OKLAHOMA AGCREDIT

2021 Annual Financial Report

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2021	2020	2019	2018	2017
Statement of Condition Data					
Loans	**$ 1,772,110**	$ 1,606,107	$ 1,399,737	$ 1,283,426	$ 1,193,439
Less allowance for loan losses	**3,606**	3,533	3,255	3,153	3,408
Net loans	**1,768,504**	1,602,574	1,396,482	1,280,273	1,190,031
Investment in CoBank, ACB	**50,706**	50,706	44,560	40,796	38,475
Other property owned	**47**	-	-	-	-
Other assets	**58,925**	49,305	43,697	39,616	34,044
Total assets	**$ 1,878,182**	$ 1,702,585	$ 1,484,739	$ 1,360,685	$ 1,262,550
Obligations with maturities of one year or less	**$ 25,786**	$ 18,802	$ 14,505	$ 14,203	$ 13,593
Obligations with maturities longer than one year	**1,527,313**	1,376,484	1,179,747	1,073,264	992,931
Reserve for unfunded commitments	**539**	562	578	521	210
Total liabilities	**1,553,638**	1,395,848	1,194,830	1,087,988	1,006,734
Capital stock	**3,767**	3,636	3,459	3,352	3,299
Additional paid-in capital	**55,558**	55,558	55,558	55,558	55,558
Unallocated retained earnings	**265,382**	247,791	231,212	214,105	197,200
Accumulated other comprehensive income/(loss)	**(163)**	(248)	(320)	(318)	(241)
Total shareholders' equity	**324,544**	306,737	289,909	272,697	255,816
Total liabilities and shareholders' equity	**$ 1,878,182**	$ 1,702,585	$ 1,484,739	$ 1,360,685	$ 1,262,550

	For the Year Ended December 31				
	2021	2020	2019	2018	2017
Statement of Income/(Expense) Data					
Net interest income	**$ 43,781**	$ 39,622	$ 36,660	$ 34,200	$ 33,446
Patronage distribution from Farm Credit institutions	**7,593**	5,523	4,465	5,231	4,374
Credit loss reversal/(Provision for credit losses)	**266**	(663)	(531)	(210)	(731)
Noninterest expense, net	**(22,531)**	(19,899)	(16,487)	(16,315)	(17,191)
(Provision for)/Benefit from income taxes	**(23)**	(8)	(8)	(4)	252
Net income	**$ 29,086**	$ 24,575	$ 24,099	$ 22,902	$ 20,150
Comprehensive income	**$ 29,171**	$ 24,647	$ 24,097	$ 22,825	$ 20,072

Key Financial Ratios					
For the Year					
Return on average assets	**1.65%**	1.55%	1.71%	1.77%	1.65%
Return on average shareholders' equity	**9.08%**	8.13%	8.47%	8.57%	8.04%
Net interest income as a percentage of average earning assets	**2.63%**	2.65%	2.76%	2.79%	2.89%
Net (recoveries)/charge-offs as a percentage of average net loans	**(0.02%)**	0.03%	0.03%	0.01%	(<0.01%)
At Year End					
Shareholders' equity as a percentage of total assets	**17.28%**	18.02%	19.53%	20.04%	20.26%
Debt as a ratio to shareholders' equity	**4.79:1**	4.55:1	4.12:1	3.99:1	3.94:1
Allowance for loan losses as a percentage of loans	**0.20%**	0.22%	0.23%	0.25%	0.29%
Common equity tier 1 (CET1) capital ratio	**14.83%**	15.88%	17.06%	17.48%	17.59%
Tier 1 capital ratio	**14.83%**	15.88%	17.06%	17.48%	17.59%
Total regulatory capital ratio	**15.06%**	16.12%	17.30%	17.74%	17.90%
Tier 1 leverage ratio	**15.61%**	16.34%	17.56%	17.98%	17.99%
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	**17.04%**	17.55%	18.68%	19.03%	18.91%
Permanent capital ratio	**14.86%**	15.91%	17.10%	17.52%	17.64%
Net Income Distribution					
Cash patronage distributions paid	**$ 7,995**	$ 6,996	$ 5,992	$ 4,997	$ 4,742
Cash patronage declared	**$ 11,500**	$ 8,000	$ 7,000	$ 6,000	$ 5,000

Management's Discussion and Analysis

Introduction

The following discussion summarizes the financial position and results of operations of Oklahoma AgCredit, ACA (Association) for the year ended December 31, 2021. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, footnotes and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- Business Overview
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy
- Changes in Management

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.okagcredit.com, or upon request. We are located at 3033 Progressive Drive, Edmond, Oklahoma 73034 or may be contacted by calling (405) 938-1700.

Business Overview

Farm Credit System Structure and Mission

As of December 31, 2021, we are one of 67 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of eastern and central Oklahoma. The counties in our territory are listed in Note 1 of the accompanying consolidated financial statements. We make long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses, and production and intermediate-term loans for agricultural production or operating purposes. Additionally, we provide other related services to our borrowers, such as credit life insurance, multi-peril crop and crop hail insurance, advance conditional payment accounts, fee appraisals and lease financing through AgDirect. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

As part of the System, we obtain the funding for our lending and operations from a Farm Credit Bank. Our funding bank, CoBank, ACB (CoBank), is a cooperative of which we are a member. CoBank, its related associations, and AgVantis, Inc. (AgVantis) are referred to as the District.

We, along with the borrower's investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 3033 Progressive Drive, Edmond, Oklahoma 73034 or may be contacted by calling (405) 938-1700. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. We entered into a new agreement effective January 1, 2020, which was to expire on December 31, 2022. However, in December 2021, we signed a one-year extension to the service agreement to expire on December 31, 2023. We are a shareholder in AgVantis, along with other AgVantis customers. Farm Credit Foundations, a human resource shared service provider for a number of Farm Credit institutions, provides administration for our payroll and benefits and may provide related human resource offerings.

The headquarters of the Association relocated from the city of Broken Arrow to the city of Edmond, in Oklahoma County, Oklahoma effective September 1, 2020. The new building accommodates administrative staff and specialized lending staff, and provides a central location for meetings and training. The office in Broken Arrow, Oklahoma remains open to serve our customers.

ECONOMIC OVERVIEW

During 2021, nearly all commodity prices recovered, including cattle, wheat, feed grains, crude oil and natural gas. Many agricultural producers' input costs increased by similar amounts. Feeder cattle prices have increased 20% since the first of the year and demand remains robust as the cow herd has yet to expand. Cash wheat prices also increased approximately 20% since last year despite a larger global crop. The price of crude oil and natural gas are up 50% as production remains restrained and the recovery from the pandemic-induced recession has bolstered demand. Production input costs have also soared by 37% for diesel, 263% for fertilizer, and 25% for hay products.

Oklahoma farmers produced an average wheat crop and below average soybean crop in 2021. Strong prices allowed many producers to remain profitable. Early growing season rains allowed the hay crop to get off to a good start but a mild, late summer drought reduced yields in many parts of the state. Favorable grazing conditions led to adequate weight gains for calves and stockers. By the fourth quarter, a moderate drought had developed in the western portions of our trade territory and began spreading eastward by the end of the year. Due to a rebound in cattle prices, most livestock producers achieved stable profits during the year.

The Oklahoma economy was vigorous during 2021 with gross receipts reaching $15.2 billion, a new all-time high. Our unemployment rate of 2.50% is the 3rd lowest in the nation and compares very favorably with the U.S. unemployment rate of 3.90%. Although the energy industry remains vital to Oklahoma's economy, the state has made progress in diversifying its employment base by adding jobs in aerospace, construction, health services, and business services. Notably, oil and gas activity has rebounded during the year with drilling rigs tripling in the state from the prior year.

During 2021, the Federal Reserve maintained the fed funds rates near zero and continued its purchase of bonds in the open market in an effort to influence longer-term fixed rates. However, government officials have begun the process of tapering their open market purchases and telegraphing several rate hikes for 2022. With inflation running near 40-year highs, the Federal Reserve is now expected to take aggressive action to curb further price increases.

With interest rates near record lows, a strong economy, and lack of alternative investments, real estate values in our trade territory continued their march higher. Interest in recreational properties from out-of-state buyers has contributed to the strength of the market. Despite the increase in values, our market appears competitive with neighboring states. The trajectory of interest rate hikes and the shape of the yield curve will likely influence real estate values going forward.

Climate risk has evolved over time along with many improvements made by the agriculture sector to combat the warming climate and the increasingly arid conditions. These improvements in farming practices, seed genetics, rotational grazing, and soil aeration have mitigated some of the impact of climate change throughout the agricultural sector. Agricultural producers continue to adjust to these conditions and have implemented additional practices of no-till planting, minimal till practices, cover crops and other water conservation techniques to manage reduced amounts of rainfall and to keep their farm and ranch land in a state of sustainable production. Therefore, at the present time the impact to credit risk and collateral values has been manageable, as evidenced by increasing real estate values across our territory. If further more severe climatic changes continue, there could be a negative effect upon real estate values.

Our pension expenses during 2020 increased significantly due to certain assumptions utilized in estimating plan expenses. The gradual decrease in pension expenses which began during 2021 is expected to return to normal over the next few years.

The broader economy and marketplace continues to transition into another phase of the COVID-19 pandemic environment. As the Omicron variant surge and other pandemic issues subside, the U.S. economy remains healthy and continues to be driven by strong consumer spending. While higher consumer demand is beneficial to businesses, severe supply chain disruptions and labor shortages are adding significant costs to business operations and these costs are likely to be passed on to the consumer. Business operating costs are still rising faster than consumer prices, so elevated inflation remains a concern in 2022. From a monetary policy perspective, the Federal Reserve has announced plans to increase rates multiple times in 2022. Anticipation of tighter monetary policy is contributing to a stronger dollar and changes in the shape of the yield curve.

The U.S. government has continued to institute various programs in support of the COVID-19 recovery. In March 2021, Congress passed the $1.9 trillion American Rescue Plan Act designed to provide near-term help to those hurt by the pandemic. In December 2020, Congress passed the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, which, among other provisions, allocated additional funding for Paycheck Protection Program (PPP) loans and allows certain existing PPP borrowers to apply for additional loans or draws on existing loans. The Association obtained approval to participate as a lender in the PPP and continued to provide funds to eligible borrowers during the first quarter of 2021. As of December 31, 2022, the Association had no PPP loans outstanding. In March 2021, the current presidential administration also proposed the $2.3 trillion American Jobs Plan intended to create jobs and rebuild the country's infrastructure.

The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law on December 20, 2018. This Farm Bill governs an array of federal farm and food programs, including commodity price support payments, farm credit, conservation programs, research, rural development and foreign and domestic food programs for five years through 2023. The Farm Bill continues to provide support for crop insurance and commodity support programs, strengthen livestock disaster programs, and provides dairy producers with an updated voluntary margin protection program that will provide additional risk management options to dairy operations. The Farm Bill also clarifies the Farm Credit System Insurance Corporation's (FCSIC) authority, role and procedures for acting as a conservator or receiver of a troubled System institution. The Farm Bill provides a range of statutory options to the Insurance Corporation including, but not limited to, marshalling and liquidating assets, satisfying claims of creditors and using interim devices such as bridge banks.

LOAN PORTFOLIO

Total loans outstanding were $1.77 billion at December 31, 2021, an increase of $166.0 million, or 10.3%, from loans at December 31, 2020 of $1.61 billion, and an increase of $372.4 million, or 26.6%, from loans at December 31, 2019 of $1.40 billion. The increase in loans was due to was due to an active real estate market, marketing efforts, and increased participations purchased for diversification. The types of loans outstanding at December 31 are reflected in the following table.

	2021		2020		2019	
(dollars in thousands)	**Volume**	**Percent**	Volume	Percent	Volume	Percent
Real estate mortgage loans	**$1,241,658**	**70.1%**	$1,092,660	68.0%	$ 938,740	67.1%
Production and intermediate-term loans	**246,177**	**13.9%**	239,559	14.9%	232,324	16.6%
Agribusiness loans	**186,710**	**10.5%**	182,016	11.3%	153,392	11.0%
Rural infrastructure loans	**91,104**	**5.1%**	82,951	5.2%	67,630	4.8%
Rural residential real estate loans	**240**	**–**	893	0.1%	1,402	0.1%
International loans	**6,221**	**0.4%**	8,028	0.5%	6,249	0.4%
Total	**$1,772,110**	**100.0%**	$1,606,107	100.0%	$1,399,737	100.0%

Real estate mortgage loans outstanding increased 13.6% to $1.24 billion, compared with $1.09 billion at year-end 2020, primarily due to effective marketing strategies, increasing real estate values, and mortgage refinancing activity due to low interest rates. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. The average loan to appraised value on our total mortgage portfolio in 2021 was 47.7%. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans increased 2.8% to $246.2 million, compared with 2020 loans of $239.6 million, primarily due to seasonal loan growth. Production loans are used to finance the ongoing operating needs of agricultural producers and generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch.

Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years. Our production and intermediate-term loan portfolio shows some seasonality. Borrowings increase throughout the planting and growing seasons to meet farmers' operating and capital needs. 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.

Increases were also noted in agribusiness and rural infrastructure, where the majority of loan volume was due to loan participations. At December 31, 2021, 98.4% of agribusiness, and 100% of rural infrastructure and international loan volume were a result of loan participations purchased.

Portfolio Diversification

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by loan participations purchased and sold, geographic locations served, commodities financed and loan size as illustrated in the following four tables.

We purchase loan participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System entities to reduce risk and comply with lending limits we have established.

Our volume of participations purchased and sold as of December 31 follows.

(dollars in thousands)	**2021**	2020	2019
Participations purchased	**$ 362,556**	$ 360,364	$ 307,665
Participations sold	**$ 42,500**	$ 10,017	$ 14,492

We have no loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in the loans sold.

The geographic distribution of loans by branch at December 31 follows. As previously mentioned we purchase loan participations outside our territory, which are included in Administrative in the following table.

	2021	2020	2019
Administrative	**20.63%**	23.23%	22.86%
Ardmore	**4.27%**	4.10%	3.98%
Broken Arrow	**9.36%**	8.18%	5.99%
Chickasha	**9.48%**	9.48%	10.19%
Duncan	**5.20%**	5.27%	6.38%
Durant	**8.03%**	7.91%	7.45%
Enid	**5.41%**	4.01%	4.59%
Kingfisher	**8.20%**	8.51%	8.38%
McAlester	**3.09%**	2.48%	2.17%
Muskogee	**4.71%**	4.88%	5.08%
Pauls Valley	**7.16%**	7.08%	7.21%
Poteau	**1.38%**	1.18%	0.99%
Stillwater	**5.45%**	5.74%	5.94%
Vinita	**7.63%**	7.95%	8.79%
Total	**100.00%**	100.00%	100.00%

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System (SIC) published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, a large percentage of agricultural operations typically includes more than one commodity.

SIC Category	December 31 2021	2020	2019
Cattle	**56.04%**	57.95%	59.07%
Landlords	**10.58%**	8.75%	7.20%
Cash Crops	**6.45%**	7.45%	5.48%
Hay Crops	**3.61%**	2.41%	2.37%
Communication	**2.95%**	2.91%	2.67%
Forest Products	**2.69%**	2.35%	2.95%
Dairy & Dairy Products	**2.05%**	2.18%	2.38%
Other Livestock	**1.87%**	1.98%	2.16%
Wheat	**1.85%**	1.51%	3.59%
Energy	**1.30%**	1.90%	1.56%
Poultry/Eggs	**1.07%**	0.93%	1.07%
Nursery	**0.58%**	0.64%	0.72%
Other	**8.96%**	9.04%	8.78%
Total	**100.00%**	100.00%	100.00%

Our loan portfolio contains a concentration of cattle producers and landlords. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral, which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers, which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy.

The loans outstanding at December 31, 2021 for loans $250 thousand or less accounted for 22.3% of loan volume and 73.9% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loans outstanding by dollar size at December 31 for the last three years.

	2021		2020		2019	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 395,728**	**4,591**	$ 383,809	4,554	$ 373,606	4,279
$251 - $500	**312,840**	**891**	283,761	810	240,931	692
$501 - $1,000	**273,885**	**394**	264,386	381	242,746	350
$1,001 - $5,000	**629,003**	**316**	524,176	275	433,327	228
$5,001 - $25,000	**160,654**	**20**	149,975	20	109,127	16
Total	**$ 1,772,110**	**6,212**	$ 1,606,107	6,040	$ 1,399,737	5,565

As of December 31, 2021, approximately 9% of our loans outstanding is attributable to 20 borrowers. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

Credit guarantees with government agencies of $11.5 million at year-end 2021, $10.7 million at year-end 2020 and $11.1 million at year-end 2019 were outstanding.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations.

The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2021.

(dollars in thousands)	**Due 1 year or less**	**Due after 1 year through 3 years**	**Due after 3 years through 5 years**	**Due after 5 years**	**Total**
Commitments to extend credit	$ 90,793	$140,638	$ 85,374	$ 25,302	$ 342,107
Standby letters of credit	2,043	1,253	109	71	3,476
Total commitments	$ 92,836	$141,891	$ 85,483	$ 25,373	$ 345,583

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. We consider potential losses related to unfunded commitments, and a reserve for unfunded commitments is included in the liabilities section of the Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income.

High Risk Assets

Nonperforming loan volume is comprised of nonaccrual loans, restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Comparative information regarding high risk assets in the portfolio, including accrued interest, follows:

(dollars in thousands)	**2021**	2020	2019
Nonaccrual loans:			
Real estate mortgage	**$ 6,553**	$ 5,672	$ 3,910
Production and intermediate-term	**1,890**	2,091	3,876
Agribusiness	**75**	–	–
Total nonaccrual loans	**8,518**	7,763	7,786
Accruing restructured loans:			
Real estate mortgage	**291**	559	321
Production and intermediate-term	**210**	607	811
Total accruing restructured loans	**501**	1,166	1,132
Accruing loans 90 days past due:			
Production and intermediate-term	**17**	–	–
Total impaired loans	**9,036**	8,929	8,918
Other property owned	**47**	–	–
Total high risk assets	**$ 9,083**	$ 8,929	$ 8,918
Nonaccrual loans to total loans	**0.48%**	0.48%	0.56%
High risk assets to total loans	**0.51%**	0.56%	0.64%
High risk assets to total shareholders' equity	**2.80%**	2.91%	3.08%

Total high risk assets increased $154 thousand, or 1.7%, to $9.1 million at December 31, 2021 compared with year-end 2020. Contributing to the increase in our high risk assets were loans to borrowers adversely impacted by commodity price volatility and higher farm input costs in the current agricultural environment and borrowers who were adversely impacted due to stress in the general economy.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume increased $755 thousand compared with December 31, 2020 and increased $732 thousand compared with December 31, 2019. The increase from 2020 is due to the transfer of 22 loans to nonaccrual due to credit deterioration, partially offset by 11 borrowers whose loans paid off and nine loans reinstated to accrual status. During 2021, we saw an increase in nonaccrual activity because cattle prices continue to be volatile, which makes profitability a challenge. At December 31, 2021, 28 borrowers had loans in nonaccrual. Seven borrowers with cattle loans account for approximately 78% of total nonaccrual volume**.** The following table provides additional information on nonaccrual loans as of December 31 for the last three fiscal years.

(dollars in thousands)	**2021**	2020	2019
Nonaccrual loans current as to principal and interest	**$ 4,761**	$ 3,934	$ 4,539
Restructured loans in nonaccrual status	**1,889**	564	2,927

For the years presented, we had no cash basis nonaccrual loans.

Accruing restructured loans including related accrued interest decreased $665 thousand during 2021 primarily as a result of one borrower's loans being transferred to nonaccrual status, one loan which paid off and repayments. The accruing restructured loans include only the year-end balances of loans and related accrued interest on which monetary concessions have been granted to borrowers and that are in accrual status. Accruing restructured loans do not include loans on which monetary concessions have been granted but which remain in nonaccrual status.

Other property owned is real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure or other means. We had other property owned of $47 thousand at December 31, 2021 and no other property owned in 2020 or 2019. During the fourth quarter, other property owned was acquired pursuant to a settlement agreement with a borrower. The settlement consisted of cash, an undivided quarter interest in approximately 60 acres of land and two pieces of equipment and was recorded at a total market value of $71 thousand. As of December 31, 2021, the Association sold both pieces of equipment and 10 acres of the land at a loss, net of selling costs of $1 thousand.

High risk asset volume is anticipated to increase at a stable rate in the future. Credit quality is expected to remain relatively stable. With the steady upward trend in cattle prices, producers have been more optimistic even though the market remains volatile. Commodity prices also rose for wheat, sorghum, corn and soybeans. The overall rise in these commodity prices could provide opportunity for profits but may be offset by high input costs. Crude oil and natural gas prices are 56% higher than year-end 2020, however most energy companies are cautiously optimistic.

Credit Quality

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS), which is used by all System institutions. Following are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are not considered collectible.

The following table presents statistics based on UCS related to the credit quality of the loan portfolio, including accrued interest at December 31 for the last three fiscal years.

	2021	2020	2019
Acceptable	**98.32%**	98.10%	97.27%
OAEM	**0.78%**	1.21%	1.51%
Substandard	**0.90%**	0.69%	1.22%
Total	**100.00%**	100.00%	100.00%

During 2021, overall credit quality improved. Loans classified as Acceptable and OAEM were 99.10% at December 31, 2021, 99.31% at December 31, 2020 and 98.78% at December 31, 2019. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events like supply chain disruptions and government reaction to the onset of the COVID-19 pandemic. The government programs and our streamlined deferment process provided relief to borrowers, which delayed potential credit deterioration. If such unfavorable economic conditions continue, it could lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased and remained at a low level of 0.28% at December 31, 2021, compared with 0.43% at December 31, 2020 and 0.21% at December 31, 2019.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable and estimable losses inherent in the loan portfolio identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors.

The following table provides relevant information regarding the allowance for loan losses as of December 31 for the last three fiscal years.

(dollars in thousands)	**2021**	2020	2019
Balance at beginning of year	**$ 3,533**	$ 3,255	$ 3,153
Charge-offs:			
Production and intermediate-term	**1,115**	425	256
Agribusiness	**–**	–	130
Total charge-offs	**1,115**	425	386
Recoveries:			
Real estate mortgage	**–**	1	3
Production and intermediate-term	**1,422**	–	–
Agribusiness	**9**	23	11
Total recoveries	**1,431**	24	14
Net (recoveries)/charge-offs	**(316)**	401	372
(Loan loss reversal)/Provision for loan losses	**(243)**	679	474
Balance at December 31	**$ 3,606**	$ 3,533	$ 3,255
Net (recoveries)/charge-offs to average net loans	**(0.02%)**	0.03%	0.03%

The following table presents the allowance for loan losses by loan type as of December 31 for the last three fiscal years.

(dollars in thousands)	**2021**	2020	2019
Real estate mortgage	**$ 888**	$ 901	$ 742
Production and intermediate-term	**631**	894	1,292
Agribusiness	**1,924**	1,527	1,041
Rural infrastructure	**159**	208	176
Rural residential real estate	**1**	–	1
International	**3**	3	3
Total	**$ 3,606**	$ 3,533	$ 3,255

The allowance for loan losses of $3.6 million at December 31, 2021 increased $73 thousand from $3.5 million at year-end 2020, and increased $351 thousand from $3.3 million at year-end 2019. The increase in allowance for loan losses in 2021 was primarily due to $1.4 million in recoveries, offset by a $243 thousand loan loss reversal and $1.1 million in charge-offs. We determine the allowance based on a regular evaluation of the loan portfolio, which considers recent and historic charge-off experience among other relevant factors. Third-party bond data used in the Model's 14-point probability of default scale was updated during 2020 and all factors decreased. See section Credit Risk Management for additional information. Net recoveries of $316 thousand were recorded in 2021, while net charge-offs of $401 thousand and $372 thousand were recorded in 2020 and 2019, respectively. The current year net recoveries are primarily related to cattle loans with three borrowers. Net loan charge-offs in the last three years have been related mostly to loans in the cattle segment of our portfolio and one capital markets loan. Overall, charge-off activity remains low relative to the size of our loan portfolio.

Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2021	2020	2019
Allowance for loan losses as a percentage of:			
Loans	**0.20%**	0.22%	0.23%
Impaired loans	**39.91%**	39.57%	36.50%
Nonaccrual loans	**42.33%**	45.51%	41.81%

We maintain a separate reserve for unfunded commitments, which is included in Liabilities on our Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses.

A summary of changes in the reserve for unfunded commitments follows.

(dollars in thousands)	**2021**	2020	2019
Balance at beginning of year	**$ 562**	$ 578	$ 521
(Reversal of)/Provision for reserve for unfunded commitments	**(23)**	(16)	57
Balance at December 31	**$ 539**	$ 562	$ 578

The decrease in reserve for unfunded commitments in 2021 is due to the change in management adjustment, partially offset by growth.

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit and related services to young, beginning and small (YBS) farmers and ranchers. The FCA regulatory definitions for YBS farmers and ranchers are shown below.

- Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
- Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The following table outlines our percentage of YBS loans as a percentage of the number of loans in our loan portfolio while the USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2017 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

	USDA	**2021**	2020	2019
Young	12.43%	**20.49%**	20.50%	19.38%
Beginning	32.46%	**39.60%**	39.40%	38.23%
Small	95.78%	**77.38%**	77.68%	77.85%

Our percentages are based on the number of loans in our portfolio, while the USDA percentages are based on the number of farmers and ranchers. While this definition difference does exist, the information is the best comparative information available.

We establish annual marketing goals to increase market share of loans to YBS farmers and ranchers. Our goals are as follows:

- Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;
- Take full advantage of opportunities for coordinating credit and services offered with other System institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and
- Implement effective outreach programs to attract YBS farmers and ranchers.

We encourage our loan officers to join and participate in young farmer and rancher organizations. We provide our loan officers with FSA Guaranteed Loan training and sponsor one employee to participate in the Oklahoma Agricultural Leadership Program. We are a title sponsor of the OCA Cattlemen's Leadership Academy, which develops young producers in the state, and nominate our own employees to participate in that event. We are annual sponsors of the Oklahoma State University Cow/Calf Boot Camp. These events provide our loan officers with opportunities to grow professionally and network with potential members who could benefit from our YBS program. We also host a Student Board comprised of current Oklahoma State University Ferguson College of Agriculture students, who thereby gain knowledge about the Farm Credit system and the credit services we offer. New in 2022 is an educational program, which provides current and prospective YBS borrowers with financial support to attend educational and industry events.

We have partnered with other Farm Credit organizations in Oklahoma to provide financial support to various agricultural events and organizations for young farmers, including the National Land and Range Judging Contest sponsorship, two Oklahoma 4-H Foundation Hall of Fame awards, Oklahoma Ag in the Classroom program needs, an Oklahoma FFA Foundation top tier sponsorship, various scholarships and other support for Oklahoma Youth Expo, funds for the HBCU - Langston University College of Agriculture scholarships, five scholarships to Oklahoma State University Ferguson College of Agriculture students, an attendee sponsorship for the Statewide Women in Ag Conference, and sponsorships for both American Farmers & Ranchers and Oklahoma Farm Bureau young farmers and ranchers meetings. In addition, we are sponsor non-traditional agriculture education opportunities such as the annual Oklahoma Local Ag Summit and the Tulsa Farmer's Market Introduction to Production agriculture class.

Quarterly reports are provided to our Board of Directors detailing the number, volume and credit quality of our YBS customers. We have developed quantitative targets to monitor our progress.

- Loan volume and loan number goals for YBS farmers and ranchers in our territory;
- Percentage goals representative of the demographics of YBS farmers and ranchers in our territory;
- Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in our territory; and
- Goals for capital committed to loans made to YBS farmers and ranchers in our territory.

	Projected New Loan Numbers for 2021	**Actual New Loan Numbers for 2021**	Projected New Loan Volume for 2021	**Actual New Loan Volume for 2021**
Young	15.00%	**20.37%**	10.00%	**13.29%**
Beginning	30.00%	**40.58%**	25.00%	**28.14%**
Small	75.00%	**75.78%**	60.00%	**46.42%**

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize customized loan underwriting standards, loan guarantee programs, fee waiver programs, or other credit enhancement programs. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio and also in our unfunded loan commitments and standby letters of credit. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

Underwriting standards are utilized to determine an applicant's operational, financial, and managerial resources available for repaying debt within the terms of the note and loan agreement. Underwriting standards include among other things, an evaluation of:

- character – borrower integrity and credit history;
- capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income;
- collateral – to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- capital – ability of the operation to survive unanticipated risks; and
- conditions – intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, we cannot have loan commitments to one borrower for more than 15% of our lending and lease limit base. As of December 31, 2021, the lending and lease limit base was defined as permanent capital with any applicable adjustments related to preferred stock and any investment held in connection with the sale of loan participation interest. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established for total attributed exposure and tiered limits have been established for both retail and participation lending based on the borrower's credit risk. We have adopted an individual lending limit maximum of $27.0 million of originated retail lending and lease limit base for our highest quality borrowers and $19.0 million for our highest quality participations purchased.

We have established internal lending delegations to properly control the loan approval process. Delegations to staff are based on our risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the credit staff member. Larger and more complex loans or loans perceived to have higher risk are typically approved by our loan committee with the most experienced and knowledgeable credit staff serving as members.

The majority of our lending is first mortgage real estate loans, which must be secured by a first lien on real estate. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured by livestock, crops and equipment. Collateral evaluations are completed in compliance with FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All collateral evaluations must be performed by a qualified appraiser. Certain appraisals must be performed by individuals with a state certification or license.

We use a two-dimensional risk rating model (Model) based on the Farm Credit System's Combined System Risk Rating Guidance. The Model estimates each loan's probability of default (PD) and loss given default (LGD). PD estimates the probability that a borrower will experience a default within twelve months from the date of determination. We adjust the PD factors in the Combined System Risk Rating Guidance to account for our loss emergence period. LGD provides an estimation of the anticipated loss with respect to a specific financial obligation of a borrower assuming a default has occurred or will occur within the next twelve months. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. PDs and LGDs are utilized in loan and portfolio management processes and are utilized for the allowance for loan losses estimate.

The Model's 14-point probability of default scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category and one loss category; each carrying a distinct percentage of default probability. The Model's LGD scale provides 6 categories, A through F, that have the following anticipated principal loss and range of economic loss expectations:

- A 0% anticipated principal loss; 0% to 5% range of economic loss
- B 0% to 3% anticipated principal loss; >5% to 15% range of economic loss
- C > 3% to 7% anticipated principal loss; >15% to 20% range of economic loss
- D > 7% to 15% anticipated principal loss; >20% to 25% range of economic loss
- E > 15% to 40% anticipated principal loss; >25% to 50% range of economic loss
- F above 40% anticipated loss; above 50% range of economic loss

RESULTS OF OPERATIONS

Earnings Summary

In 2021, we recorded net income of $29.1 million, compared with $24.6 million in 2020, and $24.1 million in 2019. The increase in 2021 was primarily due to an increase in net interest income, noninterest income and credit loss reversal, partially offset by an increase in noninterest expense. The increase in 2020 was primarily due to an increase in net interest income, offset by an increase in noninterest expense.

The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2021 vs. 2020**	2020 vs. 2019
Net income, prior year	**$ 24,575**	$ 24,099
Increase/(Decrease) from changes in:		
Interest income	**142**	(4,217)
Interest expense	**4,017**	7,179
Net interest income	**4,159**	2,962
Provision for credit losses	**929**	(132)
Noninterest income	**1,962**	229
Noninterest expense	**(2,524)**	(2,583)
Provision for income taxes	**(15)**	–
Total increase in net income	**4,511**	476
Net income, current year	**$ 29,086**	$ 24,575

Return on average assets increased to 1.65% from 1.55% in 2020, and return on average shareholders' equity increased to 9.08% from 8.13% in 2020, primarily as a result of an increase in interest rate spread and increased patronage from CoBank.

Net Interest Income

Net interest income for 2021 was $43.8 million compared with $39.6 million for 2020 and $36.7 million for 2019. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to a decrease in interest rates paid and an increase in loan volume, partially offset by lower rates to borrowers. The following table provides an analysis of the individual components of the change in net interest income during 2021 and 2020.

(dollars in thousands)	**2021 vs. 2020**	2020 vs. 2019
Net interest income, prior year	**$ 39,622**	$ 36,660
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**(5,995)**	(11,077)
Interest rates paid	**6,258**	10,095
Volume of interest-bearing assets and liabilities	**4,240**	4,067
Interest income on nonaccrual loans	**(344)**	(123)
Increase in net interest income	**4,159**	2,962
Net interest income, current year	**$ 43,781**	$ 39,622

The following table illustrates net interest margin and the average interest rates on loans and debt cost and interest rate spread.

	For the Year Ended December 31		
	2021	2020	2019
Net interest margin	**2.63%**	2.65%	2.76%
Interest rate on:			
Average loan volume	**3.83%**	4.25%	5.09%
Average debt	**1.39%**	1.88%	2.79%
Interest rate spread	**2.44%**	2.37%	2.30%

The increase in interest rate spread of 7 basis points resulted from a 49 basis point decrease in interest rates on average debt, partially offset by a 42 basis point decrease in interest rates on average loan volume. The 2 basis point decrease in net interest margin was due to lower earnings on our own capital.

Provision for Credit Losses/(Credit Loss Reversals)

We monitor our loan portfolio and unfunded commitments on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for loan losses or reserve for unfunded commitments is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio and unfunded commitments. We recorded net credit loss reversals of $266 thousand in 2021, compared with net provision for credit losses of $663 thousand in 2020 and $531 thousand in 2019. Loan loss reversals of $243 thousand recorded during 2021 were primarily due to $1.4 million of recoveries and a $78 thousand reversal in the management adjustment, which in 2020 was driven higher by greater commodity and capital market stress as a result of the nascent COVID pandemic. These loan loss reversals were offset by $1.1 million recorded in charge-offs, a $98 thousand increase in the general allowance and a $53 thousand increase in specific reserves. A reversal of unfunded commitments of $7 thousand was recorded during 2021.

The provision for loan losses of $679 thousand recorded during 2020 was primarily due to the change in management adjustment for the retail portfolio and net charge-offs of $401 thousand resulting from the decline in the 3 year and 5 year average commodity prices for cattle and crude oil declined compared to year-end 2019. Offsetting the increase is the slight decrease in the calculated general allowance compared to 2019 due to the decrease in PD and LGD factors and favorable PD and LGD migration, partially offset by loan growth. Third-party bond data used in the Model's 14-point PD scale was updated during 2020 and all factors decreased. The reversals of provision for reserve for unfunded commitments of $16 thousand recorded during 2020 was due to the change in management adjustment, partially offset by loan growth. The provision for loan losses of $474 thousand recorded during 2019 was primarily due to the increase in the general allowance due to loan growth and net charge-offs of $372 thousand. The provision for reserve for unfunded commitments of $57 thousand was recorded during 2019 due to the increase in management adjustment for capital markets, which experienced several multi-notch downgrades and soft financial performance.

Noninterest Income

During 2021, we recorded noninterest income of $10.0 million, compared with $8.0 million in 2020 and $7.8 million in 2019. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. The total patronage from CoBank is comprised of two sources: patronage based on our borrowing balance (direct note patronage) and patronage based on loans we originate and then sell a portion to them as a participant (sold volume patronage). Patronage earned from CoBank was $7.6 million in 2021, $5.5 million in 2020, and $4.5 million in 2019. Patronage income from CoBank includes special cash patronage distributions of $1.1 million in 2021 and $950 thousand in 2020, due to CoBank's strong capital levels and financial results. There was no special patronage distribution in 2019.

During 2021, we received 95 basis points on participation loans and 45 basis points on our direct note with CoBank for all other loans. During 2020, we received 95 basis points on participation loans and 36 basis points including special patronage on our direct note with CoBank for all other loans. During 2019, we received 95 basis points on participation loans and 40 basis points on our direct note with CoBank for all other loans. These basis points are before any special patronage distributed by CoBank. As a result of changes to their patronage programs in 2021, CoBank has indicated that our patronage income related to our direct note with CoBank will remain at 45 basis points over the next three years.

In 2021, we recorded a cash patronage of $25 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services, which will be paid in the following year. This compares with $14 thousand recorded in 2020 and $13 thousand in 2019. Patronage from Farm Credit Foundations and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received a refund from FCSIC of $313 thousand during 2020 and 2019. No such refund was received in 2021. The FCSIC refund is our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts.

Mineral income of $745 thousand was recognized during 2021. Of this amount, quarterly payments totaling $733 thousand were received from CoBank. Mineral income increased from $502 thousand in 2020, which had decreased from $754 thousand in 2019, due to the rapid oil demand destruction caused by the COVID-19 pandemic. The increase in 2021 reflects the higher oil and gas commodity prices paid on production during the year.

Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees in 2021 were $991 thousand, an increase of $15 thousand from 2020, primarily due to an increase in unused fees, foreign exchange gain/(loss), amendment fees, letter of credit fees, wire fees, and overdraft charges. The increase was partially offset by the decrease in outside appraisal fees.

During 2019, we received $643 thousand from CoBank as a result of implementing a new equity positioning program.

Noninterest Expense

Noninterest expense for 2021 increased $2.5 million, or 11.3%, to $24.9 million compared with 2020 and $5.1 million, or 25.8% compared with 2019. Noninterest expense for each of the three years ended December 31 is summarized as follows:

				Percent of Change	
(dollars in thousands)	**2021**	2020	2019	**2021/2020**	2020/2019
Salaries & employee benefits	**$13,197**	$13,221	$11,048	**(0.2%)**	19.7%
Occupancy & equipment	**1,620**	1,320	1,117	**22.7%**	18.2%
Purchased services from AgVantis	**3,404**	2,952	2,753	**15.3%**	7.2%
Supervisory & examination costs	**489**	452	440	**8.2%**	2.7%
Other	**3,984**	2,933	3,477	**35.8%**	(15.6%)
Total operating expense	**22,694**	20,878	18,835	**8.7%**	10.8%
Farm Credit Insurance Fund premium	**2,178**	1,151	953	**89.2%**	20.8%
Prepayment expense	**23**	342	–	**(93.3%)**	100.0%
Total noninterest expense	**$24,895**	$22,371	$19,788	**11.3%**	13.1%

For the year ended December 31, 2021, total operating expense increased $1.8 million, or 8.7%, compared with the year ended December 31, 2020, primarily due to increases in fees paid for services. Fees paid to AgVantis, as well as fees for participation loan servicing, legal, accounting, human resources, and other professional services all increased over the prior year. The increase in occupancy and equipment expense of $300 thousand is attributable to the purchase of new information technology equipment and depreciation on the Association's new headquarters building, which was placed into service in October 2020. Travel and training costs also rose throughout 2021 when fewer events and meetings were cancelled. A decrease of $646 thousand in benefits expense, attributable to lower pension costs, was offset by a $622 thousand increase in salaries for new employees, relocation costs and an average merit increase of 4.3%. Insurance Fund premiums increased $1.0 million to $2.2 million at December 31, 2021 due to an increase in average loan volume over the prior year and a 5 basis point premium rate increase. The increases are offset by a decrease in excess prepayment expense from $342 thousand in 2020 to $23 thousand in 2021. These fees are charged by CoBank for excess loan prepayments, primarily from loan conversions that have resulted from the current low interest rate environment.

Provision for income taxes

We recorded $23 thousand in provision for income taxes during 2021, compared provision for income taxes of $8 thousand in 2020 and 2019. The increase was primarily attributable to changes in the temporary differences arising from patronage income, the allowance for loan losses, and interest on nonaccrual loans. Tax expense was impacted by our patronage refund program. We operate as a Subchapter T cooperative for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 2 for additional details.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with CoBank, fund loans and other commitments, and fund business operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction and liquidate nonearning assets. Our direct loan with CoBank, cash on hand and borrower loan repayments provide adequate liquidity to fund our on-going operations and other commitments.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank, which matures on December 31, 2022. The annual average principal balance of the note payable to CoBank was $1.42 billion in 2021, $1.27 billion in 2020 and $1.11 billion in 2019.

We plan to continue to fund lending operations through the utilization of our funding arrangement with CoBank, retained earnings from current and prior years and from borrower stock investments. CoBank's primary source of funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Banks Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets experienced significant volatility in the last few years, we were able to obtain sufficient funding to meet the needs of our customers.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and its asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed excess loanable funds with CoBank pro-rata with our loan portfolio. We exited CoBank's Association Equity Positioning Program (AEPP) fixed rate investments on October 1, 2019 and reinvested those earnings pro-rata with our loan portfolio. This enables us to reduce our overall cost of funds with CoBank without significantly increasing our overall interest rate risk position. Each quarter, we perform interest rate shock sensitivities and report results to the Board.

Funds Management

We offer variable, fixed, adjustable prime-based, and Secured Overnight Financing Rate-based (SOFR) rate loans to borrowers. Our Board of Directors determines the interest rate charged based on the following factors: 1) the interest rate charged by CoBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

On March 5, 2021, the United Kingdom's Financial Conduct Authority (UKFCA), formally announced that all LIBOR tenors will either be discontinued or no longer be representative immediately after December 31, 2021. As a result, the UKFCA has closely worked with market participants and regulatory authorities around the world to ensure that alternatives to LIBOR are available and that existing contracts can be transitioned onto these alternatives to safeguard financial stability and market integrity.

At December 31, 2021, our Association did not hold any legacy LIBOR indexed loans in our core portfolio and these developments did not have a material impact on the Association and our borrowers. All exposure to LIBOR is related to our participations purchased portfolio. We have adopted a transition plan to reduce LIBOR exposures and stop the inflow of new LIBOR volume. Management has documented and worked through the LIBOR transition plan with our funding bank and service provider to address the phase out of LIBOR rates, including any updates to processes and loan servicing technology.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2021 totaled $324.5 million, compared with $306.7 million at December 31, 2020 and $289.9 million at December 31, 2019. The increase of $17.8 million in shareholders' equity reflects net income and a decrease in accumulated other comprehensive loss and net stock issuances, partially offset by patronage distributions. Our capital position is reflected in the following ratio comparisons.

	2021	2020	2019
Debt to shareholders' equity	**4.79:1**	4.55:1	4.12:1
Shareholders' equity as a percent of net loans	**18.35%**	19.14%	20.76%
Shareholders' equity as a percent of total assets	**17.28%**	18.02%	19.53%

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2020 primarily due to the increase in our CoBank note of $150.8 million and the increase in our total assets of $175.6 million.

Retained Earnings

Our retained earnings increased $17.6 million to $265.4 million at December 31, 2021 from $247.8 million at December 31, 2020 and increased $34.2 million from $231.2 million at December 31, 2019. The increase in 2021 was a result of net income of $29.1 million, partially offset by $11.5 million of patronage distributions declared.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, the Bylaws address increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of $8.0 million in 2021, $7.0 million in 2020 and $6.0 million in 2019. During 2021, we declared patronage distributions of $11.5 million to be paid in April 2022.

Stock

Our total stock increased $131 thousand to $3.8 million at December 31, 2021, from $3.6 million at December 31, 2020 and increased from $3.5 million at December 31, 2019. The increase during 2021 was due to $531 thousand of stock issuances, partially offset by $400 thousand of stock retirements. We require a stock investment for each borrower. We have a Borrower Level Stock Program which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s).

Accumulated Other Comprehensive Income or Loss

Accumulated other comprehensive loss totaled $163 thousand at December 31, 2021, a decrease of $85 thousand compared with year-end 2020 and a decrease of $157 thousand compared with year-end 2019. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Accounting guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income/loss.

Capital Plan and Regulatory Requirements

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

As shown in the following table, at December 31, 2021, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions, retire equities and pay preferred stock dividends.

	2021	2020	2019	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	**14.83%**	15.88%	17.06%	7.00%
Tier 1 Capital ratio	**14.83%**	15.88%	17.06%	8.50%
Total Capital ratio	**15.06%**	16.12%	17.30%	10.50%
Tier 1 Leverage ratio	**15.61%**	16.34%	17.56%	5.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage ratio	**17.04%**	17.55%	18.68%	1.50%
Permanent capital ratio	**14.86%**	15.91%	17.10%	7.00%

The minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2021, we have met our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock. Refer to Note 7, Shareholders' Equity, in this report for additional information on our capital and related requirements and restrictions.

On July 8, 2021, the FCA announced a proposed rule that would amend the Tier 1/Tier 2 capital framework to define and establish a risk weight for high-volatility commercial real estate exposures by assigning a 150% risk-weighting to such exposures, instead of the current 100% risk-weighting. The proposed rule focuses on changes that are comparable with the capital rules of other federal banking regulatory agencies and recognize the increased risk posed by high-volatility commercial real estate exposures. The public comment period on the proposed rule ends on January 24, 2022.

On September 9, 2021, the FCA adopted a final rule that amends, corrects and clarifies certain provisions of the Tier 1/Tier 2 capital framework approved by the FCA in March 2016. The final rule includes amendments that do not change the minimum capital requirements or capital buffers, but focus on clarifying and improving other provisions to ensure application of the capital rules as intended, reduce burden to the Farm Credit System, and assist the FCA in better determining compliance with the Tier 1/Tier 2 capital framework. The final rule will be become effective on January 1, 2022. We do not expect this regulation will have a material impact on our regulatory capital and leverage ratios.

Building Projects

The construction of the new headquarters building in Edmond, Oklahoma was completed September 2020. The funding of the project was derived from retained earnings and draws on our CoBank note payable.

Construction of a new branch building in Stillwater, Oklahoma began in the third quarter of 2021 and is expected to be completed in 2022. The project will be funded from retained earnings and draws on our CoBank note payable.

REGULATORY MATTERS

As of December 31, 2021, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

GOVERNANCE

Board of Directors

We are governed by a twelve member board that provides direction and oversees our management. Of these directors, ten are elected by the shareholders and two are appointed by the elected directors. Our Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, evaluates and compensates the chief executive officer;
- approves the strategic plan, capital plan, financial plan and the annual operating budget;
- oversees the lending operations;
- directs management on significant issues; and
- oversees the financial reporting process, communications with shareholders and our legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in our interest. All our directors are independent from the perspective that none of our management or staff serves as Board members. However, we are a financial services cooperative, and the Farm Credit Act and FCA Regulations require our elected directors to have a loan relationship with us.

The elected directors, as borrowers, have a vested interest in ensuring our Association remains strong and successful. However, our borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of our Board. Annually, in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of six members of the Board of Directors. During 2021, eight meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the consolidated financial statements;

- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls or auditing matters; and
- oversight of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities.

Risk Committee

The Risk Committee is responsible for the oversight of risk inherent with a lending institution including strategic, reputation, interest rate, legal/compliance, credit, operational, counterparty and information/cyber security risks. The Risk Committee consists of six members of the Board of Directors and meets with the Audit Committee at least annually to discuss matters of common interest. During 2021, eight meetings were held. The Risk Committee responsibilities generally include, but are not limited to:

- oversight of management's risk management practices;
- provides guidance on strategies and risk appetite; and
- the oversight of the Enterprise Risk Management activities and effectiveness.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of six members of the Board of Directors. During 2021, six meetings were held. The Committee annually reviews, evaluates and approves the compensation policies, programs and plans for senior officers and employees including benefits programs.

Governance Committee

The Governance Committee is responsible for ensuring adequacy and effectiveness of policies, procedures, and activities related to Board composition and structure. The Governance Committee is composed of four members of the Board of Directors.

Building Committee

The Building Committee is responsible for the oversight of the design and construction of Association offices. The Building Committee is composed of five members of the Board of Directors.

Other Governance

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We strive to maintain strong governance and financial reporting through the following actions:

- a system for the receipt and treatment of whistleblower complaints;
- a code of ethics for our President/CEO, Chief Financial Officer and Chief Credit Officer;
- open lines of communication between the independent auditors, management, and the Audit Committee;
- "plain English" disclosures;
- officer certification of accuracy and completeness of the consolidated financial statements; and
- information disclosure through our website.

Code of Ethics

Our directors and employees are responsible for maintaining the highest of standards in conducting our business. In that regard, we established a Code of Ethics for the Board of Directors and a Code of Ethics for the Chief Executive Officer, Chief Financial Officer, Chief Credit Officer, and other senior financial professionals who are involved, directly or indirectly, with the preparation of our financial statements and the maintenance of financial records supporting the financial statements. These Codes of Ethics supplement our Standards of Conduct Policies for Directors and Employees. Annually, each employee and director files a written and signed disclosure statement as required under the Standards of Conduct Policies. Likewise, all employees certify compliance with our Code of Ethics on an annual basis.

Whistleblower Program

We maintain a program for employee complaints related to accounting, financial reporting, internal accounting controls, or auditing matters. This program allows employees to submit confidential, anonymous concerns regarding accounting, financial reporting, internal accounting controls, fraud or auditing matters without the fear of reprisal, retaliation or adverse action being taken against any employee who, in good faith, reports or assists in the investigation of a violation or suspected violation, or who makes an inquiry about the appropriateness of an anticipated or actual course of action.

FORWARD-LOOKING INFORMATION

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because we have to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying consolidated financial statements. The development and selection of critical accounting policies, and the related disclosures, have been reviewed by our Audit Committee. A summary of critical policies relating to the determination of the allowance for loan losses follows.

Allowance for Loan Losses/Reserve for Unfunded Commitments

The allowance for loan losses is our best estimate of the amount of probable loan losses existing in and inherent in our loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. Additionally, we provide line of credit financing to our customers. We have established a reserve for unfunded commitments to cover probable losses. This reserve is reported as a liability in our consolidated balance sheet. The reserve for unfunded commitments is increased through provision for the reserve for unfunded commitments and is decreased through reversals of the reserve for unfunded commitments. Provision for loan losses and provision for reserve for unfunded commitments are referred to as a provision for credit losses on the Consolidated Statement of Comprehensive Income. We determine the allowance for loan losses and the reserve for unfunded commitments based on a regular evaluation of the loan and commitments portfolios, which generally considers recent historical charge-off experience adjusted for relevant factors.

Loans are evaluated based on the borrower’s overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

Changes in the factors we consider in the evaluation of losses in the loan portfolio could occur for various credit related reasons and could result in a change in the allowance for loan losses, which would have a direct impact on the provision for loan losses and results of operations. See Notes 2 and 3 to the accompanying consolidated financial statements for detailed information regarding the allowance for loan losses.

CUSTOMER PRIVACY

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers and employees. FCA regulations and our Standards of Conduct Policies specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers’ nonpublic information.

CHANGES IN MANAGEMENT

Our Chief Risk Officer will be retiring December 31, 2022. The Association is preparing for this transition according to its succession plan.

OKLAHOMA AGCREDIT
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Report of Management

The consolidated financial statements of Oklahoma AgCredit, ACA (Association) are prepared by management, who is 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 generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2021 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, management engaged Deloitte Risk and Financial Advisory to perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as appropriate. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the Board of Directors has overall responsibility for the Association's system of internal control and financial reporting. The Audit Committee consults regularly with management and reviews the results of the examinations by the various entities named above. The independent auditors have direct access to the Audit Committee.

The undersigned certify the Oklahoma AgCredit, ACA Annual Report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

//signature on file//

Gary Bledsoe
Chairman of the Board

//signature on file//

Patrick Zeka
President and Chief Executive Officer

//signature on file//

Malinda Thimmesch
Chief Financial Officer

March 8, 2022

MEMBER OF THE FARM CREDIT SYSTEM

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Based on the assessment performed, the Association 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.

//signature on file//	//signature on file//
Patrick Zeka President and Chief Executive Officer	**Malinda Thimmesch** Chief Financial Officer

March 8, 2022

MEMBER OF THE FARM CREDIT SYSTEM

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AUDIT COMMITTEE REPORT

The Audit Committee (the Committee) includes six members from the Board of Directors of Oklahoma AgCredit (the Association). In 2021, eight Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2021.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2021 were $77,300 for audit services and $9,900 for tax services.

The Committee reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence.

Management is responsible for the Association's 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 Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2021 (the "Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2021 and for filing with the Farm Credit Administration.

//signature on file//

Lisa Cochell, Chairwoman of the Audit Committee

Audit Committee Members
Shand Rasmusson
Rodney Holcomb
Phillip Landgraf
Kenny Markes
Dan Childs (Ex-Officio)

March 8, 2022

MEMBER OF THE FARM CREDIT SYSTEM

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Report of Independent Auditors

To the Board of Directors of Oklahoma AgCredit, ACA,

Opinion

We have audited the accompanying consolidated financial statements of Oklahoma AgCredit, ACA and its subsidiaries (the "Association"), which comprise the consolidated statement of condition as of December 31, 2021, 2020 and 2019, and the related consolidated statements of comprehensive income, changes in shareholders' 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

Kansas City, Missouri
March 8, 2022

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2021	2020	2019
ASSETS			
Loans	**$ 1,772,110**	$ 1,606,107	$ 1,399,737
Less allowance for loan losses	**3,606**	3,533	3,255
Net loans	**1,768,504**	1,602,574	1,396,482
Cash	**4,741**	1,963	2,943
Accrued interest receivable	**16,574**	15,315	16,501
Investment in CoBank, ACB	**50,706**	50,706	44,560
Investment in AgDirect	**4,158**	3,001	2,815
Premises and equipment, net	**14,988**	14,588	9,329
Other property owned	**47**	-	-
Prepaid benefit expense	**8,078**	6,284	5,145
Other assets	**10,386**	8,154	6,964
Total assets	**$ 1,878,182**	$ 1,702,585	$ 1,484,739
LIABILITIES			
Note payable to CoBank, ACB	**$ 1,525,552**	$ 1,374,758	$ 1,177,209
Advance conditional payments	**6,326**	4,722	2,091
Accrued interest payable	**1,761**	1,726	2,538
Patronage distributions payable	**11,500**	8,000	7,000
Accrued benefits liability	**479**	661	841
Deferred tax liability	**16**	-	-
Reserve for unfunded commitments	**539**	562	578
Other liabilities	**7,465**	5,419	4,573
Total liabilities	**$ 1,553,638**	$ 1,395,848	$ 1,194,830
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Capital stock	**3,767**	3,636	3,459
Additional paid-in capital	**55,558**	55,558	55,558
Unallocated retained earnings	**265,382**	247,791	231,212
Accumulated other comprehensive income/(loss)	**(163)**	(248)	(320)
Total shareholders' equity	**324,544**	306,737	289,909
Total liabilities and shareholders' equity	**$ 1,878,182**	$ 1,702,585	$ 1,484,739

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2021	2020	2019
INTEREST INCOME			
Loans	**$ 63,668**	$ 63,526	$ 67,743
Total interest income	**63,668**	63,526	67,743
INTEREST EXPENSE			
Note payable to CoBank, ACB	**19,849**	23,879	31,029
Other	**38**	25	54
Total interest expense	**19,887**	23,904	31,083
Net interest income	**43,781**	39,622	36,660
(Credit loss reversal)/Provision for credit losses	**(266)**	663	531
Net interest income after credit loss reversal/ provision for credit losses	**44,047**	38,959	36,129
NONINTEREST INCOME			
Financially related services income	**14**	19	25
Loan fees	**991**	976	917
Patronage distribution from Farm Credit institutions	**7,593**	5,523	4,465
Farm Credit Insurance Fund distribution	**-**	313	313
Mineral income	**745**	502	754
Equity positioning income from CoBank	**-**	-	643
Other noninterest income	**614**	662	649
Total noninterest income	**9,957**	7,995	7,766
NONINTEREST EXPENSE			
Salaries and employee benefits	**13,197**	13,221	11,048
Occupancy and equipment	**1,620**	1,320	1,117
Purchased services from AgVantis, Inc.	**3,404**	2,952	2,753
Farm Credit Insurance Fund premium	**2,178**	1,151	953
Supervisory and examination costs	**489**	452	440
Prepayment expense	**23**	342	-
Other noninterest expense	**3,984**	2,933	3,477
Total noninterest expense	**24,895**	22,371	19,788
Income before income taxes	**29,109**	24,583	24,107
Provision for income taxes	**23**	8	8
Net income	**29,086**	24,575	24,099
COMPREHENSIVE INCOME			
Amortization of retirement costs	**84**	68	71
Actuarial gain/(loss) in retirement obligation	**1**	4	(73)
Total comprehensive income	**$ 29,171**	$ 24,647	$ 24,097

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Capital Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2018	$ 3,352	$ 55,558	$ 214,105	$ (318)	$ 272,697
Comprehensive income			24,099	(2)	24,097
Stock issued	434				434
Stock retired	(327)				(327)
Patronage distributions:					
Cash			(7,000)		(7,000)
Other			8		8
Balance at December 31, 2019	3,459	55,558	231,212	(320)	289,909
Comprehensive income			24,575	72	24,647
Stock issued	560				560
Stock retired	(383)				(383)
Patronage distributions:					
Cash			(8,000)		(8,000)
Other			4		4
Balance at December 31, 2020	3,636	55,558	247,791	(248)	306,737
Comprehensive income			29,086	85	29,171
Stock issued	531				531
Stock retired	(400)				(400)
Patronage distributions:					
Cash			(11,500)		(11,500)
Other			5		5
Balance at December 31, 2021	**$ 3,767**	**$ 55,558**	**$ 265,382**	**$ (163)**	**$ 324,544**

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 29,086**	$ 24,575	$ 24,099
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**885**	701	590
(Credit loss reversal)/Provision for credit losses	**(266)**	663	531
Stock patronage from CoBank, ACB	**(4)**	-	-
Gains on sales of premises and equipment	**(102)**	(80)	(133)
Gains on sales of other property owned	**(4)**	(17)	-
Net accretion of yield related to loans and notes payable acquired in merger	**61**	(150)	(61)
Change in assets and liabilities:			
(Increase)/Decrease in accrued interest receivable	**(1,259)**	1,186	(1,068)
Increase in prepaid benefit expense	**(1,794)**	(1,139)	(1,536)
(Increase)/Decrease in other assets	**(2,228)**	(1,190)	275
Increase/(Decrease) in accrued interest payable	**35**	(812)	394
(Decrease)/Increase in accrued benefits liability	**(97)**	(108)	131
Increase in deferred tax liability	**16**	-	-
Increase/(Decrease) in other liabilities	**2,046**	846	(445)
Total adjustments	**(2,711)**	(100)	(1,322)
Net cash provided by operating activities	**26,375**	24,475	22,777
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	**(165,826)**	(206,626)	(116,545)
Increase in investment in CoBank, ACB	**-**	(6,146)	(3,764)
(Increase)/Decrease in investment in AgDirect	**(1,157)**	(186)	105
Expenditures for premises and equipment	**(1,306)**	(5,972)	(1,549)
Proceeds from sales of premises and equipment	**123**	92	147
Proceeds from sales of other property owned	**28**	241	-
Net cash used in investing activities	**(168,138)**	(218,597)	(121,606)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank, ACB	**150,801**	197,330	106,012
Increase/(Decrease) in advance conditional payments	**1,604**	2,631	(386)
Capital stock retired	**(400)**	(383)	(327)
Capital stock issued	**531**	560	434
Cash patronage distributions paid	**(7,995)**	(6,996)	(5,992)
Net cash provided by financing activities	**144,541**	193,142	99,741
Net increase/(decrease) in cash	**2,778**	(980)	912
Cash at beginning of year	**1,963**	2,943	2,031
Cash at end of year	**$ 4,741**	$ 1,963	$ 2,943
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 19,852**	$ 24,716	$ 30,689
Income taxes	**$ 8**	$ 6	$ 10
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Stock patronage from CoBank, ACB	**$ 4**	$ -	$ -
Loans transferred to other property owned	**$ 71**	$ 224	$ -
Net (recoveries)/charge-offs	**$ (316)**	$ 401	$ 372
Patronage distributions payable	**$ 11,500**	$ 8,000	$ 7,000
Reversal of patronage payable	**$ 5**	$ 4	$ 8
Change in accumulated other comprehensive income/(loss)	**$ 85**	$ 72	$ (2)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND OPERATIONS

A. Organization: Oklahoma AgCredit, ACA and its subsidiaries, Oklahoma AgCredit, FLCA, (Federal Land Credit Association (FLCA)) and Oklahoma AgCredit, PCA, (Production Credit Association (PCA)), (collectively called “the Association”) are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Adair, Alfalfa, Atoka, Blaine, Bryan, Caddo, Canadian, Carter, Cherokee, Choctaw, Cleveland, Coal, Comanche, Cotton, Craig, Creek, Delaware, Garfield, Garvin, Grady, Grant, Haskell, Hughes, Jefferson, Johnston, Kay, Kingfisher, Latimer, LeFlore, Lincoln, Logan, Love, Major, Marshall, Mayes, McClain, McCurtain, McIntosh, Murray, Muskogee, Noble, Nowata, Okfuskee, Oklahoma, Okmulgee, Osage, Ottawa, Pawnee, Payne, Pittsburg, Pontotoc, Pottawatomie, Pushmataha, Rogers, Seminole, Sequoyah, Stephens, Tulsa, Wagoner and Washington in the state of Oklahoma.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). At December 31, 2021, the System was comprised of three Farm Credit Banks and one Agricultural Credit Bank (System Banks), and 67 associations.

CoBank, ACB (funding bank or the “Bank”), its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. As of December 31, 2021, the CoBank District consists of CoBank, 20 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA) and AgVantis.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans and the PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

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

B. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents and farm-related businesses.

The Association also serves as an intermediary in offering credit life insurance, multi-peril crop and crop hail insurance, advance conditional payment accounts and provides additional services to borrowers such as fee appraisals and lease financing through AgDirect.

AgDirect, LLP is a Delaware limited liability partnership operated for the purpose of providing the farmers and ranchers served by the System the means to purchase and lease agricultural equipment from or through equipment dealers, equipment manufacturers, auction companies and other equipment sellers throughout the United States. The Association became a partner in the group in 2014.

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting the Association at 3033 Progressive Drive, Edmond, Oklahoma 73034 or by calling (405) 938-1700. Upon request, Association shareholders will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of CoBank's and District's financial condition, changes in financial condition, and results of operations. In addition, the CoBank Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation.

The Farm Credit Council, a full-service federated trade association, represents the Association and other System institutions before Congress, the Executive Branch and others, and provides support services on a fee basis.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The consolidated financial statements (the "financial statements") of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts of Oklahoma AgCredit, PCA and Oklahoma AgCredit FLCA and reflect the investments in and allocated earnings of the service organizations in which the Association has partial ownership interests. Inter-company transactions have been eliminated in consolidation.

Use of Estimates

The accounting and reporting policies of the Association conform to GAAP and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

Recently Issued Accounting Pronouncements

Adopted Guidance

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs. In response to the CARES Act, the FCA issued guidance allowing for temporary relief from accounting and disclosure requirements for TDRs. The relief related to TDRs under the CARES Act was extended by the Consolidated Appropriations Act, 2021 (CAA), which was signed into law on December 27, 2020. Under the CAA, such relief will continue until the earlier of (1) 60 days after the date the COVID-19 national emergency comes to an end or (2) January 1, 2022. The Association adopted this relief for qualifying loan modifications.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." 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 contracts related to the replacement of the reference rate. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association adopted the optional expedients as it related to loans during the first quarter of 2021 and the impact of the adoption was not material to the Association's financial condition or results of operations.

Guidance Pending Adoption

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." 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 inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB approved deferral of the effective date for certain entities for this guidance by two years, which will result in the new credit loss standard becoming effective for interim and annual reporting periods beginning after December 15, 2022 with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on its financial condition and its results of operations.

Summary of the Association's Significant Accounting Policies

A. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans made for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Loan origination fees and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Loans acquired in a business combination are initially recognized at fair value based on current interest rates and taking into account the borrowers' credit quality, and therefore acquired loans have no related allowance for loan losses at acquisition date. Those loans with evidence of credit quality deterioration at purchase are required to be recorded in accordance with the authoritative accounting guidance on "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for loan losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. For variable rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

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

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or when circumstances indicate that collection of principal and/or interest is in doubt or when legal action, including foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the Association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan. Certain loan modifications that resulted from circumstances related to COVID-19 are eligible under the FCA issued guidance and the Association is not required to report them as a TDR.

When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectability of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is current, the borrower has demonstrated payment performance, and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual term of the loan, the loan is classified as a troubled debt restructuring. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The Association purchases loan participations from other System and non-System entities to generate additional earnings and diversify risk. Additionally, the Association sells a portion of certain large loans to other System entities to reduce risk and comply with established lending limits. Loans are sold and the sale terms comply with requirements under Accounting Standards Codification (ASC) 860 "Transfers and Servicing."

The Association uses a two-dimensional loan rating model based on internally generated Combined System Risk Rating Guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. We adjust the PD factors in the Combined System risk rating guidance to account for our loss emergence period. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

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

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations and appraisals to change over time. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired through mergers with deteriorated credit quality. Generally, for loans individually evaluated, the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model as previously discussed.

B. Cash: Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.

C. Investment in CoBank: The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.00 percent of the prior five-year average direct loan volume. The investment in CoBank is comprised of patronage based stock and purchased stock. The requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the prior ten-year average of such participations sold to CoBank.

D. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. The estimated useful lives range from 17 to 40 years for buildings, 1 to 10 years for furniture and equipment and from 3 to 5 years for automobiles. Gains and losses on dispositions are reflected in current operating results.

Maintenance and repairs are expensed and improvements above certain thresholds are capitalized. Costs associated with designing software configuration, installation, coding programs and testing systems are capitalized and amortized using the straight-line method over 1 to 15 years. Long-lived assets are reviewed for impairment whenever events or circumstances indicate the carrying amount of an asset group may not be recoverable.

E. Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. The gain or loss upon disposal of other property owned, as well as income and expenses from operations and carrying value adjustments are included in other noninterest expense in the Consolidated Statement of Income.

F. Other Assets and Other Liabilities: Other assets are comprised primarily of accounts receivable, prepaid expenses, and investment in Farm Credit institutions other than CoBank. Significant components of other liabilities primarily include accounts payable and employee benefits.

G. Advance Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower’s access to such advance payments is restricted, the advance conditional payments are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in liabilities. Restricted advance conditional payments are primarily associated with mortgage loans, while unrestricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.

H. Employee Benefit Plans: Substantially all employees of the Association participate in the Ninth Farm Credit District Pension Plan (Pension Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan). The Pension Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Pension Plan was closed to employees beginning January 1, 2007.

The 401(k) Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee’s salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also participates in the Farm Credit Foundations Retiree Medical Plan. These postretirement benefits (other than pensions) are provided to eligible retired employees of the Association. The anticipated costs of these benefits were accrued during the period of the employee’s active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

The Association also participates in the Ninth District nonqualified defined benefit Pension Restoration Plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under this plan are offset by the benefits payable from the pension plan.

Certain eligible employees may also participate in a nonqualified deferred compensation plan where they are able to defer a portion of their compensation. The Association matches a certain percentage of employee contributions to the plan.

I. Patronage Distribution from CoBank: Patronage distributions from CoBank are accrued by the Association in the year earned and are included in Other Assets on the Consolidated Statement of Condition.

J. Income Taxes: As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income taxes. The

Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state or local laws.

The Association elected to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage distributions. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

Deferred income taxes have not been recorded by the Association on stock patronage distributions received from the Bank prior to January 1, 1993, the adoption date of accounting guidance on income taxes. Association management's intent is to permanently invest these and other undistributed earnings in CoBank, or if converted to cash, to pass through any such earnings to Association borrowers through qualified patronage allocations.

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings.

K. Other Comprehensive Income/Loss: Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the balance of these transactions. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan. See Note 7 for further information.

L. Fair Value Measurement: Accounting guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds which relate to the Association's deferred compensation plan and supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

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 the following: (a) quoted prices for similar assets or liabilities in active markets; (b) 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, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and, (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about factors that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are 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. Level 3 assets include other property owned.

The fair value disclosures are presented in Note 14.

M. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
(dollars in thousands)	**2021**	2020	2019
Real estate mortgage	**$ 1,241,658**	$ 1,092,660	$ 938,740
Production and intermediate-term	**246,177**	239,559	232,324
Agribusiness	**186,710**	182,016	153,392
Rural infrastructure	**91,104**	82,951	67,630
International	**6,221**	8,028	6,249
Rural residential real estate	**240**	893	1,402
Total loans	**$ 1,772,110**	$ 1,606,107	$ 1,399,737

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2021.

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
(dollars in thousands)	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 39,584	$ 35,803	$ 50	$ –	$ 39,634	$ 35,803
Production and intermediate-term	41,893	6,697	–	–	41,893	6,697
Agribusiness	183,704	–	–	–	183,704	–
Rural infrastructure	91,104	–	–	–	91,104	–
International	6,221	–	–	–	6,221	–
Total	$ 362,506	$ 42,500	$ 50	$ –	$ 362,556	$ 42,500

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

Credit enhancements with federal government agencies of $11.5 million at year-end 2021, $10.7 million at year-end 2020 and $11.1 million at year-end 2019 were outstanding. The United States Department of Agriculture provides a guarantee to the Association that limits the Association's losses should a loan end in foreclosure or the Association takes ownership of the property.

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

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

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification system as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

	2021	2020	2019
Real estate mortgage			
Acceptable	**98.70%**	98.75%	97.82%
OAEM	**0.66%**	0.56%	1.24%
Substandard	**0.64%**	0.69%	0.94%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**96.20%**	96.00%	95.78%
OAEM	**0.89%**	2.85%	1.18%
Substandard	**2.91%**	1.15%	3.04%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**97.96%**	96.33%	97.55%
OAEM	**1.61%**	3.25%	2.38%
Substandard	**0.43%**	0.42%	0.07%
Total	**100.00%**	100.00%	100.00%
Rural Infrastructure			
Acceptable	**99.59%**	99.36%	93.80%
OAEM	**0.41%**	0.64%	4.63%
Substandard	**–**	–	1.57%
Total	**100.00%**	100.00%	100.00%
Rural residential real estate			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
International			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**98.32%**	98.10%	97.27%
OAEM	**0.78%**	1.21%	1.51%
Substandard	**0.90%**	0.69%	1.22%
Total	**100.00%**	100.00%	100.00%

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following presents information relating to impaired loans including accrued interest.

	December 31		
(dollars in thousands)	**2021**	2020	2019
Nonaccrual loans:			
Current as to principal and interest	**$ 4,761**	$ 3,934	$ 4,539
Past due	**3,757**	3,829	3,247
Total nonaccrual loans	**8,518**	7,763	7,786
Impaired accrual loans:			
Restructured	**501**	1,166	1,132
Accrual loans 90 days or more past due	**17**	–	–
Total impaired accrual loans	**518**	1,166	1,132
Total impaired loans	**$ 9,036**	$ 8,929	$ 8,918

There were no material commitments to lend additional funds to debtors whose loans were classified impaired for 2021, 2020 and 2019.

High risk assets consist of impaired loans and other property owned. The following table presents these in a more detailed manner than the previous table. These nonperforming assets (including related accrued interest) are as follows:

	December 31		
(dollars in thousands)	**2021**	2020	2019
Nonaccrual loans			
Real estate mortgage	**$ 6,553**	$ 5,672	$ 3,910
Production and intermediate-term	**1,890**	2,091	3,876
Agribusiness	**75**	–	–
Total nonaccrual loans	**8,518**	7,763	7,786
Accruing restructured loans			
Real estate mortgage	**291**	559	321
Production and intermediate-term	**210**	607	811
Total accruing restructured loans	**501**	1,166	1,132
Accruing loans 90 days past due			
Production and intermediate-term	**17**	–	–
Total accruing 90 days past due	**17**	–	–
Total impaired loans	**9,036**	8,929	8,918
Other property owned	**47**	–	–
Total high risk assets	**$ 9,083**	$ 8,929	$ 8,918

Additional impaired loan information is as follows:

(dollars in thousands)	Recorded Investment at 12/31/21	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate-term	$ 166	$ 169	$ 53	$ 47	$ –
Total	$ 166	$ 169	$ 53	$ 47	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 6,844	$ 7,718		$ 6,986	$ 76
Production and intermediate-term	1,951	2,323		2,806	47
Agribusiness	75	184		57	1
Total	$ 8,870	$ 10,225		$ 9,849	$ 124
Total impaired loans:					
Real estate mortgage	$ 6,844	$ 7,718	$ –	$ 6,986	$ 76
Production and intermediate-term	2,117	2,492	53	2,853	47
Agribusiness	75	184	–	57	1
Total	$ 9,036	$ 10,394	$ 53	$ 9,896	$ 124

(dollars in thousands)	Recorded Investment at 12/31/20	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate-term	$ –	$ –	$ –	$ 1,141	$ –
Total	$ –	$ –	$ –	$ 1,141	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 6,231	$ 6,931		$ 9,005	$ 483
Production and intermediate-term	2,698	3,786		2,932	61
Agribusiness	–	119		–	–
Total	$ 8,929	$ 10,836		$ 11,937	$ 544
Total impaired loans:					
Real estate mortgage	$ 6,231	$ 6,931	$ –	$ 9,005	$ 483
Production and intermediate-term	2,698	3,786	–	4,073	61
Agribusiness	–	119	–	–	–
Total	$ 8,929	$ 10,836	$ –	$ 13,078	$ 544

(dollars in thousands)	Recorded Investment at 12/31/19	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ 12
Production and intermediate-term	2,316	2,314	132	1,111	–
Total	$ 2,316	$ 2,314	$ 132	$ 1,111	$ 12
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 4,231	$ 4,833		$ 5,735	$ 541
Production and intermediate-term	2,371	2,905		3,057	56
Agribusiness	–	141		211	1
Total	$ 6,602	$ 7,879		$ 9,003	$ 598
Total impaired loans:					
Real estate mortgage	$ 4,231	$ 4,833	$ –	$ 5,735	$ 553
Production and intermediate-term	4,687	5,219	132	4,168	56
Agribusiness	–	141	–	211	1
Total	$ 8,918	$ 10,193	$ 132	$ 10,114	$ 610

* Unpaid principal balance represents the recorded principal balance of the loan

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

	Year Ended December 31		
(dollars in thousands)	**2021**	2020	2019
Interest income recognized on:			
Nonaccrual loans	**$ 88**	$ 432	$ 556
Restructured accrual loans	**35**	63	47
Accrual loans 90 days or more past due	**1**	49	7
Interest income recognized on impaired loans	**$ 124**	$ 544	$ 610

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

	Year Ended December 31		
(dollars in thousands)	**2021**	2020	2019
Interest income which would have been recognized under the original loan terms	**$ 544**	$ 423	$ 721
Less: interest income recognized	**123**	495	603
Interest income not recognized/(recognized)	**$ 421**	$ (72)	$ 118

The following table provides an age analysis of past due loans (including accrued interest).

	December 31, 2021					
(dollars in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 2,997	$ 510	$ 3,507	$1,250,963	$1,254,470	$ –
Production and intermediate-term	3,897	1,252	5,149	244,301	249,450	17
Agribusiness	–	75	75	187,033	187,108	–
Rural infrastructure	–	–	–	91,185	91,185	–
Rural residential real estate	–	–	–	241	241	–
International	–	–	–	6,230	6,230	–
Total	$ 6,894	$ 1,837	$ 8,731	$1,779,953	$1,788,684	$ 17

	December 31, 2020					
(dollars in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 7,576	$ 567	$ 8,143	$1,096,134	$1,104,277	$ –
Production and intermediate-term	1,397	1,193	2,590	240,240	242,830	–
Agribusiness	–	–	–	182,402	182,402	–
Rural infrastructure	–	–	–	82,980	82,980	–
Rural residential real estate	–	–	–	896	896	–
International	–	–	–	8,037	8,037	–
Total	$ 8,973	$ 1,760	$ 10,733	$1,610,689	$1,621,422	$ –

	December 31, 2019					
(dollars in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 3,464	$ 314	$ 3,778	$ 946,531	$ 950,309	$ –
Production and intermediate-term	2,370	–	2,370	234,318	236,688	–
Agribusiness	2	–	2	153,854	153,856	–
Rural infrastructure	–	–	–	67,700	67,700	–
Rural residential real estate	99	–	99	1,319	1,418	–
International	–	–	–	6,267	6,267	–
Total	$ 5,935	$ 314	$ 6,249	$1,409,989	$1,416,238	$ –

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

The following table presents additional information regarding troubled debt restructurings (whether accrual or nonaccrual) that occurred during the year.

	Year Ended December 31					
	2021		2020		2019	
	Outstanding Recorded Investment					
(dollars in thousands)	**Pre-modification**	**Post-modification**	Pre-modification	Post-modification	Pre-modification	Post-modification
Troubled debt restructurings:						
Real estate mortgage	**$ 1,769**	**$ 1,777**	$ 40	$ 41	$ 139	$ 139
Production and intermediate-term	**–**	**–**	–	–	3,846	3,841
Total	**$ 1,769**	**$ 1,777**	$ 40	$ 41	$ 3,985	$ 3,980

Note: Pre-modification represents the recorded investment in the loan receivable just prior to restructuring and post-modification represents the recorded investment in the loan receivable immediately following the restructuring. The recorded investment is the face amount of the loan receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the loan receivable.

The Association had no TDRs that occurred within the previous 12 months of that year and for which there was a payment default. There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at year-end 2021 or 2019. Additional commitments to lend to borrowers whose loans have been modified in TDRs were $294 thousand at December 31, 2020.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table at December 31.

	Loans modified as TDRs			TDRs in Nonaccrual Status*		
(dollars in thousands)	**2021**	2020	2019	**2021**	2020	2019
Real estate mortgage	**$ 2,181**	$ 656	$ 668	**$ 1,889**	$ 96	$ 347
Production and intermediate-term	**209**	1,074	3,391	**–**	468	2,580
Total	**$ 2,390**	$ 1,730	$ 4,059	**$ 1,889**	$ 564	$ 2,927

*Represents the portion of loans modified as TDRs that are in nonaccrual status.

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

(dollars in thousands)	Balance at December 31, 2020	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2021
Real estate mortgage	$ 901	$ –	$ –	$ (13)	$ 888
Production and intermediate-term	894	1,115	1,422	(570)	631
Agribusiness	1,527	–	9	388	1,924
Rural infrastructure	208	–	–	(49)	159
Rural residential real estate	–	–	–	1	1
International	3	–	–	–	3
Total	$ 3,533	$ 1,115	$ 1,431	$ (243)	$ 3,606

(dollars in thousands)	Balance at December 31, 2019	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2020
Real estate mortgage	$ 742	$ –	$ 1	$ 158	$ 901
Production and intermediate-term	1,292	425	–	27	894
Agribusiness	1,041	–	23	463	1,527
Rural infrastructure	176	–	–	32	208
Rural residential real estate	1	–	–	(1)	–
International	3	–	–	–	3
Total	$ 3,255	$ 425	$ 24	$ 679	$ 3,533

(dollars in thousands)	Balance at December 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2019
Real estate mortgage	$ 911	$ –	$ 3	$ (172)	$ 742
Production and intermediate-term	1,523	256	–	25	1,292
Agribusiness	582	130	11	578	1,041
Rural infrastructure	135	–	–	41	176
Rural residential real estate	–	–	–	1	1
International	2	–	–	1	3
Total	$ 3,153	$ 386	$ 14	$ 474	$ 3,255

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on our Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses/loan loss reversals.

A summary of changes in the reserve for unfunded commitments follows:

	For the Year Ended December 31		
(dollars in thousands)	**2021**	2020	2019
Balance at beginning of period	**$ 562**	$ 578	$ 521
(Reversal of)/Provision for reserve for unfunded commitments	**(23)**	(16)	57
Total	**$ 539**	$ 562	$ 578

Additional information on the allowance for loan losses follows:

	Allowance for Loan Losses Ending Balance at December 31, 2021		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2021	
(dollars in thousands)	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 888	$ 6,844	$ 1,247,626
Production and intermediate-term	53	578	2,117	247,333
Agribusiness	–	1,924	75	187,033
Rural infrastructure	–	159	–	91,185
Rural residential real estate	–	1	–	241
International	–	3	–	6,230
Total	$ 53	$ 3,553	$ 9,036	$ 1,779,648

	Allowance for Loan Losses Ending Balance at December 31, 2020		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2020	
(dollars in thousands)	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 901	$ 6,231	$ 1,098,046
Production and intermediate-term	–	894	2,698	240,132
Agribusiness	–	1,527	–	182,402
Rural infrastructure	–	208	–	82,980
Rural residential real estate	–	–	–	896
International	–	3	–	8,037
Total	$ –	$ 3,533	$ 8,929	$ 1,612,493

(dollars in thousands)	Allowance for Loan Losses Ending Balance at December 31, 2019		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2019	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 742	$ 4,231	$ 946,078
Production and intermediate-term	132	1,160	4,687	232,001
Agribusiness	–	1,041	–	153,856
Rural infrastructure	–	176	–	67,700
Rural residential real estate	–	1	–	1,418
International	–	3	–	6,267
Total	$ 132	$ 3,123	$ 8,918	$ 1,407,320

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2021, the Association's investment in CoBank is in the form of Class A stock with a par value of $100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. As a result of changes in CoBank's capital plans during 2021, the requirement for capitalizing the Association's direct loan from CoBank changed from 4.00 percent of the Association's prior one-year average direct loan balance to 4.00 percent of the prior five-year average direct loan balance. The current requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the Association's prior ten-year average balance of such participations sold to CoBank. Under the current CoBank capital plan, patronage from CoBank related to these participations sold is paid 75 percent cash and 25 percent Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements for its joint and several liability under the Farm Credit Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

The Association owned 1.26 percent of the outstanding common stock of CoBank at December 31, 2021 with 1.29 percent at year-end 2020 and 1.23 percent at year-end 2019.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

(dollars in thousands)	December 31 **2021**	2020	2019
Land	**$ 3,353**	$ 3,028	$ 3,028
Buildings and leasehold improvements	**11,827**	11,820	6,027
Furniture, equipment and automobiles	**3,279**	3,407	2,385
Construction in progress	**875**	92	1,098
	19,334	18,347	12,538
Less: accumulated depreciation	**4,346**	3,759	3,209
Total	**$ 14,988**	$ 14,588	$ 9,329

NOTE 6 – NOTE PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA). According to the agreement, the aggregate outstanding amount of principal and accrued interest shall not at any time exceed the line of credit. The GFA is subject to periodic renewals in the normal course of business. The GFA will mature on December 31, 2022. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2021. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing.

(dollars in thousands)	December 31 2021	2020	2019
Line of credit	**$ 1,625,000**	$ 1,500,000	$ 1,250,000
Outstanding principal and accrued interest balance	**$ 1,527,290**	$ 1,376,470	$ 1,179,722
Average outstanding principal balance under the line of credit	**$ 1,424,449**	$ 1,266,513	$ 1,112,177
Weighted average interest rate	**1.39%**	1.89%	2.79%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. Other than the funding relationship with the Bank, and our advanced conditional payments, the Association has no other uninsured or insured debt. See Note 2 for additional information. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2021, the Association's notes payable was within the specified limitations.

The Association has the opportunity to commit loanable funds with CoBank under a variety of programs at either fixed or variable rates for specified timeframes. Participants in the program receive a credit on the committed loanable funds balance classified as a reduction of interest expense. These committed funds are netted against the note payable to the Bank. The average committed funds as of December 31 are as follows:

(dollars in thousands)	2021	2020	2019
Average committed funds	**$ 255,131**	$ 240,174	$ 229,864
Average rates	**1.14%**	1.61%	2.32%

NOTE 7 – SHAREHOLDERS' EQUITY

Descriptions of the Association's capitalization, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. Protected Borrower Stock

Protection of certain stock is provided under the Farm Credit Act which requires the Association, when retiring protected stock, to retire it at par or stated value regardless of its book value. Protected stock includes stock and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988.

B Capital Stock

In accordance with the Farm Credit Act, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership of the stock at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. The Association has a first lien on the stock owned by its borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock. Our bylaws generally permit stock to be retired at the discretion of the Board of Directors and in compliance 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.

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00 percent to 10.00 percent of the borrower's combined loan volume. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. Currently, the Association has a stock requirement of the lesser of one thousand dollars or 2.00 percent of the amount of the borrower's combined loan volume.

C. Regulatory Capitalization Requirements and Restrictions

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. Effective January 1, 2017, regulatory capital surplus requirements for Banks and Associations were adopted. These requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The requirements also replaced the existing net collateral ratio for System Banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the Banks and Associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

The following sets forth the regulatory capital ratio requirements and ratios at December 31.

Ratio	Primary Components of Numerator	Denominator	2021	2020	2019	Minimum with Buffer	Minimum Requirement
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE), and common cooperative equities (qualifying capital stock and allocated equity)[1]	Risk-weighted assets	14.83%	15.88%	17.06%	7.0%	4.5%
Tier 1 Capital	CET1 Capital and non-cumulative perpetual preferred stock	Risk-weighted assets	14.83%	15.88%	17.06%	8.5%	6.0%
Total Capital	Tier 1 Capital, allowance for loan losses[2], other common cooperative equities[3], and term preferred stock and subordinated debt[4]	Risk-weighted assets	15.06%	16.12%	17.30%	10.5%	8.0%
Tier 1 Leverage	Tier 1 Capital (at least 1.5% must be URE and URE equivalents)	Total assets	15.61%	16.34%	17.56%	5.0%	4.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	17.04%	17.55%	18.68%	–	1.5%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-weighted assets	14.86%	15.91%	17.10%	–	7.0%

1 Equities subject to a minimum redemption or revolvement period of 7 or more years
2 Capped at 1.25% of risk-weighted assets and inclusive of the reserve for unfunded commitments
3 Equities subject to a minimum redemption or revolvement period of 5 or more years, but less than 7 years
4 Equities subject to a minimum redemption or revolvement period of 5 or more years

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.

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

D. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicate the number of shares outstanding at December 31, 2021. Unless otherwise indicated, all classes of stock have a par value of $5.00. All classes of stock are transferrable to other customers who are eligible to hold such classes of stock. Transfers of stock are only allowed as long as the Association meets the regulatory minimum capital requirements. Refer to the Management's Discussion and Analysis Capital Resources discussion for further information.

Class A Preferred Stock (Nonvoting, at-risk, no shares outstanding) - Represents Association retained earnings, dividends or patronage distributions allocated on or after October 6, 1988. This stock may also represent Class B or Class C Common Stock of a borrower which automatically converts to Class A two years after repayment of the loan in full. Retirement is at the sole discretion of the Board of Directors.

Class B — Common Stock (Voting, at-risk, 751,425 shares outstanding) - Issued on or after October 6, 1988, for farm and ranch loans. Retirement is at the sole discretion of the Board of Directors. If the Association is unable to retire Class B Common Stock, or if the borrower elects to keep his/her investment in the Association after repayment of the loan in full, the stock must be converted to Class A Preferred Stock within two years.

Class C — Common Stock (Nonvoting, at-risk, 2,000 shares outstanding) - Issued on or after October 6, 1988, for farm-related and rural home loans and to other persons or organizations who are eligible to borrow but are not eligible to hold voting stock. Retirement is at the sole discretion of the Board of Directors. If the Association is unable to retire Class C Common Stock, or if the borrower elects to keep his/her investment in the Association after repayment of the loan in full, the stock must be converted to Class A Preferred Stock within two years.

Class D — Investor Stock (Nonvoting, at-risk, no shares outstanding) - Available to outside parties.

Class E — Preferred Stock (Nonvoting, at-risk, no shares outstanding) - Issued only to CoBank in consideration of financial assistance to the Association from CoBank. Retirement is at the sole discretion of the Board of Directors.

Class F — Common Stock (Voting, protected, no shares outstanding) - Issued prior to October 6, 1988, to borrowers entitled to vote. It must be retired at par value upon repayment of the loan unless the borrower elects to retain his/her investment in the Association. If so, the stock must be converted to Class G Common Stock within two years after loan repayment in full.

Class G — Common Stock (Nonvoting, protected, no shares outstanding) - Formerly participation certificates, this represents stock issued prior to October 6, 1988, to rural residence borrowers and others not eligible to vote. This stock may also represent Class F Common Stock of a borrower which automatically converts to Class G Common Stock two years after repayment of the loan in full. It must be retired at par value upon repayment of the loan unless the borrower elects to retain his/her investment in the Association.

The changes in the number of shares of protected and capital stock outstanding during 2021 are summarized in the following table.

Shares in whole numbers	Capital
Shares outstanding at December 31, 2020	727,109
Issuances	106,287
Retirements	(79,971)
Shares outstanding at December 31, 2021	753,425

E. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of Class B, C, F and G Stock out of the whole or any part of net earnings which remain at the end of the fiscal year, as the Board of Directors may determine, in accordance with the regulations for banks and associations of the System. However, distributions and retirements are precluded by regulation until the minimum capital adequacy standards have been attained. Amounts not distributed are retained as unallocated retained earnings. The Association made a cash patronage distribution of $8.0 million in 2021, $7.0 million during 2020 and $6.0 million during 2019. The Association declared a cash patronage of $11.5 million in 2021 for distribution in 2022.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed in the following order of priority: First, to the holders, pro rata of Class E Preferred Stock (if any) until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders; second, to the holders, pro rata, of all classes of common stock, until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders; third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro-rata by year of issuance; fourth, to the holders of allocated surplus evidenced by non-qualified written notices of allocation, in the order of year of issuance and pro-rata by year of issuance; fifth, any remaining assets of the Association after such distributions shall be distributed to present and former Patrons on a patronage basis, to the extent practicable.

At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage refund. For 2021, the Association allocated 39.54 percent of its patronage-sourced net income to its patrons.

F. Accumulated Other Comprehensive Income/Loss

The Association reports accumulated other comprehensive loss in its Consolidated Statement of Changes in Shareholders' Equity. As more fully described in Note 2, accumulated other comprehensive income/loss results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits. The Association has accumulated other comprehensive loss of $163 thousand in 2021, $248 thousand in 2020 and $320 thousand in 2019. There were no other items affecting comprehensive income or loss.

The following table presents activity in the accumulated other comprehensive income/(loss), net of tax by component.

(dollars in thousands)	**2021**	2020	2019
Pension and other benefit plans:			
Beginning balance	**$ (248)**	$ (320)	$ (318)
Other comprehensive income/(loss) before reclassifications	**1**	4	(73)
Amounts reclassified from accumulated other comprehensive loss	**84**	68	71
Net current period other comprehensive income/(loss)	**85**	72	(2)
Year-end balance	**$ (163)**	$ (248)	$ (320)

The following table represents reclassifications out of accumulated other comprehensive loss.

	Amount Reclassified from Accumulated Other Comprehensive Loss			Location of Gain/Loss Recognized in Statement of Income
	December 31			
(dollars in thousands)	**2021**	2020	2019	
Pension and other benefit plans: Net actuarial loss	**$ 84**	$ 68	$ 71	Salaries and employee benefits
Total reclassifications	**$ 84**	$ 68	$ 71	

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

Patronage income recognized from Farm Credit institutions to the Association follows.

(dollars in thousands)	**2021**	2020	2019
CoBank	**$ 7,568**	$ 5,509	$ 4,452
Farm Credit Foundations	**25**	14	13
Total	**$ 7,593**	$ 5,523	$ 4,465

Patronage distributed from CoBank was in cash and stock. The amount earned in 2021 was accrued and will be paid by CoBank in March 2022. The Association received additional patronage distributions from CoBank of $1.1 million in 2021 and $950 thousand in 2020 due to CoBank's strong capital levels and financial results. No additional patronage was received in 2019. The amounts earned and accrued in 2020 and 2019 were paid by CoBank in March of the following year.

Patronage distributed by Farm Credit Foundations was accrued at the end of the year and will be paid in March 2022. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

NOTE 9 – INCOME TAXES

The provision for/(benefit from) income taxes follows.

(dollars in thousands)	Year Ended December 31 2021	2020	2019
Current:			
Federal	**$ 5**	$ 6	$ 6
State	**2**	2	2
Deferred:			
Federal	**13**	–	–
State	**3**	–	–
Provision for income taxes	**$ 23**	$ 8	$ 8

The provision for/(benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows.

(dollars in thousands)	Year Ended December 31 2021	2020	2019
Federal tax at statutory rate	**$ 6,113**	$ 5,163	$ 5,062
State tax, net of federal benefit	**4**	1	2
Effect of nontaxable entity	**(5,858)**	(5,136)	(4,999)
Change in valuation allowance	**(111)**	(23)	(155)
Patronage refunds to borrowers	**(125)**	–	(66)
Provision to return difference	**–**	3	164
Provision for income taxes	**$ 23**	$ 8	$ 8

Deferred tax assets and liabilities are comprised of the following.

(dollars in thousands)	December 31 2021	2020	2019
Deferred income tax assets:			
Allowance for loan losses	**$ 226**	$ 269	$ 384
Nonaccrual loan interest	**65**	154	106
Net operating loss carryforward	**139**	139	78
Fair market value on loans related to merger	**–**	–	1
Gross deferred tax assets	**430**	562	569
Deferred tax asset valuation allowance	**–**	(136)	(164)
Deferred income tax liabilities:			
Bank patronage allocations	**(239)**	(207)	(179)
Excess book depreciation > Tax depreciation	**(207)**	(219)	(226)
Gross deferred tax liability	**(446)**	(426)	(405)
Net deferred tax liability	**$ (16)**	$ –	$ –

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income retained. The expected future tax rates are based upon enacted tax laws.

The Association recorded no valuation allowance in 2021, compared with $136 thousand in 2020 and $164 thousand in 2019. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. The Association had federal and state net operating loss carryforwards of $540 thousand, of which $303 thousand were generated prior to 2018 and expire between 2033 to 2035, while the other $237 thousand were generated after 2017 and, due to tax reform, have an indefinite carryforward period.

The Association has no uncertain tax positions as of December 31, 2021, 2020 or 2019. The Association recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2018 and forward.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth Retirement Plan, a 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 eligible 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 the Association chooses to stop participating in the plan, the Association may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves 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.

The defined benefit pension plan reflects an unfunded liability totaling $5.4 million at December 31, 2021. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. 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 projected benefit obligation of the plan was $347.3 million at December 31, 2021, $359.9 million at December 31, 2020 and $333.7 million at December 31, 2019. The fair value of the plan assets was $341.9 million at December 31, 2021, $302.5 million at December 31, 2020 and $252.5 million at December 31, 2019. The amount of the pension benefits 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 its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $13.7 million in 2021, $19.5 million in 2020 and $6.8 million in 2019. The Association's allocated share of plan expenses included in salaries and employee benefits was $1.4 million in 2021, $2.0 million in 2020 and $792 thousand in 2019. Participating employers contributed $30.0 million in 2021, $30.0 million in 2020 and $20.0 million in 2019 to the plan. The Association's allocated share of these pension contributions was $3.2 million in 2021, $3.2 million in 2020 and $2.3 million in 2019. 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 employer contributions expected to be paid into the pension plans during 2022 is $30.0 million. The Association's allocated share of these pension contributions is expected to be $3.2 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 anticipated.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits (primarily health care benefits) included in salaries and employee benefits were income of $4 thousand in 2021, $4 thousand in 2020 and $7 thousand in 2019. The Association made cash contributions of $17 thousand in 2021, $20 thousand in 2020 and $21 thousand in 2019.

The Association participates in a non-qualified defined benefit Pension Restoration Plan that is unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. Pension Restoration Plan expenses included in salaries and employee benefits were $88 thousand in 2021, $79 thousand in 2020 and $159 thousand in 2019.

The funding status and the amounts recognized in the Consolidated Statement of Condition for the Association's Pension Restoration Plan follows.

	Nonqualified Pension Benefits		
(dollars in thousands)	**2021**	2020	2019
Change in projected benefit obligation:			
Benefit obligation at the beginning of the period	**$ 323**	$ 479	$ 318
Service cost	**–**	–	76
Interest cost	**4**	11	12
Actuarial (gain)/loss	**(1)**	(4)	73
Benefits paid	**(163)**	(163)	–
Benefit obligation at the end of the period	**$ 163**	$ 323	$ 479
Company contributions	**163**	163	–
Benefits paid	**(163)**	(163)	–
Fair value of plan assets at the end of the period	**$ –**	$ –	$ –
Funded status of the plan	**$ (163)**	$ (323)	$ (479)
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	**$ 163**	$ 323	$ 479
Net amount recognized	**$ 163**	$ 323	$ 479

The following table represents the amounts included in accumulated other comprehensive income/loss for the Pension Restoration Plan at December 31.

(dollars in thousands)	**2021**	2020	2019
Net actuarial loss	**$ (163)**	$ (248)	$ (320)
Total amount recognized in AOCI/(loss)	**$ (163)**	$ (248)	$ (320)

An estimated net actuarial loss of $160 thousand for the Pension Restoration Plan will be amortized into income over the next year.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

(dollars in thousands)	**2021**	2020	2019
Accumulated benefit obligation	**$ 163**	$ 323	$ 479
Fair value of plan assets	**$ –**	$ –	$ –

Information for pension plans with a projected benefit obligation in excess of plan assets:

(dollars in thousands)	**2021**	2020	2019
Projected benefit obligation	**$ 163**	$ 323	$ 479
Fair value of plan assets	**$ –**	$ –	$ –

The net periodic pension expense for the Pension Restoration Plan included in the Consolidated Statement of Comprehensive Income is comprised of the following at December 31.

	Pension Benefits		
(dollars in thousands)	**2021**	2020	2019
Components of net periodic benefit cost			
Service cost	**$ –**	$ –	$ 76
Interest cost	**4**	11	12
Net amortization and deferral	**84**	68	71
Net periodic benefit cost	**$ 88**	$ 79	$ 159

Changes in benefit obligation recognized in accumulated other comprehensive income/(loss) are included in the following table.

(dollars in thousands)	**2021**	2020	2019
Current year net actuarial gain/(loss)	**$ 1**	$ 4	$ (73)
Amortization of net actuarial loss	**84**	68	71
Total recognized in other comprehensive loss	**$ 85**	$ 72	$ (2)

Actuarial gains/(losses) in 2021, 2020, and 2019 were primarily due to changes in plan experience, discount rate and the plan demographics.

Weighted average assumptions used to determine benefit obligation at December 31:

	Pension Benefits		
	2021	2020	2019
Discount rate	**2.14%**	1.65%	2.59%
Rate of compensation increase	**5.40%**	5.40%	5.40%
Interest crediting rate	**5.00%**	5.00%	5.00%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Pension Benefits		
	2021	2020	2019
Discount rate			
Projected benefit obligation	**1.65%**	2.59%	4.06%
Service cost	**1.36%**	2.69%	4.11%
Interest cost	**1.45%**	2.49%	3.93%
Rate of compensation increase	**5.40%**	5.40%	5.00%
Interest crediting rate	**5.00%**	5.00%	5.00%

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

(dollars in thousands)	Pension Restoration Benefits
2022	$ 163
2023	$ –
2024	$ –
2025	$ –
2026	$ –
2027 – 2031	$ –

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions to the plan. Employer contributions to the Contribution Plan were $845 thousand in 2021, $787 thousand in 2020 and $702 thousand in 2019.

NOTE 11 – RELATED PARTY TRANSACTIONS

The Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated in the ordinary course of business and as permitted by FCA regulations. Such loans are 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. Any related party transaction for which these conditions were not satisfied are disclosed below as required by and in accordance with FCA regulation.

In April 2021, the Association separated $400,000.00 of an operating loan with Director Shand Rasmussen into a 6-month tranche priced at a 4.0 percent fixed interest rate and priced $570,800.00 of the operating loan at a 5.5 percent variable rate. The 6-month tranche provided a 150-basis point interest rate reduction on that portion of the loan during that 6-month period of time. This rate was substantially lower than the rate offered to other customers using the same product. The 6-month tranche was approved by senior management but was not subject to the special approval requirements contained in the FCA regulations. The largest aggregate amount of indebtedness outstanding on the loan during the last fiscal year was $880,621.67. The loan was paid in full as of December 31, 2021.

In March 2018, the Association separated $600,000.00 of an operating loan made to an affiliated organization of Director Jay Grace into a 90-day tranche priced at a 5.70 percent fixed interest rate and priced $589,000.00 of the operating loan at a 7.25 percent variable rate. The 90-day tranche was renewed for 90 days in June 2018 at a 5.85 percent fixed interest rate. The tranche provided a 155-basis point interest rate reduction on a portion of the loan for 90 days and a 140-basis point interest rate reduction on a portion of the loan for 90 days. These rates were substantially lower than the rates offered to other customers using the same product. The 90-day tranche and renewal were approved by senior management but were not subject to the special approval requirements contained in the FCA regulations. The largest aggregate amount of indebtedness outstanding on the loan during the last fiscal year was $1,227,991.39, and $1,082,830.82 was outstanding as of December 31, 2021.

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or OAEM credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board of Directors or employment.

Loan information to related parties for the years ended December 31 is shown below.

(dollars in thousands)	**2021**	2020	2019
Beginning balance	**$ 17,609**	$ 14,824	$ 13,003
New loans	**7,301**	12,944	7,855
Repayments	**(5,553)**	(9,407)	(5,759)
Reclassifications *	**(37)**	(752)	(275)
Ending balance	**$ 19,320**	$ 17,609	$ 14,824

* Represents loans that were once considered related party, but are no longer considered related party, or loans that were not related party that subsequently became related party loans.

In the opinion of management, none of the loans outstanding to officers and directors as of December 31, 2021 involved more than a normal risk of collectability.

The Association also has business relationships with certain other System entities. The Association paid $3.4 million in 2021, $3.0 million in 2020 and $2.8 million in 2019 to AgVantis for technology services. One Association officer serves as an AgVantis director. The Association paid $207 thousand in 2021, $185 thousand in 2020 and $176 thousand in 2019 to Foundations for human resource services and $29 thousand in 2021, $31 thousand in 2020 and $31 thousand in 2019 to CoBank for operational services. Refer to Note 4, "Investment in CoBank", and Note 6, "Note Payable to CoBank", for additional information on the Association's relationship with CoBank.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

As of December 31, 2021, there were no enforcement actions in effect for the Association and FCA took no enforcement on the Association during the year.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2021, $342.1 million of commitments to extend credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding these commitments, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2021, $3.5 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2022 to 2039. The maximum potential amount of future payments the Association is required to make under the guarantees is $3.5 million. Payment/performance risk of the standby letters of credit guarantee is assessed using the same internal customer credit ratings that we use to manage credit risk in our loan portfolio.

NOTE 14 – FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2 for additional information.

Assets measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized as follows:

	Fair Value Measurement Using			**Total Fair**
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Value**
Assets held in nonqualified benefits trusts				
2021	**$ 559**	**$ –**	**$ –**	**$ 559**
2020	$ 425	$ –	$ –	$ 425
2019	$ 572	$ –	$ –	$ 572

The Association has no liabilities measured at fair value on a recurring basis for the periods presented.

Assets measured at fair value on a non-recurring basis at December 31 for each of the fair value hierarchy values are summarized as follows:

	Fair Value Measurement Using			**Total Fair**
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Value**
Assets:				
2021				
Loans	**$ –**	**$ –**	**$ 740**	**$ 740**
Other Property Owned	**–**	**–**	**56**	**56**
2020				
Loans	$ –	$ –	$ 806	$ 806
2019				
Loans	$ –	$ –	$ 2,424	$ 2,424

The Association had no other property owned at December 31, 2020 and December 31, 2019. The Association has no liabilities measured at fair value on a non-recurring basis for any of the periods presented. During the three years presented, the Association recorded no transfers in or out of Level 3 and no purchases or issuances.

Valuation Techniques

As more fully discussed in Note 2, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities subject to fair value measurement:

Assets Held in Non-Qualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans

For impaired loans measured on a non-recurring basis, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2021, 2020, and 2019 follow.

	2021				
(dollars in thousands)	**First**	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$10,678**	**$10,782**	**$10,962**	**$11,359**	**$ 43,781**
Provision for credit losses/(Credit loss reversal)	**847**	**(126)**	**(971)**	**(16)**	**(266)**
Noninterest expense, net	**4,150**	**3,532**	**3,980**	**3,299**	**14,961**
Net income	**$ 5,681**	**$ 7,376**	**$ 7,953**	**$ 8,076**	**$ 29,086**

	2020				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 9,644	$ 9,828	$ 9,680	$10,470	$ 39,622
Provision for credit losses	168	238	52	205	663
Noninterest expense, net	3,514	3,294	3,892	3,684	14,384
Net income	$ 5,962	$ 6,296	$ 5,736	$ 6,581	$ 24,575

	2019				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 8,994	$ 8,981	$ 8,947	$ 9,738	$ 36,660
Provision for credit losses/(Credit loss reversal)	116	105	(57)	367	531
Noninterest expense, net	3,206	3,098	2,768	2,958	12,030
Net income	$ 5,672	$ 5,778	$ 6,236	$ 6,413	$ 24,099

NOTE 16 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 8, 2022, which is the date the financial statements were issued, and no material subsequent events were identified.

Disclosure Information Required By Farm Credit Administration Regulations

(Amounts in Whole Dollars)

Description of Business

The description of the territory served, persons eligible to borrow, types of lending activities engaged in and financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the financial statements, “Organization and Operations,” included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from “Management’s Discussion and Analysis” (MD&A) included in this annual report to shareholders.

Description of Property

The following table sets forth certain information regarding the properties of the Association:

Location	Description	Form of Ownership
601 East Kenosha Broken Arrow, Oklahoma	Office Building	Owned
536 Leahy Avenue Pawhuska, Oklahoma	Office Building	Rented
2303 West Main Durant, Oklahoma	Office Building	Owned
2108 SE Washington Street, Suite C Idabel, Oklahoma	Office Building	Rented
2810 West Shawnee Bypass Muskogee, Oklahoma	Office Building	Owned
2507 North Rockford Road Ardmore, Oklahoma	Office Building	Owned
1104 South George Nigh Expressway McAlester, Oklahoma	Office Building	Owned
28824 State Highway 112 Poteau, Oklahoma	Office Building	Owned
17765 US Highway 81 Kingfisher, Oklahoma	Office Building	Owned
623 South Western Stillwater, Oklahoma	Office Building	Owned
519 East 32nd Avenue Stillwater, Oklahoma	1.86 Acres Land	Owned
265 West Dwain Willis Avenue Vinita, Oklahoma	Office Building	Owned
509 West Paul Pauls Valley, Oklahoma	Office Building	Owned
805 Chisholm Trail Enid, Oklahoma	Office Building	Owned
1902 South Highway 81 Duncan, Oklahoma	Office Building & 2.39 Acres Land	Owned

Location	Description	Form of Ownership
1027 West Choctaw Avenue Chickasha, Oklahoma	Office Building	Owned
1420 North Clarence Nash Blvd. Watonga, Oklahoma	Office Building	Owned
2801 North Kickapoo, Suite B Shawnee, Oklahoma	Office Building	Rented
3033 Progressive Drive Edmond, Oklahoma	Office Building & 4.47 Acres Land	Owned

* Rented property is leased at the fair market rate for the local area on a month to month basis, with the exception of the Idabel office which is a one year lease agreement.

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

Information required to be disclosed in this section is incorporated herein by reference from Note 12 to the financial statements, “Regulatory Enforcement Matters,” and Note 13 to the financial statements, “Commitments and Contingencies,” included in this annual report to shareholders.

DESCRIPTION OF CAPITAL STRUCTURE

Information required to be disclosed in this section is incorporated herein by reference from Note 7 to the financial statements, “Shareholders’ Equity,” included in this annual report to shareholders.

DESCRIPTION OF LIABILITIES

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 6 to the financial statements, “Note Payable to CoBank,” included in this annual report to shareholders.

The description of advance conditional payments is incorporated herein by reference to Note 2 to the financial statements, “Summary of Significant Accounting Policies,” included in this annual report to shareholders.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 13 included in this annual report to shareholders.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2021, required to be disclosed in this section is incorporated herein by reference from the “Five-Year Summary of Selected Consolidated Financial Data,” included in this annual report to shareholders.

MANAGEMENT’S DISCUSSION AND ANALYSIS

“Management’s Discussion and Analysis,” which appears within this annual report to shareholders and is required to be disclosed in this section, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The following represents certain information regarding the directors and senior officers of the Association.

DIRECTORS

Gary Bledsoe	Chairman. Three-year term expiring in May 2023. Mr. Bledsoe serves as ex-officio member of the Compensation, Risk, Building and Governance Committees. Mr. Bledsoe is a member of the Executive Committee. Occupation for the past five years – Farming and ranching. Owner and operator of Bledsoe Farms, an Angus seedstock operation. Former consultant in rural economic development for the Oklahoma Department of Agriculture. Director of Lincoln County Conservation District and currently serving as Chairperson, Secretary/Treasurer of Crosstimbers Prescribed Burn Association.

Dan Childs	Vice Chairman. Four-year term expiring in May 2023. Mr. Childs serves as ex-officio member of the Audit Committee and is a member of the Executive Committee. Occupation for the past five years – Farming, ranching and agricultural economist with the Noble Research Institute. Vice President of Johnston County Farm Bureau, and Board member of National Farm Credit Council, and Farm Credit Council Services. Member of CoBank District Farm Credit Council and officer for the Foundation for Livestock and Grain Marketing in Denver, Colorado.
Lisa Cochell	Appointed Director. Three-year term expiring in May 2023. Ms. Cochell serves as Audit Committee Chairwoman and serves as a financial expert. Occupation for the past five years – Managing Member of Cochell Tax & Consulting from August 2017 to present. Partner at Patel & Ved certified public accounting business from January 2016 to August 2017. Kiwanis Club member since 1995.
Bob Eubanks	Three-year term expiring in May 2022. Mr. Eubanks serves as Risk Committee Chairman. He is a member of the Compensation, Governance, Risk and Building Committees. Occupation for the past five years – Farming and ranching. Owner of Eubanks Land, LLC., and co-owner of Eubanks Equipment Company, LLC. (agriculture equipment dealer). Majority-owner of Eubanks Brothers Farm, LLC. Co-owner of Eubanks Investments and Properties, LLC. Board member of Northeast Oklahoma Rural Electric Cooperative Trust Foundation (Operation Roundup) and Chairman of Credentials Committee for Northeast Oklahoma Rural Electric Cooperative. Member of Oklahoma Farm Bureau, Oklahoma Cattlemen’s Association and Welch Baptist Church.
Jay Grace	Three-year term expiring in May 2024. Mr. Grace serves as Vice Chairman of the Compensation Committee. He is a member of the Executive, Building and Risk Committees. Occupation for the past five years – Farming and ranching, operating under Rocking G Livestock, Inc. (stocker cattle and feedlot). Partner in 4G Cattle Company, a family corporation (stocker cattle and horses). Together with his wife, Melissa, owns and operates the Ringling Eagle newspaper. Member of Ardmore First United Methodist Church. Fireman on the Claypool Volunteer Fire Department.
Rodney Holcomb	Appointed Director. Three-year term expiring in May 2023. Dr. Holcomb is a member of the Audit Committee and serves as a financial expert. Professor of Agricultural Economics at Oklahoma State University (OSU) and the Browning Endowed Professor of Food Studies with the OSU Food & Agricultural Products Center. Dr. Holcomb has been with OSU since 1997, working in the areas of value-added agricultural products and agribusiness management. He currently serves on the OSU Retirement Investments Committee and since 2001 has served as OSU’s representative on the state’s Agricultural Enhancement & Diversification Program Board. Dr. Holcomb serves on the Southern Agricultural Economics Association Board, a non-profit corporation, and is the 2022 President-Elect.
Brian Knowles	Three-year term expiring in May 2024. Mr. Knowles serves as Vice Chairman of the Risk Committee and is a member of the Compensation Committee. Occupation for the past five years – Farming and ranching (cow/calf, stockers, poultry, wheat, and hay). Vice President of the Leflore County Farm Bureau, President of Keota Round Up Club, Assistant Fire Chief of Keota Volunteer Fire Department, and member of Keota First Baptist Church.
Phillip Landgraf	Three-year term expiring in May 2024. Occupation for the past five years – Owner/operator of Landgraf Fertilizer, where Mr. Landgraf and his wife, Kathy, have provided seed, fertilizer, and chemical sales and application to growers since 1991. His farming operation includes cattle and crops (cotton, wheat, corn, soybeans). Director on the Red River Valley Rural Electric Association since 1997; currently serving as Assistant Secretary.
Kenneth Markes	Three-year term expiring in May 2023. Mr. Markes is Chairman of the Governance Committee. He serves on the Audit and Building Committees. Occupation for the past five years – Farming and ranching – His operation includes wheat, soybeans, canola, a cow/calf herd and stockers. Director for the Bison Cooperative. Member of St. Joseph Catholic Church and Oklahoma Cattlemen’s Association.

Shand Rasmusson	Three-year term expiring in May 2024. Mr. Rasmusson is Vice Chairman of the Audit Committee. Occupation for the past five years – Full-time farmer and rancher for the past 28 years. Owner/operator of Shand Diversified, a beef cattle operation with ranches in Oklahoma, Arkansas, Idaho and Wyoming. Rasmusson's ranches include cow/calf herds, stockers and cattle feeding. He grows wheat for grazing and uses rotational grazing practices. Member of Oklahoma Cattlemen's Association and McCurtain County Cattlemen's Association. Former state cattlemen's association vice president and former Farm Bureau Young Farmer and Rancher Board member. Previously served on a state beef board. He is a member of a local church, where he volunteers in many capacities.
Brad Scott	Three-year term expiring in May 2022. Mr. Scott is Chairman of the Compensation Committee and serves as a member of the Risk Committee. Occupation for the past five years – Farming and ranching, operating under Brad Scott Ranch (yearling cattle operation) and partner in parents' cattle ranch. Affiliated with C&S Rentals; Morrison Investments, LLC; West Oak Properties, LLC; and Bradley Ranch II, LLC. Director for Jefferson County Hospital and Duncan Regional Hospital. Chairman of the Board of First Christian Church of Waurika.
Jay Stinnett	Three-year term expiring in May 2022. Mr. Stinnett is a member of the Risk and Compensation Committees. Occupation for the past five years – Retired Agricultural Education instructor. His primary occupation is farming and ranching (cow/calf, stocker and hay operation). Member of Tahlequah Cooperative, Cherokee County Cattleman's Association, Oklahoma Cattlemen's Association, and American Farmers and Ranchers. Member of Exciting Southeast Baptist Church of Tahlequah.
Ross Love	Retired from Board effective January 31, 2021. Former Audit Committee-Vice Chairman. Three-year term was to expire in May 2023. Occupation for the past five years – Retired in April 2016 as Assistant Director of the Oklahoma Cooperative Extension Service, a position he held for 16 years. Upon retirement Dr. Love became Professor Emeritus of Agricultural Economics at Oklahoma State University (OSU). He serves as financial advisor to Pi Chapter of the Alpha Gamma Rho fraternity at OSU. Treasurer for the Brighton Homeowners Association of Stillwater, LLC.
Roger Moore	Three-year term expired in May 2021. Occupation for the past five years – Farming, ranching and owner/operator of Moore Farms, Moore Farms Rustic Weddings, and Moore Farms Dozer Service. Retired in June 2016 as a rural mail carrier. Vice Chairman of Mayes County Farm Bureau.

Senior Officers

Patrick Zeka	President/Chief Executive Officer (CEO) – President/CEO since January 1, 2019. Serves on the AgVantis Board, a service corporation. He is a member on Farm Credit Foundations Board and Plan Sponsor Committee. During 2018, he served as Executive Vice President/Chief Operating Officer and as Chief Financial Officer until July 2018. Appointed Executive Vice President/COO/CFO effective January 1, 2016. Served jointly as Executive Vice President/COO/CFO for Farm Credit Services of East Central Oklahoma, ACA (East Central) and Chisholm Trail Farm Credit, ACA (Chisholm Trail) in 2015. Served as CFO for East Central from 2008 until September 2014. Total Farm Credit System experience exceeds 29 years.
Steve Davenport	Executive Vice President/Chief Credit Officer (CCO) – Appointed Executive Vice President/CCO effective January 1, 2016. Served jointly as Executive Vice President/CCO for Chisholm Trail and East Central in 2015. Served as Executive Vice President/CCO for Chisholm Trail from April 2002 through December 2014, and as Vice President – Credit for Chisholm Trail from January 1997 to April 2002. Total Farm Credit System experience exceeds 29 years.
Dennis Green	Executive Vice President/Chief Risk Officer (CRO) – Appointed Executive Vice President/CRO effective January 1, 2016. Served jointly as Executive Vice President/CRO for East Central and Chisholm Trail in 2015. From May 2007 through 2014, served as Chief Credit Officer for East Central. Prior to 2007, directed the internal credit and operations review program for East Central. Total Farm Credit System experience exceeds 43 years.

Malinda Thimmesch	Chief Financial Officer (CFO) – Appointed CFO effective July 16, 2018. Appointed to Executive Management Team effective January 2019. Ms. Thimmesch is a Certified Public Accountant. Prior to 2016, directed enterprise data stewardship at American AgCredit. Currently serves on the Farm Credit System information data warehouse workgroup (IDWG) and was appointed Vice-Chairwoman in December 2021. Previously served as Manager of Financial Reporting for CoBank from January 2012 to March 2015 and U.S. AgBank from July 2002 to December 2011. Total Farm Credit System experience exceeds 19 years.
John Burk	Chief Lending Officer (CLO) – Appointed CLO effective January 1, 2018. Appointed to Executive Management Team effective January 2019. Served as Senior Vice President of Credit from January 2016 through December 2017. Served jointly as Senior Vice President for East Central Oklahoma and Chisholm Trail in 2015, and for East Central Oklahoma from October 2012 to December 2014. Served as Muskogee lending office Vice President/Branch Manager from September 2010 to September 2012. Served as Loan Officer in the Stillwater lending office from August 2006 to September 2010. Total Farm Credit System experience exceeds 15 years.
Ryan McBride	Chief Information Officer (CIO) – Appointed CIO effective January 1, 2019. Appointed to Executive Management Team effective January 2020. Served as Vice President Information Technology from 2010 to 2018. Prior to 2010, he was an Infrastructure Designer at Cox Communications. From 1999 through 2008, worked for AgVantis in Client Support. Total Farm Credit System experience exceeds 20 years.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Per the Association's Director Honoraria policy, during 2021, directors of the Association were compensated for services on a per diem basis at the rate of $800 per day from January to July and $1,000 per day from August to December. Directors were reimbursed mileage at the rate of $0.56 per mile while on official business. Directors are paid a $100 retainer per month for services rendered between regularly scheduled meetings. The Board Chairperson was paid an additional $300 per month and the Board Vice Chairperson was paid an additional $100 per month. The Audit Committee Chairperson, Compensation Committee Chairperson, and Risk Committee Chairperson were paid an additional $250 per month. For regular board meetings only, payment for travel time was made at the rate of $0.40 per mile. The Compensation, Risk and Audit committee meetings were held in conjunction with the regular board meetings, so no additional compensation was paid to the directors for these meetings.

Additional information for each director is provided below:

Name	Number of Days Served at Board Meetings	Number of Days Served in Other Official Activities	Board Meetings and Other Official Duties Comp	Retainer	Chairperson/ Vice Chairperson	Committee Chairmen	Additional Time and Duties	Compensation Paid During 2021
Gary Bledsoe	14.0	8.5	$ 20,200	$ 1,200	$ 2,100	$ 1,250	$ 754	$ 25,504
Dan Childs	14.0	4.5	16,600	1,200	700	1,250	828	20,578
Lisa Cochell	14.0	0.5	13,200	1,200	–	3,000	1,648	19,048
Bob Eubanks	14.0	7.0	19,400	1,200	–	1,750	1,548	23,898
Jay Grace	14.0	3.0	15,400	1,200	1,500	–	826	18,926
Rodney Holcomb	14.0	5.0	17,600	1,200	–	–	342	19,142
Brian Knowles	13.0	–	12,000	1,200	–	–	1,005	14,205
Phillip Landgraf	10.0	–	9,600	600	–	–	1,012	11,212
Kenneth Markes	14.0	11.0	22,600	1,200	–	–	488	24,288
Shand Rasmusson	14.0	4.5	17,200	1,200	–	–	1,004	19,404
Brad Scott	14.0	7.0	19,200	1,200	–	1,750	1,258	23,408
Jay Stinnett	14.0	–	12,800	1,200	–	–	1,074	15,074
Ross Love	1.0	–	800	300	–	–	–	1,100
Roger Moore	4.0	0.5	3,600	700	500	–	338	5,138
Total Compensation			$ 200,200	$14,800	$ 4,800	$ 9,000	$12,125	$ 240,925

Directors and senior officers are reimbursed for travel, subsistence and other expenses related to Association business according to Association policy. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to directors for travel, subsistence and other related expenses were $101,163 in 2021, $36,157 in 2020 and $116,823 in 2019. There was no non-cash compensation to directors during 2021.

The Annual Meeting Information Statement is available for public inspection at the Association office. Required senior officer compensation information is included in the Association's Annual Meeting Information Statement mailed to all stockholders. Disclosure of information on the total compensation paid during the last fiscal year to any senior officer or to any other officer included, is available to shareholders by appointment.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section are incorporated herein by reference from Note 11 to the financial statements, "Related Party Transactions," included in this annual report to shareholders.

INVOLVEMENT OF SENIOR OFFICERS AND DIRECTORS IN CERTAIN LEGAL PROCEEDINGS

There were no matters which came to the attention of management or the Board of Directors regarding involvement of senior officers or current directors in specified legal proceedings which are required to be disclosed in this section.

BORROWER PRIVACY STATEMENT

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. The Association does not sell or trade customers' personal information to marketing companies or information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting the Association.

RELATIONSHIP WITH COBANK, ACB (COBANK)

The Association is materially affected by CoBank's financial condition and results of operations.

The Association's statutory obligation to borrow from CoBank is discussed in Note 6. Financial assistance agreements between the Association and CoBank are discussed in Note 7. Association requirement to invest in CoBank and CoBank's ability to access capital of the Association is discussed in Note 4 to the financial statements, "Investment in CoBank," included in this annual report to shareholders. CoBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section – Liquidity.

CoBank is required to distribute its Annual Report to shareholders of the Association if the bank experiences a significant event that has a material effect on the Association as defined by FCA regulations.

RELATIONSHIP WITH INDEPENDENT AUDITORS

There were no changes in independent auditors since the prior annual report to shareholders and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 8, 2022, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS, RANCHERS AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

The Association's information required to be disclosed in this section is incorporated herein by reference from the "Young, Beginning and Small Farmers and Ranchers Program" section of the Management's Discussion and Analysis, included in this annual report to shareholders.

COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2021 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 3033 Progressive Drive, Edmond, Oklahoma 73034, or may be contacted by calling (405) 938-1700. The reports may also be obtained free of charge by visiting CoBank's website at www.cobank.com.