

As of December 31		**2021**		2020		2019
ASSETS						
Loans	**$**	**1,927,312**	$	1,739,013	$	1,459,978
Allowance for loan losses		**9,823**		10,919		7,693
Net loans		**1,917,489**		1,728,094		1,452,285
Investment in AgriBank, FCB		**46,626**		38,276		32,968
Investment securities		**315**		590		982
Accrued interest receivable		**24,138**		24,015		26,805
Deferred tax assets, net		**66**		498		510
Other assets		**16,280**		13,903		11,765
Total assets	**$**	**2,004,914**	$	1,805,376	$	1,525,315
LIABILITIES						
Note payable to AgriBank, FCB	**$**	**1,595,805**	$	1,433,565	$	1,181,941
Accrued interest payable		**5,726**		5,314		8,319
Patronage distribution payable		**7,000**		6,000		5,000
Other liabilities		**8,503**		6,824		6,084
Total liabilities		**1,617,034**		1,451,703		1,201,344
Contingencies and commitments (Note 11)						
MEMBERS' EQUITY						
Protected members' equity		**--**		--		1
Capital stock and participation certificates		**3,324**		3,093		2,943
Unallocated surplus		**385,814**		351,796		321,852
Accumulated other comprehensive loss		**(1,258)**		(1,216)		(825)
Total members' equity		**387,880**		353,673		323,971
Total liabilities and members' equity	**$**	**2,004,914**	$	1,805,376	$	1,525,315

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AgHeritage Farm Credit Services, ACA

(in thousands)

For the year ended December 31		2021		2020		2019
Interest income	**$**	**71,488**	$	70,195	$	73,524
Interest expense		**22,232**		25,020		33,230
Net interest income		**49,256**		45,175		40,294
(Reversal of) provision for credit losses		**(70)**		4,031		3,248
Net interest income after (reversal of) provision for credit losses		**49,326**		41,144		37,046
Non-interest income						
Patronage income		**9,605**		8,633		7,045
Financially related services income		**301**		346		291
Fee income		**3,777**		4,038		2,253
Other non-interest income		**154**		380		542
Total non-interest income		**13,837**		13,397		10,131
Non-interest expense						
Salaries and employee benefits		**10,635**		10,038		9,401
Other operating expense		**10,301**		7,778		7,309
Other non-interest expense		**91**		77		203
Total non-interest expense		**21,027**		17,893		16,913
Income before income taxes		**42,136**		36,648		30,264
Provision for income taxes		**1,154**		745		984
Net income	**$**	**40,982**	$	35,903	$	29,280
Other comprehensive loss						
Employee benefit plans activity	**$**	**(42)**	$	(391)	$	(345)
Total other comprehensive loss		**(42)**		(391)		(345)
Comprehensive income	**$**	**40,940**	$	35,512	$	28,935

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

AgHeritage Farm Credit Services, ACA

(in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance as of December 31, 2018	$ 1	$ 2,839	$ 297,588	$ (480)	$ 299,948
Net income	--	--	29,280	--	29,280
Other comprehensive loss	--	--	--	(345)	(345)
Unallocated surplus designated for patronage distributions	--	--	(5,011)	--	(5,011)
Cumulative effect of change in accounting principle	--	--	(5)	--	(5)
Capital stock and participation certificates issued	--	297	--	--	297
Capital stock and participation certificates retired	--	(193)	--	--	(193)
Balance as of December 31, 2019	1	2,943	321,852	(825)	323,971
Net income	--	--	35,903	--	35,903
Other comprehensive loss	--	--	--	(391)	(391)
Unallocated surplus designated for patronage distributions	--	--	(5,959)	--	(5,959)
Capital stock and participation certificates issued	--	415	--	--	415
Capital stock and participation certificates retired	(1)	(265)	--	--	(266)
Balance as of December 31, 2020	--	3,093	351,796	(1,216)	353,673
Net income	**--**	**--**	**40,982**	**--**	**40,982**
Other comprehensive loss	**--**	**--**	**--**	**(42)**	**(42)**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(6,964)**	**--**	**(6,964)**
Capital stock and participation certificates issued	**--**	**468**	**--**	**--**	**468**
Capital stock and participation certificates retired	**--**	**(237)**	**--**	**--**	**(237)**
Balance as of December 31, 2021	**$ --**	**$ 3,324**	**$ 385,814**	**$ (1,258)**	**$ 387,880**

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

AgHeritage Farm Credit Services, ACA

(in thousands)

For the year ended December 31		2021		2020		2019
Cash flows from operating activities						
Net income	**$**	**40,982**	$	35,903	$	29,280
Depreciation on premises and equipment		**515**		468		441
Gain on sale of premises and equipment, net		**(79)**		(22)		(60)
Amortization of discounts on loans and investment securities		**(68)**		(55)		(2)
(Reversal of) provision for credit losses		**(70)**		4,031		3,248
Stock patronage received from AgriBank, FCB		**(1,303)**		--		(3,017)
Loss (gain) on other property owned, net		**36**		(4)		(15)
Changes in operating assets and liabilities:						
(Increase) decrease in accrued interest receivable		**(240)**		2,547		(2,538)
Increase in other assets		**(1,692)**		(1,655)		(981)
Increase (decrease) in accrued interest payable		**412**		(3,005)		660
Increase in other liabilities		**1,637**		203		1,319
Net cash provided by operating activities		**40,130**		38,411		28,335
Cash flows from investing activities						
Increase in loans, net		**(188,910)**		(279,445)		(145,470)
Purchases of investment in AgriBank, FCB, net		**(7,047)**		(5,308)		(2,502)
Purchases of investment in other Farm Credit Institutions, net		**--**		(183)		--
Proceeds from maturing investment securities		**275**		392		681
Proceeds from sales of other property owned		**49**		174		243
Purchases of premises and equipment, net		**(689)**		(588)		(825)
Net cash used in investing activities		**(196,322)**		(284,958)		(147,873)
Cash flows from financing activities						
Increase in note payable to AgriBank, FCB, net		**162,240**		251,624		123,544
Patronage distributions paid		**(5,964)**		(4,959)		(3,911)
Capital stock and participation certificates retired, net		**(84)**		(118)		(95)
Net cash provided by financing activities		**156,192**		246,547		119,538
Net change in cash		**--**		--		--
Cash at beginning of year		**--**		--		--
Cash at end of year	**$**	**--**	$	--	$	--
Supplemental information						
Interest paid	**$**	**21,820**	$	28,025	$	32,570
Taxes paid, net		**673**		963		1,354

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AgHeritage Farm Credit Services, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

The Farm Credit System (System) is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations, established by Congress to meet the credit needs of American agriculture. As of January 1, 2022, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 65 borrower-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2022, the District consisted of 13 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit System Insurance Corporation (FCSIC) administers the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

Association

AgHeritage Farm Credit Services, ACA (the Association) and its subsidiaries, AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, PCA (subsidiaries) are lending institutions of the System. We are a borrower-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Arkansas, Ashley, Bradley, Chicot, Cleburne, Cleveland, Desha, Drew, Fulton, Independence, Izard, Jackson, Jefferson, Lawrence, Lincoln, Lonoke, Monroe, Prairie, Pulaski, Randolph, Sharp, Stone, White, and Woodruff in the state of Arkansas.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries.

We offer credit life, term life, credit disability, crop hail, and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer fee appraisals to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of AgHeritage Farm Credit Services, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

Generally we place loans in nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is adequately secured and in the process of collection) or circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status and the interest is determined to be both uncollectible and the loss is known, we reverse current year accrued interest (to the first of the year or last payment received) to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and certain other criteria are met. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when principal and interest are current, the customer's ability to fulfill the contractual payment terms is fully expected, and, if the loan was past due when placed in nonaccrual status, the loan has evidence of sustained performance in making on-time contractual payments.

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans (as defined below). There may be modifications made in the normal course of business that would not be considered troubled debt restructurings (TDRs).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets, or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets, or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

Allowance for Loan Losses: The allowance for loan losses is our best estimate of the amount of losses on loans inherent in our portfolio as of the date of the financial statements. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Loans in our portfolio that are considered impaired are assessed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

We determine the amount of allowance that is required by assessing risk loans individually and all other loans by combining them into groups of loans sharing similar risk characteristics. For loans that are not individually assessed for impairment, an allowance is recorded for probable and estimable credit losses as of the financial statement date, using a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity, recorded in "(Reversal of) provision for credit losses" in the Consolidated Statements of Comprehensive Income, recoveries, and charge-offs.

Investment in AgriBank: Our stock investment in AgriBank is on a cost plus allocated equities basis.

Investment Securities: We are authorized to purchase and hold certain types of investments. If we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is expensed through Net income in the Consolidated Statements of Comprehensive Income in the period of impairment. The non-credit related component is recognized in other comprehensive income. Purchased premiums and discounts are amortized or accreted using the interest method over the terms of the respective securities. Realized gains and losses are determined using specific identification method and are recognized in current operations.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in "Other assets" in the Consolidated Statements of Condition. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in "Other non-interest income" or "Other non-interest expense", respectively, in the Consolidated Statements of Comprehensive Income. Depreciation and maintenance and repair expenses are included in "Other operating expense" in the Consolidated Statements of Comprehensive Income and improvements are capitalized.

Leases: We are the lessee in operating leases. We evaluate arrangements at inception to determine if it is a lease. Leases with an initial term of 12 months or less are not recorded on the Consolidated Statements of Condition with lease expense recognized on a straight-line basis over the lease term. For operating leases with terms greater than 12 months the right-of-use (ROU) assets are included in “Other assets” in the Consolidated Statements of Condition and the lease liabilities are included in “Other liabilities” in the Consolidated Statements of Condition.

The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease. The length of the lease term is modified to include the option when it is reasonably certain that we will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans, except for the AgriBank District Pension Restoration Plan, are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income.

Certain employees participate in the AgriBank District Retirement Plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001, are on the cash balance formula or on the final average pay formula. Benefits eligible employees hired between October 1, 2001, and December 31, 2006, are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the AgriBank District Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. The pension liability attributable to the Pension Restoration Plan at the Association and the related accumulated other comprehensive loss are included in the Consolidated Statements of Condition. The components of the net periodic cost other than the service cost component, are included in “Other operating expense” on the Consolidated Statements of Comprehensive Income. Service costs are included in “Salaries and employee benefits” on the Consolidated Statements of Comprehensive Income.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees’ active service period.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee’s contributions. We provide benefits under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the Internal Revenue Service (IRS), are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

Off-Balance Sheet Credit Exposures: 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 loan contract. The commitments to extend credit generally have fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management’s best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve is recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss is recorded in “Provision for credit losses” in the Consolidated Statements of Comprehensive Income.

Cash: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current, or principal market information that is not released publicly
- Inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates
- Inputs derived principally from or corroborated by observable market data by correlation or other means

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own judgments about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In March 2020, the FASB issued Accounting Standards Update (ASU) 2020-04 "Reference Rate Reform, Topic 848." In January 2021, the FASB issued ASU 2021-01 further amending Topic 848. This guidance may be elected and applied prospectively over time from March 12, 2020, through December 31, 2022, as reference rate reform activities occur.	The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate.	During March 2021, we adopted this standard. To date, the adoption of this standard has not had a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures.
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amended the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We expect to adopt the standard as of January 1, 2023. We have completed development and validation of our model to estimate credit losses for our loan portfolio. Processes and internal controls related to the model and the estimation of credit losses for loans are currently being designed. We are also evaluating the impact of the standard as it relates to our investment portfolio. We are in the process of drafting disclosures and accounting policies. The extent of the impact on our financial statements will depend on economic conditions, forecasts and the composition of our loan and investment portfolios at the time of adoption.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2021**		2020		2019	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 1,096,717**	**56.9%**	$ 936,709	53.9%	$ 764,070	52.3%
Production and intermediate-term	**477,736**	**24.8%**	440,329	25.3%	423,335	29.0%
Agribusiness	**286,442**	**14.9%**	295,371	17.0%	205,642	14.1%
Other	**66,417**	**3.4%**	66,604	3.8%	66,931	4.6%
Total	**$ 1,927,312**	**100.0%**	$ 1,739,013	100.0%	$ 1,459,978	100.0%

The other category is primarily composed of rural infrastructure and rural residential real estate loans.

Portfolio Concentrations

Concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, which could cause them to be similarly impacted by economic conditions. We lend primarily within agricultural industries.

As of December 31, 2021, volume plus commitments to our ten largest borrowers totaled an amount equal to 6.7% of total loans and commitments.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. 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 may include real estate, equipment, inventory, livestock, and income-producing property. Long-term real estate loans are secured by the first liens on the underlying real property.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with the limitations of the FCA Regulations or General Financing Agreement (GFA) with AgriBank.

Participations Purchased and Sold

(in thousands)	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
As of December 31, 2021	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (30,956)**	**$ 63,133**	**$ (96,837)**	**$ 63,133**	**$ (127,793)**
Production and intermediate-term	**--**	**--**	**43,602**	**(20,399)**	**43,602**	**(20,399)**
Agribusiness	**--**	**(34,644)**	**199,594**	**(122,557)**	**199,594**	**(157,201)**
Other	**--**	**--**	**54,350**	**--**	**54,350**	**--**
Total	**$ --**	**$ (65,600)**	**$ 360,679**	**$ (239,793)**	**$ 360,679**	**$ (305,393)**

	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
As of December 31, 2020	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (13,940)	$ 49,060	$ (40,349)	$ 49,060	$ (54,289)
Production and intermediate-term	--	--	42,278	(20,556)	42,278	(20,556)
Agribusiness	--	(96,343)	207,139	(306,592)	207,139	(402,935)
Other	--	--	54,112	--	54,112	--
Total	$ --	$ (110,283)	$ 352,589	$ (367,497)	$ 352,589	$ (477,780)

	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
As of December 31, 2019	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (18,598)	$ 40,731	$ (24,026)	$ 40,731	$ (42,624)
Production and intermediate-term	--	--	44,279	(24,007)	44,279	(24,007)
Agribusiness	--	(5,276)	164,139	(41,465)	164,139	(46,741)
Other	--	--	53,639	--	53,639	--
Total	$ --	$ (23,874)	$ 302,788	$ (89,498)	$ 302,788	$ (113,372)

Information in the preceding chart excludes loans characterized as mission related investments.

Credit Quality and Delinquency

We utilize the FCA Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – loans are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

We had no loans categorized as loss at December 31, 2021, 2020, or 2019.

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2021	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 1,075,359**	**96.8%**	**$ 23,357**	**2.1%**	**$ 12,240**	**1.1%**	**$ 1,110,956**	**100.0%**
Production and intermediate-term	**447,033**	**91.9%**	**26,990**	**5.5%**	**12,423**	**2.6%**	**486,446**	**100.0%**
Agribusiness	**272,670**	**94.9%**	**7,270**	**2.5%**	**7,590**	**2.6%**	**287,530**	**100.0%**
Other	**64,679**	**97.3%**	**1,213**	**1.8%**	**609**	**0.9%**	**66,501**	**100.0%**
Total	**$ 1,859,741**	**95.3%**	**$ 58,830**	**3.0%**	**$ 32,862**	**1.7%**	**$ 1,951,433**	**100.0%**

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2020	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 906,381	95.3%	$ 26,509	2.8%	$ 17,672	1.9%	$ 950,562	100.0%
Production and intermediate-term	406,638	90.6%	33,193	7.4%	9,045	2.0%	448,876	100.0%
Agribusiness	275,896	92.9%	9,488	3.2%	11,514	3.9%	296,898	100.0%
Other	65,321	97.9%	643	1.0%	708	1.1%	66,672	100.0%
Total	$ 1,654,236	93.8%	$ 69,833	4.0%	$ 38,939	2.2%	$ 1,763,008	100.0%

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2019	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 737,950	94.8%	$ 17,314	2.2%	$ 23,012	3.0%	$ 778,276	100.0%
Production and intermediate-term	398,823	91.8%	19,622	4.5%	15,899	3.7%	434,344	100.0%
Agribusiness	195,414	94.3%	4,870	2.4%	6,805	3.3%	207,089	100.0%
Other	64,026	95.5%	1,425	2.1%	1,584	2.4%	67,035	100.0%
Total	$ 1,396,213	93.9%	$ 43,231	2.9%	$ 47,300	3.2%	$ 1,486,744	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands) **As of December 31, 2021**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	**$ 926**	**$ 1,358**	**$ 2,284**	**$ 1,108,672**	**$ 1,110,956**
Production and intermediate-term	**2,539**	**32**	**2,571**	**483,875**	**486,446**
Agribusiness	**--**	**--**	**--**	**287,530**	**287,530**
Other	**186**	**--**	**186**	**66,315**	**66,501**
Total	**$ 3,651**	**$ 1,390**	**$ 5,041**	**$ 1,946,392**	**$ 1,951,433**

As of December 31, 2020	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	$ 884	$ 6,585	$ 7,469	$ 943,093	$ 950,562
Production and intermediate-term	1,155	796	1,951	446,925	448,876
Agribusiness	931	--	931	295,967	296,898
Other	331	29	360	66,312	66,672
Total	$ 3,301	$ 7,410	$ 10,711	$ 1,752,297	$ 1,763,008

As of December 31, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	$ 1,521	$ 3,140	$ 4,661	$ 773,615	$ 778,276
Production and intermediate-term	1,037	2,444	3,481	430,863	434,344
Agribusiness	--	--	--	207,089	207,089
Other	190	271	461	66,574	67,035
Total	$ 2,748	$ 5,855	$ 8,603	$ 1,478,141	$ 1,486,744

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at December 31, 2021, 2020, or 2019.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information

(in thousands)

As of December 31	2021	2020	2019
Nonaccrual loans:			
Current as to principal and interest	**$ 2,190**	$ 2,284	$ 4,133
Past due	**1,522**	8,139	5,922
Total nonaccrual loans	**3,712**	10,423	10,055
Accruing restructured loans	**--**	--	--
Accruing loans 90 days or more past due	**--**	--	--
Total risk loans	**$ 3,712**	$ 10,423	$ 10,055
Volume with specific allowance	**$ 66**	$ 1,880	$ 2,008
Volume without specific allowance	**3,646**	8,543	8,047
Total risk loans	**$ 3,712**	$ 10,423	$ 10,055
Total specific allowance	**$ 41**	$ 641	$ 738

For the year ended December 31	2021	2020	2019
Income on accrual risk loans	**$ 1**	$ --	$ 1
Income on nonaccrual loans	**938**	944	447
Total income on risk loans	**$ 939**	$ 944	$ 448
Average risk loans	**$ 9,104**	$ 11,635	$ 11,253

Note: Accruing loans include accrued interest receivable.

Nonaccrual Loans by Loan Type

(in thousands)

As of December 31	2021	2020	2019
Real estate mortgage	**$ 2,986**	$ 8,693	$ 6,581
Production and intermediate-term	**91**	981	2,609
Other	**635**	749	865
Total	**$ 3,712**	$ 10,423	$ 10,055

Additional Impaired Loan Information by Loan Type

(in thousands)	As of December 31, 2021 Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	For the year ended December 31, 2021 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	**$ 6**	**$ 46**	**$ 7**	**$ 202**	**$ --**
Production and intermediate-term	**40**	**536**	**14**	**102**	**--**
Agribusiness	**--**	**--**	**--**	**--**	**--**
Other	**20**	**32**	**20**	**24**	**--**
Total	**$ 66**	**$ 614**	**$ 41**	**$ 328**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$ 2,980**	**$ 4,034**	**$ --**	**$ 7,219**	**$ 446**
Production and intermediate-term	**51**	**3,342**	**--**	**129**	**472**
Agribusiness	**--**	**--**	**--**	**777**	**--**
Other	**615**	**817**	**--**	**651**	**21**
Total	**$ 3,646**	**$ 8,193**	**$ --**	**$ 8,776**	**$ 939**
Total impaired loans:					
Real estate mortgage	**$ 2,986**	**$ 4,080**	**$ 7**	**$ 7,421**	**$ 446**
Production and intermediate-term	**91**	**3,878**	**14**	**231**	**472**
Agribusiness	**--**	**--**	**--**	**777**	**--**
Other	**635**	**849**	**20**	**675**	**21**
Total	**$ 3,712**	**$ 8,807**	**$ 41**	**$ 9,104**	**$ 939**

	As of December 31, 2020 Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	For the year ended December 31, 2020 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 997	$ 993	$ 223	$ 847	$ --
Production and intermediate-term	853	846	393	1,052	--
Agribusiness	--	--	--	--	--
Other	30	29	25	29	--
Total	$ 1,880	$ 1,868	$ 641	$ 1,928	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 7,696	$ 7,968	$ --	$ 8,418	$ 711
Production and intermediate-term	128	3,851	--	492	231
Agribusiness	--	--	--	--	--
Other	719	894	--	797	2
Total	$ 8,543	$ 12,713	$ --	$ 9,707	$ 944
Total impaired loans:					
Real estate mortgage	$ 8,693	$ 8,961	$ 223	$ 9,265	$ 711
Production and intermediate-term	981	4,697	393	1,544	231
Agribusiness	--	--	--	--	--
Other	749	923	25	826	2
Total	$ 10,423	$ 14,581	$ 641	$ 11,635	$ 944

	As of December 31, 2019			For the year ended December 31, 2019	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 128	$ 119	$ 8	$ 126	$ --
Production and intermediate-term	1,850	1,815	710	2,840	--
Agribusiness	--	--	--	--	--
Other	30	30	20	27	--
Total	$ 2,008	$ 1,964	$ 738	$ 2,993	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 6,453	$ 6,818	$ --	$ 6,360	$ 249
Production and intermediate-term	759	3,938	--	1,168	179
Agribusiness	--	--	--	--	--
Other	835	1,005	--	732	20
Total	$ 8,047	$ 11,761	$ --	$ 8,260	$ 448
Total impaired loans:					
Real estate mortgage	$ 6,581	$ 6,937	$ 8	$ 6,486	$ 249
Production and intermediate-term	2,609	5,753	710	4,008	179
Agribusiness	--	--	--	--	--
Other	865	1,035	20	759	20
Total	$ 10,055	$ 13,725	$ 738	$ 11,253	$ 448

[1]The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

[2]Unpaid principal balance represents the contractual principal balance of the loan.

We had no material commitments to lend additional money to borrowers whose loans were classified as risk loans at December 31, 2021.

Troubled Debt Restructurings (TDRs)

Included within our loans are TDRs. These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

TDR Activity

(in thousands)

For the year ended December 31	**2021**		2020		2019	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 47**	**$ 6**	$ --	$ --	$ --	$ --
Other	**--**	**--**	196	194	--	--
Total	**$ 47**	**$ 6**	$ 196	$ 194	$ --	$ --

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary types of modification included interest rate reduction below market and forgiveness of principal.

There were no TDRs that defaulted during the years ended December 31, 2021, or 2019, in which the modification was within twelve months of the respective reporting period. We had TDRs in the other loan category of $186 thousand that defaulted during the year ended December 31, 2020, in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of December 31	2021	2020	2019
Total TDRs:			
Real estate mortgage	$ 6	$ --	$ --
Other	370	411	244
Total TDRs	$ 376	$ 411	$ 244

All TDRs outstanding at December 31, 2021, 2020, and 2019 were in nonaccrual status. There were no material commitments to lend to borrowers whose loans have been modified in a TDR at December 31, 2021.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	2021	2020	2019
Balance at beginning of year	$ 10,919	$ 7,693	$ 4,458
(Reversal of) provision for loan losses	(49)	3,973	3,275
Loan recoveries	5	48	106
Loan charge-offs	(1,052)	(795)	(146)
Balance at end of year	$ 9,823	$ 10,919	$ 7,693

The "(Reversal of) provision for credit losses" in the Consolidated Statements of Comprehensive Income includes a (reversal of) provision for loan losses as presented in the previous chart, as well as a (reversal of) provision for credit losses on unfunded commitments. The accrued credit losses on unfunded commitments are recorded in "Other liabilities" in the Consolidated Statements of Condition. Typically, accrued credit losses are relieved and replaced with an allowance for loan loss as the related commitments are funded.

Credit Loss Information on Unfunded Commitments

(in thousands) For the year ended December 31	2021	2020	2019
(Reversal of) provision for credit losses	$ (21)	$ 58	$ (27)
As of December 31	**2021**	**2020**	**2019**
Accrued credit losses	$ 114	$ 135	$ 78

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2020	$ 5,181	$ 2,546	$ 3,021	$ 171	$ 10,919
Provision for (reversal of) loan losses	950	(400)	(634)	35	(49)
Loan recoveries	1	4	--	--	5
Loan charge-offs	(941)	(107)	--	(4)	(1,052)
Balance as of December 31, 2021	$ 5,191	$ 2,043	$ 2,387	$ 202	$ 9,823
Ending balance: individually evaluated for impairment	$ 7	$ 14	$ --	$ 20	$ 41
Ending balance: collectively evaluated for impairment	$ 5,184	$ 2,029	$ 2,387	$ 182	$ 9,782
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2021	$ 1,110,956	$ 486,446	$ 287,530	$ 66,501	$ 1,951,433
Ending balance: individually evaluated for impairment	$ 2,986	$ 91	$ --	$ 635	$ 3,712
Ending balance: collectively evaluated for impairment	$ 1,107,970	$ 486,355	$ 287,530	$ 65,866	$ 1,947,721

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2019	$ 2,719	$ 2,909	$ 1,817	$ 248	$ 7,693
Provision for (reversal of) loan losses	2,516	330	1,204	(77)	3,973
Loan recoveries	18	17	--	13	48
Loan charge-offs	(72)	(710)	--	(13)	(795)
Balance as of December 31, 2020	$ 5,181	$ 2,546	$ 3,021	$ 171	$ 10,919
Ending balance: individually evaluated for impairment	$ 223	$ 393	$ --	$ 25	$ 641
Ending balance: collectively evaluated for impairment	$ 4,958	$ 2,153	$ 3,021	$ 146	$ 10,278
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2020	$ 950,562	$ 448,876	$ 296,898	$ 66,672	$ 1,763,008
Ending balance: individually evaluated for impairment	$ 8,692	$ 981	$ --	$ 750	$ 10,423
Ending balance: collectively evaluated for impairment	$ 941,870	$ 447,895	$ 296,898	$ 65,922	$ 1,752,585

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2018	$ 1,404	$ 2,421	$ 431	$ 202	$ 4,458
Provision for loan losses	1,332	484	1,386	73	3,275
Loan recoveries	25	76	--	5	106
Loan charge-offs	(42)	(72)	--	(32)	(146)
Balance as of December 31, 2019	$ 2,719	$ 2,909	$ 1,817	$ 248	$ 7,693
Ending balance: individually evaluated for impairment	$ 8	$ 710	$ --	$ 20	$ 738
Ending balance: collectively evaluated for impairment	$ 2,711	$ 2,199	$ 1,817	$ 228	$ 6,955
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2019	$ 778,276	$ 434,344	$ 207,089	$ 67,035	$ 1,486,744
Ending balance: individually evaluated for impairment	$ 6,581	$ 2,609	$ --	$ 865	$ 10,055
Ending balance: collectively evaluated for impairment	$ 771,695	$ 431,735	$ 207,089	$ 66,170	$ 1,476,689

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

NOTE 4: INVESTMENT IN AGRIBANK

As of December 31, 2021, we were required by AgriBank to maintain an investment equal to 2.5% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. As of March 31, 2022, the required investment is increasing to 2.55%.

We are also required to hold AgriBank stock related to our participation in a pool program. The required investment amount varies by pool program and is generally a percentage of the loan balance in the pool.

AgriBank's capital plan provides for annual retirement of AgriBank stock and optimizes capital at the Bank by distributing all available Bank earnings in the form of patronage, either in cash or stock. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of allocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

NOTE 5: INVESTMENT SECURITIES

We held investment securities of $315 thousand, $590 thousand, and $982 thousand at December 31, 2021, 2020, and 2019, respectively. Our investment securities consisted of securities containing loans guaranteed by the Small Business Administration (SBA).

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2021, 2020, and 2019, we have not recognized any impairment on our investment portfolio.

Additional Investment Securities Information

(dollars in thousands) As of December 31	2021	2020	2019
Amortized cost	$ 315	$ 590	$ 982
Unrealized gains	8	13	28
Fair value	$ 323	$ 603	$ 1,010
Weighted average yield	3.8%	4.2%	5.8%

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $15 thousand, $18 thousand, and $13 thousand in 2021, 2020, and 2019, respectively.

NOTE 6: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and substantially all of our assets serve as collateral.

Note Payable Information

(dollars in thousands) As of December 31	2021	2020	2019
Line of credit	$ 2,300,000	$ 1,600,000	$ 1,600,000
Outstanding principal under the line of credit	1,595,805	1,433,565	1,181,941
Interest rate	1.4%	1.5%	2.7%

Our note payable was scheduled to mature on August 31, 2022. However, it was renewed early for $2.3 billion with a maturity date of May 31, 2024. We intend to renegotiate the note payable no later than the maturity date.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. Additionally, we have requirements to maintain an effective program of internal controls over financial reporting. At December 31, 2021, and throughout the year, we were not declared in default under any GFA covenants or provisions.

NOTE 7: MEMBERS’ EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer’s total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Regulatory Capitalization Requirements

Regulatory Capital Requirements and Ratios

As of December 31	2021	2020	2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	16.2%	16.8%	18.0%	4.5%	2.5%	7.0%
Tier 1 capital ratio	16.2%	16.8%	18.0%	6.0%	2.5%	8.5%
Total capital ratio	16.7%	17.3%	18.4%	8.0%	2.5%	10.5%
Permanent capital ratio	16.3%	16.9%	18.1%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	17.5%	18.1%	19.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	18.6%	19.0%	20.2%	1.5%	N/A	1.5%

Risk-adjusted assets have been defined by the FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with the FCA Regulations and are calculated as follows (not all items below may be applicable to our Association):

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities 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, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- Unallocated retained earnings and equivalents leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total 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.

Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value.

	Number of Shares		
As of December 31	**2021**	2020	2019
Class A common stock (protected)	**--**	--	199
Class C common stock (at-risk)	**640,840**	595,633	563,372
Participation certificates (at-risk)	**23,835**	22,899	25,340

Under our bylaws, we are also authorized to issue Class B common stock and Class D common stock. Each of these classes of stock is at-risk and nonvoting. Class B common stock has a $5.00 par value per share and the Class D common stock has a $1,000 par value per share. Currently, no stock of these classes has been issued. We are no longer authorized to issue Class A common stock.

Only holders of Class C common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2021, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- first, pro rata to holders of common stock and participation certificates
- second, any remaining assets of the Association after such distribution shall be distributed to present and former patrons on a patronage basis, to the extent practicable

Any impairment of capital stock shall be treated as impairing all shares of common stock and participations certificates pro rata.

All classes of stock are transferable to other customers who are eligible to hold such classes of stock. Transfers of stock are only allowed when we meet minimum regulatory capital requirements.

Patronage Distributions

We accrued patronage distributions of $7.0 million, $6.0 million, and $5.0 million at December 31, 2021, 2020, and 2019, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

If the capital ratios fall below the total 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.

NOTE 8: INCOME TAXES

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands)

For the year ended December 31	2021	2020	2019
Current:			
Federal	$ **555**	$ 532	$ 814
State	**167**	201	363
Total current	$ **722**	$ 733	$ 1,177
Deferred:			
Federal	$ **323**	$ 9	$ (145)
State	**109**	3	(48)
Total deferred	**432**	12	(193)
Provision for income taxes	$ **1,154**	$ 745	$ 984
Effective tax rate	**2.7%**	2.0%	3.3%

Reconciliation of Taxes at Federal Statutory Rate to Provision for Income Taxes

(in thousands)

For the year ended December 31	2021	2020	2019
Federal tax at statutory rates	$ **8,849**	$ 7,696	$ 6,355
State tax, net	**212**	143	191
Patronage distributions	**(1,470)**	(1,260)	(1,050)
Effect of non-taxable entity	**(6,470)**	(5,852)	(4,524)
Other	**33**	18	12
Provision for income taxes	$ **1,154**	$ 745	$ 984

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Comprehensive Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

Deferred Tax Assets and Liabilities

(in thousands)

As of December 31	2021	2020	2019
Allowance for loan losses	$ **884**	$ 1,220	$ 1,024
Postretirement benefit accrual	**131**	131	132
Deferred fee income, net	**45**	31	--
Accrued incentive	**190**	169	272
Accrued patronage income not received	**(281)**	(196)	(183)
AgriBank 2002 allocated stock	**(164)**	(165)	(165)
Accrued pension asset	**(410)**	(371)	(316)
Depreciation	**(195)**	(164)	(96)
Other liabilities	**(134)**	(157)	(158)
Deferred tax assets, net	$ **66**	$ 498	$ 510
Gross deferred tax assets	$ **1,250**	$ 1,551	$ 1,428
Gross deferred tax liabilities	$ **(1,184)**	$ (1,053)	$ (918)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2021, 2020, or 2019.

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $9.6 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $307.4 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2021. In addition, we believe we are no longer subject to income tax examinations for years prior to 2018.

NOTE 9: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the AgriBank 2021 Annual Report.

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for employer decisions regarding all benefit plans including retirement benefits. These decisions could include plan design changes, vendor changes, determination of employer subsidies (if any), and termination of specific benefit plans. Any action to change or terminate the retirement plan can only occur at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

AgriBank District Retirement Plan Information

(in thousands)

As of December 31	**2021**	2020	2019
Unfunded liability	**$ 46,421**	$ 169,640	$ 220,794
Projected benefit obligation	**1,500,238**	1,563,421	1,421,126
Fair value of plan assets	**1,453,817**	1,393,781	1,200,332
Accumulated benefit obligation	**1,384,554**	1,426,270	1,298,942

For the year ended December 31	**2021**	2020	2019
Total plan expense	**$ 28,048**	$ 42,785	$ 36,636
Our allocated share of plan expenses	**419**	638	552
Contributions by participating employers	**90,000**	90,000	90,000
Our allocated share of contributions	**1,272**	1,290	1,276

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at December 31. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. Effective March 2021, a change in accounting policy was elected to use the fair value method for calculating the market-related value of assets for the fixed-income pension assets, directly impacting pension costs. The change in accounting principle did not have a material impact on the financial statements.

Benefits paid to participants in the District were $88.6 million in 2021. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2022 is $90.0 million. Our allocated share of these pension contributions is expected to be $1.5 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Nonqualified Retirement Plan: We also participate in the District-wide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

Pension Restoration Plan Information

(in thousands)

As of December 31		2021		2020		2019
Our unfunded liability	$	**2,352**	$	2,006	$	1,385

For the year ended December 31		2021		2020		2019
Our allocated share of plan expenses	$	**304**	$	230	$	120

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. Our allocated share of the components of net periodic benefit cost other than the service cost component, are included in "Other operating expense" in the Consolidated Statements of Comprehensive Income. Service costs related to the plan are included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The Pension Restoration Plan is unfunded. We have a Rabbi Trust to fund our future liability under this plan. A Rabbi Trust is a trust created for the purpose of supporting the nonqualified benefit obligation of employers to their employees. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee's active status. Net periodic benefit cost is included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. Postretirement benefit costs related to the retiree medical plans were not considered material for any of the years presented. Our cash contributions were equal to the benefits paid.

Defined Contribution Plans

We participate in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

We also participate in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the defined contribution plan if it were not for certain IRS limitations.

Employer contribution expenses for the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income, were $486 thousand, $423 thousand, and $389 thousand in 2021, 2020, and 2019, respectively. These expenses were equal to our cash contributions for each year.

NOTE 10: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2021, involved more than a normal risk of collectability.

Related Party Loans Information

(in thousands)

As of December 31		2021		2020		2019
Total related party loans	$	**42,338**	$	34,983	$	13,879

For the year ended December 31		2021		2020		2019
Advances to related parties	$	**32,119**	$	35,063	$	12,523
Repayments by related parties		**30,350**		29,010		19,851

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. Advances and repayments on loans in the preceding chart are related to those considered related parties at each respective year end.

As discussed in Note 6, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio. All interest expense as shown on the Consolidated Statements of Comprehensive Income was paid to AgriBank.

Total patronage from AgriBank was $9.5 million, $8.5 million, and $7.0 million in 2021, 2020, and 2019, respectively. Patronage income for 2021 and 2019 was paid in cash and AgriBank stock. Patronage income for 2020 was paid in cash.

In addition, we received compensation from AgriBank for servicing loans of $113 thousand, $76 thousand, and $40 thousand in 2021, 2020, and 2019, respectively.

Refer to Note 3 for information on participations sold to AgriBank and Note 4 for stock investment in AgriBank information.

As of December 31, 2021, we purchased certain business services from AgriBank. Until the formation of SunStream Business Services (SunStream) on April 1, 2020, we also purchased financial and retail information technology, collateral, and tax reporting services from AgriBank. These services are now purchased from SunStream. We also purchase human resource, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). SunStream and Foundations are both System service corporations within the AgriBank District. In addition to the services we purchase from AgriBank, SunStream, and Foundations we also hold an investment in each of these institutions.

Additional Related Party Information

(in thousands) As of December 31		**2021**		2020		2019
Investment in AgriBank	**$**	**46,626**	$	38,276	$	32,968
Investment in SunStream		**329**		329		--
Investment in Foundations		**13**		13		13
For the year ended December 31		**2021**		2020		2019
AgriBank District purchased services	**$**	**1,125**	$	884	$	911

NOTE 11: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on 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 loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2021, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $447.1 million. Additionally, we had $3.8 million of issued standby letters of credit as of December 31, 2021.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

In June 2021, we signed an agreement guaranteeing the amounts borrowed by SunStream on their line of credit with AgriBank, up to $40.0 million. The term of the line of credit is 36 months and may be extended. The guarantee is in effect until any outstanding balance is paid in full. While we are primarily liable for our pro-rata portion of SunStream's indebtedness to AgriBank, we are jointly and severally liable with certain other owners of SunStream. In the event of default by SunStream, we are responsible for the prompt and full payment of amounts outstanding. However, we may seek reimbursement from the remaining owners of SunStream subject to the guarantee agreement. There was no outstanding balance on the SunStream line of credit at December 31, 2021. At this time we believe it is unlikely that we will be required to make payment under this guarantee.

NOTE 12: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2021, 2020, or 2019.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands)

As of December 31, 2021	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$ 27**	**$ 27**

As of December 31, 2020	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 1,301	$ 1,301

As of December 31, 2019	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 1,333	$ 1,333

Valuation Techniques

Impaired Loans: Represents the carrying amount of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

NOTE 13: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 10, 2022, which is the date the Consolidated Financial Statements were available to be issued.

We have executed an agreement with another District association to purchase its loan portfolio. The purchase is subject to multiple approvals, including approval by FCA and the District association's stockholders.

There have been no other material subsequent events that would require recognition in our 2021 Consolidated Financial Statements or disclosure in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

AgHeritage Farm Credit Services, ACA

(Unaudited)

Description of Business

General information regarding the business is incorporated herein by reference from Note 1 to the Consolidated Financial Statements in this Annual Report.

The description of significant business developments, if any, is incorporated herein by reference from the Management's Discussion and Analysis section of this Annual Report.

Description of Property

Property Information

Location	Description	Usage
Little Rock	Leased	Headquarters
Batesville	Leased	Branch
Brinkley	Owned	Branch
Lonoke	Owned	Branch
McGehee	Owned	Branch
Newport	Owned	Branch
Pine Bluff	Leased	Branch
Pocahontas	Owned	Branch
Searcy	Owned	Branch
Stuttgart	Owned	Branch

Legal Proceedings

Information regarding legal proceedings is discussed in Note 11 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2021.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 7 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 6, 7, 8, 9, and 11 to the Consolidated Financial Statements in this Annual Report. All debt and other liabilities in the financial statements are uninsured.

Selected Financial Data

The Consolidated Five-Year Summary of Selected Financial Data is presented at the beginning of this Annual Report.

Management's Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the Management's Discussion and Analysis section of this Annual Report.

Board of Directors

Our Board of Directors is organized into the following committees to carry out Board responsibilities:

The **Audit Committee** oversees financial reporting, the adequacy of our internal control systems, the scope of the Association's internal audit program, the independence of the outside auditors and the processes for monitoring compliance with laws and regulations. The Audit Committee also oversees the adequacy of management's actions with respect to recommendations arising from auditing activities.

The **Finance Committee** monitors our financial and capital planning, asset/liability management and funding and investment activities. Committee members serve as a resource to the Board by maintaining a more in-depth knowledge of our financial activities.

The **Executive Committee** addresses issues of Board governance and the Board's continuing efforts to strengthen and renew the Board, administers a process for maintaining and periodically reviewing board policies and administers a planning process focused upon achieving our mission and maintaining a viable, competitive institution. The committee is authorized to take action on behalf of the Board on matters requiring board approval between normally scheduled board meetings, when necessary. Such authorization is to be reviewed and acted upon at the next board meeting.

The **Human Resources Committee** oversees and provides overall direction and/or recommendations for compensation, benefits and human resource performance management programs.

The **Member Relations Committee** provides direction on the Association's agriculture public policy position at the local, state and national level. Committee members serve as a resource for maintaining high quality member relations/involvement programs, board involvement of market and customer needs and in developing programs to attract young and beginning and next generation farmers.

Board of Directors as of December 31, 2021, including business experience during the last five years

Name	Principal occupation and other business affiliations
Jerry Burkett **Chairperson** **Board Service Began:** 2002 **Current Term Expires:** April 2025	**Principal occupation:** Self-employed grain farmer **Other business affiliations:** Board member of Museum of the Arkansas Grand Prairie Board member of Arkansas County Farm Bureau
Clay Schaefer **Vice Chairperson** **Board Service Began:** 2011 **Current Term Expires:** April 2023	**Principal Occupation:** Self-employed grain farmer **Other business affiliations:** Board member of Riceland Foods, Inc. Board member of Tri-County Farmers Association
Russell Bonner **Board Service Began:** 2006 **Current Term Expires:** April 2022	**Principal occupation:** Self-employed grain farmer
Dow Brantley **Board Service Began:** 2020 **Current Term Expires:** April 2024	**Principal occupation:** Self-employed grain and cotton farmer Grain merchant **Other business affiliations:** Board member of Lonoke County Farm Bureau Board member of Arkansas Rice Federation Board member of Arkansas Rice Council Board member of USA Rice Federation Board member of USA Rice International Trade Policy Board member of Agriculture Policy Advisory Committee for USDA and USTR Board member of Arkansas Ag Council
Jesse Briggs **Board Service Began:** 2017 **Current Term Expires:** April 2024	**Principal occupation:** Self-employed grain farmer **Other business affiliations:** Board member of Farelly Lake Levee District
Ray C. "Chuck" Culver III **Outside Director** **Board Service Began:** 1992 **Current Term Expires:** April 2024	**Principal Occupation:** Institutional Development & External Relations Director, Division of Agriculture at the University of Arkansas System
Mark Isbell **Board Service Began:** 2020 **Current Term Expires:** April 2024	**Principal Occupation:** Self-employed grain farmer **Other business affiliations:** Board member of Arva Intelligence Board, an ag data analytics company Board member of Field to Market Board Board member of Common Ground Arkansas Board member of AgCouncil of Arkansas
Sandra Morgan **Outside Director** **Board Service Began:** 2015 **Current Term Expires:** April 2022	**Principal Occupation:** Vice President and Chief Financial Officer at Riceland Foods, Inc.
Dwain Morris **Board Service Began:** 1991 **Current Term Expires:** April 2022	**Principal occupation:** Self-employed grain farmer **Other business affiliations:** President: 4-D Farms Board member of Randolph County Farm Bureau

Name	Principal occupation and other business affiliations
Jeff Rutledge **Board Service Began:** 2017 **Current Term Expires:** April 2023	**Principal Occupation:** Self-employed grain farmer **Other business affiliations:** Vice chairman of USA Rice Council Board Board member of Arkansas Rice Research and Promotion Board Board member of Arkansas Rice Council Board Board member of Arkansas Rice Federation Board Board member of Newport Levee Board Board member of Jackson County Farm Bureau Board Board member of Newport School Board Board member of Ag Council Arkansas Waterways Commission Board Board member of AgriBank District Farm Credit Council
Rhonda Stone **Board Service Began:** 2021 **Current Term Expires:** April 2025	**Principal Occupation:** Vice President of Finance and Administration at Black River Technical College Self-employed grain farmer
Scott Young **Board Service Began:** 2013 **Current Term Expires:** April 2025	**Principal Occupation:** Self-employed grain and timber farmer Partner in Dogwood Farms President and shareholder in Jim Young Farms, Inc. **Other business affiliations:** Board member of Ashley County Farm Bureau

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. Our Board of Directors has adopted a rate of $750 per day and $150 per conference call. Board members also received a $5,000 annual retainer fee, except for the Board Chairperson, Vice Chairperson and Audit Committee Chair, who receive a retainer fee of $9,000, $7,500 and $7,500, respectively.

Information regarding compensation paid to each director who served during 2021 follows:

	Number of Days Served				
Name	Board Meetings	Other Official Activities	Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2021
Russell Bonner	8.0	1.5	$ 1,125	Audit ($750), Finance ($375)	$ 12,275
Dow Brantley	8.5	0.0	150	Audit ($150)	11,675
Jesse Briggs	7.5	0.0	--		10,775
Jerry Burkett	9.0	21.5	1,125	Audit ($750), Finance ($375)	33,225
Mike Burkett[1]	4.0	0.0	--		3,150
Ray C. "Chuck" Culver III	9.5	0.0	--		12,275
Mark Isbell	9.5	11.0	375	Finance ($375)	20,525
Sandra Morgan	9.5	0.5	1,050	Audit ($900), HR ($150)	12,950
Dwain Morris	6.5	14.0	300	Audit ($150), HR ($150)	22,850
Jeff Rutledge	9.0	5.5	750	Audit ($750)	16,925
Clay Schaefer	9.5	6.5	150	HR ($150)	19,800
Rhonda Stone[2]	5.5	5.0	--		12,875
Scott Young	8.5	0.0	150	HR ($150)	11,675
					$ 200,975

[1]Term ended April 2021

[2]Elected to the Board during 2021

Senior Officers

Senior Officers as of December 31, 2021, including business experience during the last five years

Name and Position	Business experience and other business affiliations
Gregory W. Cole President/Chief Executive Officer	**Business experience:** President/Chief Executive Officer since April 2008
Kenneth L. Sumner SVP/Chief Financial Officer	**Business experience:** SVP/Chief Financial Officer since August 2009 **Other business affiliations:** Board Treasurer of Wade Knox Child Advocacy Center, a local charity Treasurer of Arkansas Waterfowl Association, a not-for-profit organization that raises funds to support local charities and to provide outdoor opportunities for children who would not have the opportunity otherwise
Drue Ford SVP/Chief Credit Officer	**Business experience:** SVP/Chief Credit Officer since October 2006
Cole Plafcan SVP/Chief Lending and Marketing Officer	**Business experience:** SVP/Chief Lending and Marketing Officer since March 2017 VP of Lending and Branch Manager from 1999 to March 2017
Leslie J. Brown VP Chief Human Capital Officer	**Business experience:** VP Chief Human Capital Officer since February 2015 **Other business affiliations:** Treasurer of Arkansas Compensation Association, which provides information and leadership to compensation professionals
Blake Swindle SVP/Chief Commercial Lending Officer	**Business experience:** SVP/Chief Commercial Lending Officer since March 2020 VP of Agribusiness Lending from 2015 to March 2020

Cole Plafcan resigned from his role as SVP/Chief Lending and Marketing Officer effective February 28, 2022.

Senior Officer Compensation

Compensation Risk Management: We believe the design and governance of our senior officer compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to ensure a safe, sound and dependable source of credit and related services for agriculture and Rural America. Our compensation philosophy aims to provide a competitive total rewards package that will enable us to attract and retain highly qualified officers with the requisite expertise and skills while achieving desired business results aligned with the best interests of our members. The design of our senior officer compensation program supports our risk management goals through a set of checks and balances, including (1) a balanced mix of base and variable pay, (2) a balanced use of performance measures that are risk-adjusted where appropriate and (3) a pay-for-performance process that allocates individual awards based on both results and how those results were achieved.

Elements of Compensation: The CEO, senior officers and highly compensated individuals are compensated with a mix of direct cash and long-term incentives, as well as retirement plans generally available to all employees. Our Board of Directors determines the appropriate balance of short-term and long-term incentives, while keeping in mind their responsibilities to our members. Base salary and short-term incentives are intended to be competitive with annual compensation for comparable positions at peer organizations.

Base Salary: The CEO, senior officers and highly compensated individuals base salaries reflect the employee's experience and level of responsibility. Compensation plans for all employees, except the CEO, are subject to review and approval by the Human Resources Committee of our Board of Directors. Information is accumulated regarding competitive market conditions and used in assessing adequate compensation for all employees. The CEO's salary is reviewed and approved by the Board of Directors.

Short-term Incentives: The short-term incentive plan available only to the CEO and senior officers is paid annually based on performance criteria approved by our Human Resources Committee of the Board of Directors. The criteria related to the overall association performance include return on assets, loan volume, capital ratios, surplus, operating rate, credit quality, credit administration, adverse assets to risk funds, borrower concentration and customer satisfaction. Additional criteria related to personal performance include attainment of personal objectives and overall performance rating. We calculate the incentives after the end of the plan year (the plan year is the calendar year) and pay out the incentives within 60 days of year-end. There were no material amendments to the plan during the last fiscal year. Highly compensated employees' short-term incentive plan is based on an adjusted pre-tax net income and the employee's individual performance. Individual performance includes a variety of objectives, including credit quality, fees, growth and job competencies. There were no material changes to the plan during the last fiscal year.

Other incentives: We have a retention incentive available to all employees, including the CEO, senior officers and highly compensated individuals. The incentive is paid with an annual component and a long-term component, subject to the participant's employment after three years. Eligibility to participate in this incentive program includes the employee's most recent performance as well as specialized knowledge and strategic role of his/her position. Due to the retention nature of this incentive, it is reported in the compensation table, on the following page, in the period paid. In addition, we have a sales incentive plan that is available to all full-time branch employees. The incentives are paid for sales of insurance and leasing products, are paid monthly and are subject to the cap set by FCA.

Retirement Plans: We have various post-employment benefit plans which are generally available to all association employees, including the CEO, senior officers and highly compensated individuals, based on dates of service to the association and are not otherwise differentiated by position, unless specifically stated. Information regarding the post-employment benefit plans is included in Notes 2 and 9 to the accompanying Consolidated Financial Statements.

Other Components of Compensation: Additionally, compensation associated with any company-paid vehicles, group term life insurance premiums, disability insurance premiums or other on-the-spot incentives such as gift cards, may be made available to the CEO, senior officers and highly compensated individuals based on job criteria or similar plans available to all employees.

Compensation to the CEO, Senior Officers, and Highly Compensated Individuals

(in thousands) Name	Year	Salary	Bonus	Deferred/ Perquisites	Other	Total
Gregory W. Cole, CEO	**2021**	$ **473**	$ **238**	$ **8**	$ **343**	$ **1,062**
Gregory W. Cole, CEO	2020	446	223	7	915	1,591
Gregory W. Cole, CEO	2019	421	210	5	1,005	1,641
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO						
Five	**2021**	$ **877**	$ **341**	$ **33**	$ **181**	$ **1,432**
Five	2020	827	321	25	84	1,257
Five	2019	778	293	17	208	1,296

The Farm Credit Administration (FCA) Regulations require the disclosure of the total compensation paid during the last fiscal year to all senior officers and highly compensated individuals included in the above table be available and disclosed to our members upon request.

The amount in the "Other" category in the preceding table primarily includes:

- Employer match on defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide Pension Plan and the Pension Restoration Plan, as applicable, as disclosed in Note 9 to the Consolidated Financial Statements in this Annual Report. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association's future obligations under the pension plans. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.

No tax reimbursements are made to the CEO, senior officers or highly compensated individuals.

Generally, the change in the value of the pension benefits, included in the "other" category in the preceding table, can be volatile and is dependent on benefit formulas, interest rates, and to a lesser extent, other actuarial assumptions.

Pension Benefits Attributable to the CEO and Senior Officers

(dollars in thousands) **2021** Name	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Gregory W. Cole, CEO	AgriBank District Retirement Plan	**39.0**	$ **3,459**	$ **--**
Gregory W. Cole, CEO	AgriBank District Pension Restoration Plan	**39.0**	**1,581**	**--**
Aggregate Number of Senior Officers, excluding CEO				
Three	AgriBank District Retirement Plan	**21.6**	$ **910**	$ **--**

The change in composition of the aggregate senior officers can have a significant impact on the calculation of the accumulated pension benefits.

Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. Therefore, any employee starting employment with the AgriBank District after that date is not eligible to be in the plan.

The AgriBank District Pension Restoration Plan restores retirement benefits to certain highly compensated employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Not all senior officers or highly compensated employees are eligible to participate in this plan.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 10 to the Consolidated Financial Statements in this Annual Report.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at:

119 East Third Street, Suite 200
Little Rock, AR 72201
(800) 299-2290
www.agheritagefcs.com

The total directors' travel, subsistence, and other related expenses were $305 thousand, $77 thousand, and $112 thousand in 2021, 2020, and 2019, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2022, or at any time during 2021.

Member Privacy

The FCA Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our Association or our members not normally contained in published reports or press releases.

Relationship with Qualified Public Accountant

There were no changes in the independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total financial statement audit fees paid during 2021 were $84 thousand. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel.

Financial Statements

The Report of Management, Report on Internal Control over Financial Reporting, Report of Audit Committee, Report of Independent Auditors, Consolidated Financial Statements, and Notes to Consolidated Financial Statements are presented prior to this portion of the Consolidated Financial Statements in this Annual Report.

Young, Beginning, and Small Farmers and Ranchers

Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

AgHeritage Farm Credit Services, ACA

(Unaudited)

We have specific programs in place to serve the credit and related needs of young, beginning and small farmers and ranchers (YBS) in our territory. The definitions of YBS as developed by the Farm Credit Administration (FCA) follow:

- Young: A farmer, rancher or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

Demographics

We have compared counts of our YBS borrowers against the 2017 Ag Census data. The census reports at a county level the age, years on farm and gross receipts. Some of the census categories are not perfect comparisons for our YBS reporting methodology. The Ag Census' Small comparison is most similar, as the Ag Census counts the population of farms with sales less than $250 thousand. The Young category is the next best comparison by reporting operations with Principal Producer less than 35 years of age, while YBS parameters include those 35 years of age or less. Finally, the Beginning category is least similar. The Ag Census does not quantify years of experience, but it does report a "New and Beginning" category with Principal Producer with Years on Any Operation into a category of Less than 11 Years. While not an exact comparison for YBS Beginning category, it is used as the best comparison available. Finally, the two disparate populations pose another analysis challenge. The census measures the total population regardless of borrowing characteristics, while we operate within a sub-group of the Ag Census based on farmers who both finance their operation and who finance with AgHeritage Farm Credit Services, ACA.

The following chart compares our 2021 YBS customers to the 2017 Ag Census:

Total Farms	Census < 10 Years	AgHeritage Beginning	% of Census Category
12,122	4,632	2,195	47.4%

Census < 35 Years	AgHeritage Young	% of Census Category
1,299	1,230	94.7%

Census Sales < 250k	AgHeritage Young	% of Census Category
10,523	2,579	24.5%

The 2017 Ag Census total number of farms in the AgHeritage LSA (local service area) is 12,122. This is a decline from the 12,882 total number of farms in the 2012 Ag Census for the AgHeritage LSA. The 2012 versus 2017 Ag Census for our LSA showed increases in the Ag Census number of Young and Beginning farms and a decrease in the number of Small farms. Small farms in the 1997-2017 trend showed small annual increases over the previous Ag Census in 2002 and 2007 (7% and 3%) followed by a 13% decline in 2012 and a 4% decline in 2017. Beginning farms had increases over the previous Ag Census in 2002 and 2007 (7% and 8%), a large decline (75%) in 2012 followed by a 44% increase in 2017. For Young (New) farms, there were decreases from the prior Ag Census in 2002, 2007 and 2012 (7%, 3% and 12%) with an increase in the 2017 Ag Census of 36%.

The AgHeritage trend in Young borrowers for 2003 through 2021 was steady annual increases of 1-20% through 2012. Starting in 2013 the number of Young borrowers began to decrease between 4-10% per year. From 2016 through 2018, the number of Young borrowers remained stable. 2019 saw a 7% increase in Young borrowers over 2018, followed by a 5% increase in 2020 over 2019 and a 9% increase in 2021 over 2020. Beginning borrowers also increased in most years from 2003 through 2014, with increases ranging from 1-19% annually. In 2015 through 2017, Beginning borrowers decreased in a range of 2.2-6.6%. In 2018 through 2021, Beginning borrowers increased in range of 1.6% to 7.4%. Small borrower numbers have been more volatile, ranging from slight decreases (≤ 3%) in most early years, except for a 13% decrease in 2006 to a 15% increase in 2009. The most recent period, 2013-2017, saw decreases ranging from 1.3% to 9.5%, while 2018 through 2021 saw increases in Small borrowers ranging from 6.4% to 10.6%.

Mission Statement

Management and the Board of Directors feel that it is strategically important to support and develop YBS programs. Our YBS Farmer Program mission is to develop and implement programs to attract Young, Beginning and Small and next generation farmers and to strive to reach numeric goals for YBS customers.

Quantitative Goals

(dollars thousands)

	2021 Goals		2021 Actual Results		2022 Goals		2023 Goals		2024 Goals	
	# Loans	Volume	# Loans	Volume	# Loans	Volume	# Loans	Volume	# Loans	Volume
Young	1,060	$ 240,000	1,230	$ 338,520	1,090	$ 260,000	1,120	$ 280,000	1,140	$ 290,000
Beginning	1,900	470,000	2,195	602,377	1,920	490,000	1,930	510,000	1,940	530,000
Small	1,950	225,000	2,579	358,656	1,990	245,000	2,020	265,000	2,040	285,000

Qualitative Goals

The following related services were offered to YBS farmers during 2021:

- crop insurance, both hail and multi-peril
- life insurance
- fee real estate appraisal services
- equipment and facility leasing

We made use of federal loan guarantee programs in providing loans and leases to YBS farmers. We maintain a Preferred Lender Program designation with the Farm Service Agency.

Outreach Programs

In addition to loans made to YBS and Next Generation borrowers, our annual YBS reports have consistently shown active participation in a variety of YBS outreach efforts. These efforts include both staff time and monetary sponsorship through the following:

We encourage the use of Young and Beginning farmer programs like those offered by the Farm Service Agency and the Cooperative Extension Service.

We continue to sponsor an annual scholarship program for college bound or current college students with one winner from each branch office.

We continue to sponsor and participate in the annual Arkansas State University (ASU) Ag Business Conference and the University of Arkansas (UA) – Division of Agriculture's Women in Ag Conference.

We support the Arkansas Farm Family of the Year program. We have enjoyed having members each year who are honored at the local and state level by the Farm Family of the Year program. Implicit in the Farm Family of the Year is the next generation of farming. The honored families are typically multi-generational and include members who frequently fit within our YBS and Next Generation Farmer parameters.

We co-host a biennial Arkansas State-wide FCS Young Beginning Farmer Conference. This is a joint effort among all Arkansas Farm Credit associations. The conference was designed to provide attendees the opportunity to network with their peers and experienced professionals in finance, credit and economics. State and national expert speakers cover topics that impact YBS producers, including the current economic outlook, strategic business planning and financial and risk management.

We sponsor and/or participate in a variety of other Young, Beginning and Small outreach activities including:

- AgHeritage and other Arkansas Farm Credit Associations sponsor, support and participate in various Arkansas Grown activities. Arkansas Grown is an initiative of the Arkansas Department of Agriculture including:
  - Garden Program contest for Arkansas school gardens
  - Local Conversations brings together stakeholders to improve the quality of food reaching consumers
  - Arkansas Grown Magazine
  - Farmers Market Promotion Program
  - Farm2Home
  - Minorities in Ag, Natural Resources, and Related Services
- ASU Student Leadership Conference
- Arkansas Women in Agriculture – sponsorship and attendance of conference and Annie's Project
- University Agriculture Department Scholarship Fundraisers – UA and ASU
- Arkansas Farm Family of the Year Program
- Yearly contributions to FFA and 4-H
- AgHeritage Next Generation Farmer Program
- AgHeritage Farm Credit Services Customer Scholarship Program / University Scholarship / Ken Shea Scholarship
- Junior Livestock Auction: State Fair Belt Buckle Sponsorship and Sale of Champions Sponsorship; Local Fair Livestock Sponsorships
- County Extension Meeting Sponsorships: Crop Production, Marketing, Beef, etc.
- Exhibit/Sponsorships/Attendance:
  - Arkansas Farm Bureau Annual Convention
  - Arkansas Foundation for Agriculture
  - Agricultural Council of Arkansas
  - National Ag Alumni Development Association Conference

- Midsouth Gin Show
- Arkansas Cattlemen’s Conference; Local Conference
- Arkansas Agricultural Aviation Association
- Poultry Festival
- USA Rice Outlook Conference
- Crossett Rodeo Arena Sponsorship
- Arkansas Soybean Association Annual Meeting
- Arkansas Rice Council/Producers Annual Meeting
- Mid-South Chapter of the American Society of Farm Managers and Rural Appraisers
- Various local county fair associations: Belt Buckle Award sponsor
- Various rural community sports league sponsorships
- Various local golf tournaments
- Farm appreciation lunches

Safety and Soundness of the Program

We will limit the amount of risk classified loans that meet the Next Generation Farmer and/or YBS qualifications. The amount of volume for either will not exceed 25% of the Association’s risk funds. This limit is cumulative and not to be exceeded at any point.

The credit quality guidelines and quarterly monitoring ensure that credit offered to the YBS and Next Generation Farmer groups is provided in a safe and sound manner within our risk-bearing capacity.

FUNDS HELD PROGRAM

AgHeritage Farm Credit Services, ACA
(Unaudited)

AgHeritage Farm Credit Services, ACA (the Association), offers a Funds Held Program ("Funds Held") that provides for customers to make advance payments on designated real estate and intermediate-term loans. The following terms and conditions apply to all Funds Held unless the loan agreement or related documents, between the Association and customer, provide for other limitations.

Payment Application: Loan payments received by the Association before the loan has been billed will be placed into Funds Held upon request and applied against the next installment due. Loan payments received after the loan has been billed will be directly applied to the installment due on the loan and related charges, if any.

When a loan installment becomes due, amounts in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied first. If the balance in Funds Held does not fully satisfy the entire installment, the customer must pay the difference by the installment due date.

Account Maximum: The amount in Funds Held may not exceed 50% of each eligible loan. Eligible loans do not include operating lines of credit.

Interest Rate: Interest will accrue on Funds Held at a simple rate of interest that may be changed by the Association from time to time based upon the current interest rate environment. The interest rate may never exceed the interest rate charged on the related loan. Interest rates are currently reported on each customer's loan statement. Subject to change as previously stated, the current rate of interest is equal to the Federal Funds rate of interest as determined by the Federal Open Market Committee. If the Federal Funds rate is stated as a range, the rate of interest will be set within the range.

Withdrawals: Amounts in Funds Held may be withdrawn under the following conditions, depending on the customer's loan program:

- Customers can withdraw funds without a limit as to the number of withdrawals, however the loan officer must approve the withdrawal after receipt of a written customer request. Withdrawals must be for an eligible purpose under the Funds Held program. The minimum withdrawal amount is $100, unless the customer is withdrawing the full Funds Held balance.

- Customers required to assign income to their loan, such as poultry and dairy assignments, may withdraw amounts in excess of their next installment.

Association Options: In the event of default on any loan or if Funds Held exceeds the maximum limit as established above or if the Association discontinues the Funds Held program, the Association may apply funds in the account to the unpaid loan balance and other amounts due and shall return any excess funds to the customer.

Liquidation: Funds Held account balances are not insured. In the event of Association liquidation, all customers having balances in these uninsured accounts shall be notified according to FCA Regulations in effect at that time. Current applicable regulations state that the notice shall instruct that the funds ceased earing interest when the receivership was instituted and will be applied against the outstanding indebtedness of any loans of the customer unless, within 15 days' notice, the customer provides direction to the Association to apply the funds according to existing loan documents.

Questions: Please direct any questions regarding Funds Held to AgHeritage Farm Credit Services, ACA.

Guest Column: Climate Policy Shapes the Future of Arkansas Agriculture

By: Mark Isbell

As you drive along the roads of rural Arkansas these days, it is not uncommon to catch the reflection of a solar panel in the distance. Farms and small businesses across the state are increasingly turning to solar power to meet their energy needs, and for good reason: the investment makes sense.

At our farm here in Central Arkansas, our 300KWH system is producing roughly 35% of our yearly energy needs. With a combination of energy production, tax incentives, and depreciation, we estimate the panels will pay for themselves in less than 8 years, with more than 20 years of estimated lifespan beyond that where they will be producing cheap energy.

We are not alone. Across the state, many others have also adopted this technology, with AgHeritage financing nearly $10,000,000 in projects across the state.

AgHeritage Makes a Difference

Though solar panels may be the most visible of sustainable practices being implemented by Arkansas farmers and businesses, there is far more going on behind the scenes and beneath to soil.

Another big success story is the USA Rice-Ducks Unlimited Rice Stewardship Partnership. This program works with partners across the state to leverage federal funds through USDA's Regional Conservation Partnership Program. To date, this program has put over 18 million dollars in funding to work across Arkansas rice farms to implement conservation practices. In March of this year, AgHeritage joined as a supporter of this program.

"We have seen the Rice Stewardship Partnership positively impact working ricelands in Arkansas," said Greg Cole, CEO in the March announcement of this partnership: "Conservation practices can deliver economic value for not only farmers, but also local communities, landowners, and their financial partners. The Farm Credit Associations are excited to support this work, expanding voluntary conservation opportunities for our members and Arkansas rice farmers."

Josh Hankins, director of the of the Rice Stewardship Partnership, believes the support of AgHeritage is key to furthering the success of the program. The dollars brought to the rice industry and the state via the Partnership would have gone elsewhere had we not successfully advocated for them. This funding would not be possible without our industry partners, and Farm Credit Associations of Arkansas was the first financial institution to join the Partnership. Their members should be very proud of this investment, which allows our team to leverage those dollars for federal farm bill opportunities, bringing more financial and technical assistance to working farms in Arkansas.

A Voice

While both solar power and the USA Rice-Ducks Unlimited Rice Stewardship Partnership are success stories, there is also a larger conversation taking place about the role agriculture plays in addressing the climate issue. In recent months, this conversation has taken on new energy, especially in D.C. where a number of different climate policy initiatives are moving forward. While some of these initiatives are possibly not ones we would have chosen to begin, they are certainly ones we must engage with to make sure that the benefits that farmers have on the environment around us is fully valued. Whatever happens with these initiatives, it is important that the farmer's and others engaged in on-the-ground agriculture have a voice in shaping the policies that emerge.

The Growing Climate Solutions Act

One of the initiatives moving through Congress is the GCSA, or the Growing Climate Solutions Act. This bi-partisan legislation seeks to increase the adoption of a number of sustainable practices through different types of federal support. In March, I was asked to provide testimony to the Senate Agriculture Committee on behalf of the U.S. rice industry about how this program might impact rice farmers and other farmers in the Mid-South.

My message to them was that whatever programs that Congress may create, they must first of all be voluntary, second of all come only with adequate farmer input, and finally, make sure to fully appreciate the different types of agriculture that take place across the country, including the Mid-South. Above all, any new climate related policy must be funded outside of the farm bill and must not come at any cost to important existing programs.

As the bill moves forward, it seems like these priorities have been adopted, and while the potential benefits to Arkansas farmers are still to be determined, it is my opinion that if legislation on this topic must move forward, this is at least innocuous and potentially beneficial to farmers in our state. Unlike other potential programs that might push for removing land from production, this incentivizes activities on land where farmers are farming. To me, that is vitally important.

Other Initiatives

As the conversation continues, other programs have also emerged. One of those is RIPE, or Rural Investment to Protect our Environment. This is a farmer-led initiative made up of representatives across farming states. The program proposes to pay farmers $100 per acre for implementing proven sustainable practices in producing various crops. Jim Whitaker, a farmer from South East Arkansas who represents Arkansas Rice on the steering committee for RIPE believes this program has potential. "This is a common-sense approach that covers cost of implementation and increased costs due to climate policies. It seems to be gaining traction across the country and in D.C , "Whitaker said.

Here to Stay

Regardless of which programs get the most traction, what is clear is that the conversation surrounding climate and agriculture is here to stay. It will be important that agriculture maintains a strong voice in advocating for the industry. The best of policies are those that are win-win. Just like the solar panels reflecting across our state, climate policy can be both good for the environment and good for business. Just like the successful Rice Stewardship program, some government programs can be used to create real benefits on the ground.

As we try to understand the different initiatives and programs surrounding agriculture and climate, it is much like wading through an alphabet soup of different acronyms and program names. To better known programs like EQIP (Environmental Quality Incentives Program), to RCPP (Regional Conservation Partnership Program) and CSP (Conservations Stewardship Program) we now must add organizations like FACA (Food and Agriculture and Climate Alliance) and RIPE and policies like the GCSA. But somewhere beneath all of the acronyms, a bigger story is emerging: Farmers across Arkansas are having a positive impact on the environment. And despite drowning in the alphabet soup of these programs, it is important to follow the bigger policy conversation that is emerging so that we can ensure that farmers and agriculture businesses are recognized and adequately compensated for their activities.

Heritage Talks video series

Heritage Talks is a series of short, informative interviews with AgHeritage customer-owners covering farming and their experience with Farm Credit. You can view them at https://www.youtube.com/channel/UCsivC8_cHLPGLABOJ68446A

Burthel Thomas


Gilliam Farm Partnership

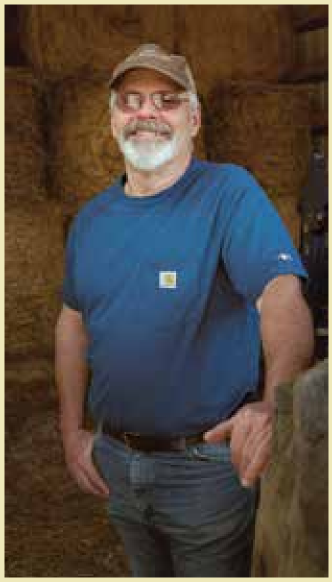
Coker Farms


BoBrook Farms


Isbell Farms


Hunter Flying Service


Steven and Brandy Stake Farm


Aaron Farms


Bagwell Brothers


Knoll Farms


Nolan McCoy


Womack Farms


Double H Farms of Hamburg Inc.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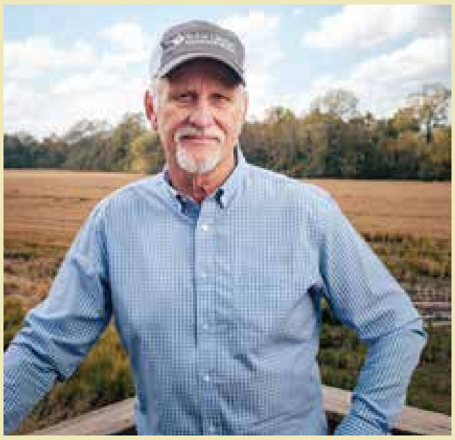
J & A Farm Partnership


River Road Agri


Praught Farm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4. Select a username, password, image and passphrase.
5. Enter your loan number or social security number, and customer number.

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AgHeritageFCS.com/online-banking

TERRITORY & OFFICE LOCATIONS

BATESVILLE BRANCH
P.O. Box 3850 • 2880 Harrison St. Batesville, AR 72501
(870) 698-9044 • (800) 572-8165

BRINKLEY BRANCH
P.O. Box 767 • 498 Broadmoor Dr. Brinkley, AR 72021
(870) 734-456 • (800) 689-1304

LITTLE ROCK · CENTRAL OFFICE
119 East Third St, Suite 200 Little Rock, AR 72201
(501) 210-4000 • (800) 299-2290

LONOKE BRANCH
P.O. Box 298 • 1121 W. Front St. Lonoke, AR 72086
(501) 676-3144 • (800) 689-1309

MCGEHEE BRANCH
6035 Hwy 65 N McGehee, AR 71654
(870) 222-5205 • (800) 689-6978

NEWPORT BRANCH
P.O. Box 1690 • 2800 Stegall Rd. Newport, AR 72112
(870) 523-5867 • (800) 698-5867

PINE BLUFF BRANCH
800 South Main Street Pine Bluff, AR 71601
(870) 534-5701 • (833) 313-6877

POCAHONTAS BRANCH
P.O. Box 506 • 1105 Pace Rd. Pocahontas, AR 72455
(870) 892-4579 • (800) 689-6976

SEARCY BRANCH
P.O. Box 9035 • 2620 So. Main St. Searcy, AR 72143
(501) 268-3524 • (800) 689-6977

STUTTGART BRANCH
P.O. Box 1005 • 1102 E. 22nd St. Stuttgart, AR 72160
(870) 673-1558 • (800) 689-1307

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