SUPPORTING AGRICULTURE

SINCE 1916

2021 Annual Report

FARM CREDIT SERVICES
OF WESTERN ARKANSAS, ACA

FARM CREDIT *of* WESTERN ARKANSAS

2021 FINANCIAL HIGHLIGHTS AT A GLANCE

ALMOST

4.0%

STOCKHOLDER GROWTH OVER 2020

12,159

TOTAL STOCKHOLDERS

2ND HIGHEST

YEAR OF MORTGAGE FUNDS DISBURSED (2020 WAS #1)

98.8%

CREDIT QUALITY

7% ADB

LOAN PORTFOLIO GROWTH OVER 2020

$31.4 MILLION

PRE-TAX NET INCOME (NEW RECORD)

2021'S STRONGEST LENDING SECTORS

POULTRY

RURAL HOMES

CATTLE

TIMBER

MEMBERS SHARE IN THE PROFITS

$11.5 MILLION

25 YEARS OF PATRONAGE

$151.5+ MILLION

RECORD PATRONAGE CASH

MORE THAN $151.5 MILLION IN TOTAL PATRONAGE TO MEMBERS SINCE 1997

12-31-21

93%

SMALL FARMERS

LESS THAN $250K GROSS FARM INCOME

57%

BEGINNING FARMERS

FARMING 10 YEARS OR LESS

31%

YOUNG FARMERS

AGE 35 & YOUNGER

(SOME MEMBERS MAY FALL INTO MORE THAN ONE CATEGORY.)

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Farm Credit Services of Western Arkansas, ACA

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

On behalf of the Board of Directors, Senior Management Team, and employees, we are pleased to present the Farm Credit Services of Western Arkansas, ACA 2021 Annual Report. The Association again set financial records for the year ending December 31, 2021, and we invite you to review the results in detail. The Association's record earnings translated into record patronage paid to members. Patronage on 2021 profits totaled $11.5 million. Pretax net income came in at $31.4 million.

Interest rates remained low in 2021, but unusual challenges to the supply chain and inflationary pressures proved challenging for members who planned to build a new home or expand a poultry operation. Additionally, new COVID-19 variants appeared, raising questions about how that may further challenge members' operations, the home and construction sectors, and supply chain issues. Nevertheless, it was great to have lobbies open again and offices fully staffed in 2021.

Despite the challenges of the continued pandemic, staff and management pushed forward and can be proud of another record year for the Association. As always, a large part of our success is undoubtedly due to our members and member referrals. Members embracing our cooperative spirit is a key contributor to continued success.

2022 includes a continued commitment to updating technology to ensure not only strong member services, but also a strong office presence across western Arkansas. We thank you, again, for your continued support as we look forward to the promises and goals of a new year.

Cody Jones
Chairperson of the Board
Farm Credit Services of Western Arkansas, ACA

Brandon Haberer
President and Chief Executive Officer
Farm Credit Services of Western Arkansas, ACA

March 11, 2022

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Services of Western Arkansas, ACA

(dollars in thousands)

As of December 31	**2021**	2020	2019	2018	2017
Condensed Statement of Condition Data					
Loans	**$ 1,659,308**	$ 1,605,846	$ 1,428,851	$ 1,315,233	$ 1,210,848
Allowance for loan losses	**2,276**	2,251	2,571	2,444	2,138
Net loans	**1,657,032**	1,603,595	1,426,280	1,312,789	1,208,710
Investment in AgriBank, FCB	**38,815**	36,342	32,252	27,503	25,850
Other assets	**36,899**	33,581	31,877	31,176	29,341
Total assets	**$ 1,732,746**	$ 1,673,518	$ 1,490,409	$ 1,371,468	$ 1,263,901
Obligations with maturities of one year or less	**$ 26,867**	$ 30,355	$ 38,590	$ 23,238	$ 20,807
Obligations with maturities greater than one year	**1,360,997**	1,318,159	1,146,921	1,060,829	972,069
Total liabilities	**1,387,864**	1,348,514	1,185,511	1,084,067	992,876
Capital stock and participation certificates	**6,049**	5,950	5,570	5,390	5,175
Unallocated surplus	**338,833**	319,333	299,884	282,289	266,232
Accumulated other comprehensive loss	**--**	(279)	(556)	(278)	(382)
Total members' equity	**344,882**	325,004	304,898	287,401	271,025
Total liabilities and members' equity	**$ 1,732,746**	$ 1,673,518	$ 1,490,409	$ 1,371,468	$ 1,263,901

For the year ended December 31	**2021**	2020	2019	2018	2017
Condensed Statement of Income Data					
Net interest income	**$ 46,341**	$ 44,467	$ 41,772	$ 39,102	$ 36,930
Provision for credit losses	**400**	257	420	408	641
Other expenses, net	**14,903**	13,551	13,459	13,529	12,303
Net income	**$ 31,038**	$ 30,659	$ 27,893	$ 25,165	$ 23,986
Key Financial Ratios					
For the Year					
Return on average assets	**1.8%**	1.9%	1.9%	1.9%	1.9%
Return on average members' equity	**9.3%**	9.7%	9.4%	9.0%	9.1%
Net interest income as a percentage of average earning assets	**2.8%**	2.9%	3.0%	3.0%	3.1%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%
At Year End					
Members' equity as a percentage of total assets	**19.9%**	19.4%	20.5%	21.0%	21.4%
Allowance for loan losses as a percentage of loans	**0.1%**	0.1%	0.2%	0.2%	0.2%
Common equity tier 1 ratio	**18.8%**	18.5%	20.0%	20.4%	20.6%
Tier 1 capital ratio	**18.8%**	18.5%	20.0%	20.4%	20.6%
Total capital ratio	**18.9%**	18.6%	20.2%	20.6%	20.8%
Permanent capital ratio	**18.8%**	18.5%	20.0%	20.4%	20.7%
Tier 1 leverage ratio	**18.6%**	18.1%	19.5%	19.8%	20.1%
Net Income Distributed					
For the Year					
Patronage distributions:					
Cash	**$ 6,253**	$ 15,295	$ 9,098	$ 8,808	$ 7,606

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farm Credit Services of Western Arkansas, ACA

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

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

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

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

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

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

FORWARD-LOOKING INFORMATION

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

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

COVID-19 PANDEMIC

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

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

AGRICULTURAL AND ECONOMIC CONDITIONS

At the end of December 2021, over 76% of Arkansas counties were experiencing one of five levels of drought. Despite slightly above average rainfall in the last quarter of 2021, drought conditions earlier in the year and generally warmer temperatures throughout the year contributed to drought conditions in many areas of the state.

Specific Production Conditions

The global economic recovery continues to make progress despite disruptions by price pressures, supply issues and COVID-19 variants. Overall, global employment statistics continue to gain strength, pointing to momentum in the economic recovery through the end of the calendar year.

World real gross domestic product (GDP) is projected to increase by 5.9% in 2021, and subsequently increase by 4.9% in 2022. Growth projections for U.S. real GDP in 2021 are lowered to 6.0% from the previous estimate of 6.2%. This revision is due partly to lower than anticipated third quarter GDP levels, which were pulled down by declines in exports and goods consumption.

Various commodities markets are still experiencing upward pricing pressure due to low inventories. Crude oil prices continue to exceed pre-pandemic levels and there is some concern about supply keeping pace to match the resurgent demand following a pandemic year when global demand was largely suppressed. U.S. oil production remains below 2019 levels, with investors remaining cautious to expand production despite forecasts of high prices.

Row Crops: Total corn supplies for 2021/2022 are projected at 16.3 billion bushels, including 15.1 billion bushels of domestic production. This number represents an increase from supplies compared with 2019/2020 and 2020/2021, but is still below peak years of 2016/2017 and 2017/2018 that saw supplies nearly reach 17.0 billion bushels. According to the United States Department of Agriculture's National Agricultural Statistics Services Crop Production report on corn harvest progress for 2021, 95% of the corn crop was harvested by November 21. That percentage would put the harvest ahead of 2020. High cash prices, coupled with relatively strong basis levels indicate strong market signals for supplies to move from producers to users and off-farm storage facilities. While some price movement may be due to factors beyond corn market fundamentals, cash-market prices have remained firm during the harvest season which typically sees seasonal lows.

Global rice production in 2021/2022 is forecast at a record 510.8 million tons (milled basis). Global rice trade in calendar year 2022 is projected at 48.8 million tons, up 0.1 million tons from the previous forecast but down 2% from the year earlier record. At 33.5 million hundredweight (cwt), U.S. imports are 1.5 million cwt below the previous forecast and almost 2% below a year earlier and the second consecutive year of a decline, much of the recent and expected slower pace of imports is likely due to continued global container shortage, historically high freight costs, and other supply chain disruptions and terminal inefficiencies.

U.S. soybean processers crushed a record 197 million bushels of soybeans in October, nearly 0.5 million bushels higher than the record established in October 2020. U.S. season average soybean and soybean oil price forecasts for 2021/2022 remain unchanged at $12.10 per bushel and 65 cents per pound, respectively. The average soybean meal price forecast was raised by $5 to $330 per short ton.

Poultry: Broiler production in October 2021 totaled 3.8 billion pounds, which is a 1% year over year decrease and 4% higher when adjusted for the extra slaughter day in 2020. Broiler live weights in October increased by 1.2% year over year. Based on these indicators, the fourth quarter production forecast was revised down 11.0 billion pounds which brings the 2021 total forecast to 44.7 billion pounds, an increase of less than 0.5% from 2020. Broiler exports in October totaled 654 million pounds, a year over year decrease of 6.3%. There were large decreases in shipments to a few countries, including China (-61.7 million pounds), Mexico (-18.6 million pounds), Taiwan (-14.0 million pounds), Iraq (-10.7 million pounds), and Chile (-10.4 million pounds).

The fourth quarter export forecast is unchanged at 1.9 billion pounds, about 17% of forecast production in the fourth quarter. For 2022 the total export forecast was adjusted up to 7.5 billion pounds which reflects an increase in production expectations, a year over year increase of about 1% and about 16% of forecast production in 2022.

National composite wholesale broiler prices averaged 105.47 cents per pound in November, 28.7 cents above November 2020's price. Weekly prices in November climbed steeply and averaged 116.11 cents per pound in the week ending December 4. The fourth quarter price forecast is adjusted up 3 cents to 108 cents per pound. The 2022 price forecasts were also adjusted up, bringing the 2022 average price to 102 cents per pound, a cent higher than the 2021 forecast average of 100.4 cents per pound.

Cattle: In November 2021, the average price for all grades of live steers sold in the 5-area marketing region was reported at $133.39 cwt, which is $9.06 higher than last month's average price and $24.54 above November 2020. Beef imports totaled 293 million pounds in October, which is up 17% year over year and 22% higher than the 5-year average. Notable year over year increases in monthly imports from Mexico, Brazil, Canada, and New Zealand. Imports from Mexico were up 42% year over year at 60 million pounds, the largest shipment for the month and the eighth largest overall. Imports from Brazil had a year over year increase of over 21% which also set a record high at nearly 38 million pounds. The fourth quarter beef import forecast was increased by 55 million pounds to 830 million pounds due to stronger than expected October imports and continued strong domestic beef demand. Annual imports for 2021 were increased to 3.315 billion pounds. The beef import forecast for 2022 was then increased to 3.3 billion pounds due to strong global supply availability.

In October 2021, U.S. beef exports were 281 million pounds, 9% above a year earlier and 11% above the 5-year average. Among major destinations, larger year over year shipments to China, South Korea, and Japan offset reduced exports to Hong Kong, Mexico, Canada, and Taiwan. The forecast for beef exports in 2021 were unchanged from last month for a total of 3.5 billion pounds which is 17% over 2020 and 18% above the 5-year average. The 2022 beef export forecast is also unchanged at 3.3 billion pounds, which is a decline of about 5% into 2022.

Timber: At the end of the fourth quarter of 2021 the state average stumpage price on pine sawtimber was $29.00 per ton with pine pulpwood at $6.28 per ton, mixed hardwood sawtimber was $41.98 per ton, and hardwood pulpwood $10.18 per ton. When compared to last year the stumpage price on pine sawtimber for fourth quarter 2021 was up $3.25 a ton, pine pulpwood was up $1.19 per ton, mixed hardwood sawtimber was up $3.00 per ton, and hardwood pulpwood was up $3.04 per ton. There was considerable movement between fourth quarter 2021, and fourth quarter of 2020, with pine sawtimber, and pine chip-n-saw increasing $5.25 and $6.76 per ton, respectively. Both hardwood pulpwood and pine pulpwood have increased $2.71 per ton and $0.79 per ton, respectively between fourth quarter 2021 and fourth quarter 2020.

After declining more than 50% in the third quarter, softwood lumber prices rebounded and increased more than 75% in the fourth quarter. Compared to pre-pandemic levels, softwood lumber prices are up more than 130%. U.S. residential building construction continued to hold strong in the fourth quarter of 2021. Improvements and remodeling activity was the highest on record year to date November.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.7 billion at December 31, 2021, an increase of $53.5 million from December 31, 2020.

Components of Loans

(in thousands) As of December 31	**2021**	2020	2019
Accrual loans:			
Real estate mortgage	**$ 1,113,536**	$ 1,067,403	$ 933,177
Production and intermediate-term	**190,989**	201,006	195,857
Agribusiness	**231,486**	226,380	183,483
Other	**117,412**	104,071	106,814
Nonaccrual loans	**5,885**	6,986	9,520
Total loans	**$ 1,659,308**	$ 1,605,846	$ 1,428,851

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

We have sold to AgriBank participation interests in certain loans as part of a pool program. The total outstanding participation interests in this program were $9.4 million and $12.6 million at December 31, 2020, and 2019, respectively. As of December 31, 2021, we repurchased all interests in loans in the pool program.

The Paycheck Protection Program (PPP) is a guaranteed loan program administered by the U.S. Small Business Administration (SBA) created in response to the COVID-19 pandemic. We obtained approval from the SBA in 2020 to participate as a lender in the PPP. The PPP provides for payment deferral, and under certain circumstances, loan forgiveness. Since inception of the program in 2020, we have successfully processed $10.1 million in PPP loans for customers with primarily production and intermediate-term type loans. As of December 31, 2021, $294 thousand of loans under this program were outstanding.

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

Portfolio Distribution

We are chartered to serve certain counties in western Arkansas. Approximately 75.8% of our total loan portfolio was concentrated in Arkansas at December 31, 2021. The remainder of our portfolio is purchased outside of Arkansas to support rural America and to diversify our portfolio risk. Approximately 14.5% of our total loan portfolio was in Washington and Benton counties at December 31, 2021. No other counties exceeded more than 5.0% of our total loan portfolio at December 31, 2021.

Agricultural Concentrations

As of December 31	**2021**	2020	2019
Part-time farmers	**35.8%**	25.6%	24.4%
Poultry and eggs	**27.2%**	28.3%	27.5%
Food products	**6.9%**	7.2%	6.1%
Beef cattle	**5.8%**	12.4%	13.9%
Timber	**5.4%**	6.0%	6.2%
Crops	**5.2%**	6.6%	6.7%
Rural utilities	**4.1%**	4.4%	5.5%
Other livestock	**0.7%**	1.4%	1.8%
Other	**8.9%**	8.1%	7.9%
Total	**100.0%**	100.0%	100.0%

Commodities are based on the borrower's primary intended commodity at the time of loan origination and may change due to borrower business decisions as a result of changes in weather, prices, input costs, and other circumstances. The increase in part-time farmers is due to loans having lower interest rates and loan refinancing.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2020. Adversely classified loans increased slightly to 1.2% of the portfolio at December 31, 2021, from 1.1% of the portfolio at December 31, 2020. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses. Additional credit quality information is included in Note 3 to the accompanying Consolidated Financial Statements.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At December 31, 2021, $41.2 million of our loans were substantially guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	**2021**	2020	2019
Loans:			
Nonaccrual	**$ 5,885**	$ 6,986	$ 9,520
Accruing restructured	**2,914**	3,094	3,618
Accruing loans 90 days or more past due	**--**	--	--
Total risk loans	**8,799**	10,080	13,138
Other property owned	**658**	573	--
Total risk assets	**$ 9,457**	$ 10,653	$ 13,138
Total risk loans as a percentage of total loans	**0.5%**	0.6%	0.9%
Nonaccrual loans as a percentage of total loans	**0.4%**	0.4%	0.7%
Current nonaccrual loans as a percentage of total nonaccrual loans	**45.4%**	30.6%	64.0%
Total delinquencies as a percentage of total loans	**0.3%**	0.4%	0.4%

Note: Accruing loans include accrued interest receivable.

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

The decrease in nonaccrual loans was primarily due to improvements in credit quality of certain borrowers. Nonaccrual loans remained at an acceptable level at December 31, 2021, 2020, and 2019.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of December 31	**2021**	2020	2019
Allowance as a percentage of:			
Loans	**0.1%**	0.1%	0.2%
Nonaccrual loans	**38.7%**	32.2%	27.0%
Total risk loans	**25.9%**	22.3%	19.6%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to capital and allowance for loan losses	**5.8%**	5.6%	7.7%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2021.

Additional loan information is included in Notes 3, 9, 10, and 11 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the year ended December 31		**2021**		2020		2019
Net income	**$**	**31,038**	$	30,659	$	27,893
Return on average assets		**1.8%**		1.9%		1.9%
Return on average members' equity		**9.3%**		9.7%		9.4%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

	For the year ended December 31						Increase (decrease) in net income			
(in thousands)		**2021**		2020		2019		**2021 vs 2020**		2020 vs 2019
Net interest income	**$**	**46,341**	$	44,467	$	41,772	**$**	**1,874**	$	2,695
Provision for credit losses		**400**		257		420		**(143)**		163
Non-interest income		**13,004**		11,489		9,869		**1,515**		1,620
Non-interest expense		**27,569**		24,993		23,132		**(2,576)**		(1,861)
Provision for income taxes		**338**		47		196		**(291)**		149
Net income	**$**	**31,038**	$	30,659	$	27,893	**$**	**379**	$	2,766

Net Interest Income

Changes in Net Interest Income

(in thousands) For the year ended December 31		**2021 vs 2020**		2020 vs 2019
Changes in volume	**$**	**2,985**	$	3,813
Changes in interest rates		**(1,035)**		(962)
Changes in nonaccrual income and other		**(76)**		(156)
Net change	**$**	**1,874**	$	2,695

Net interest income included income on nonaccrual loans that totaled $294 thousand, $370 thousand, and $526 thousand in 2021, 2020, and 2019, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.8%, 2.9%, and 3.0% in 2021, 2020, and 2019, respectively. Our net interest margin is sensitive to interest rate changes and competition.

Non-Interest Income

The change in non-interest income was primarily due to fee income. The increase in fee income was primarily due to fees collected from the SBA for originating PPP loans, which have been subsequently forgiven.

Non-Interest Expense

Components of Non-interest Expense

(dollars in thousands)

For the year ended December 31		2021		2020		2019
Salaries and employee benefits	**$**	**15,535**	$	15,274	$	13,978
Other operating expense:						
Purchased and vendor services		**3,347**		3,016		2,353
Communications		**471**		396		376
Occupancy and equipment		**1,445**		1,265		1,303
Advertising and promotion		**781**		670		724
Examination		**495**		497		454
Farm Credit System insurance		**2,122**		1,196		997
Other		**3,267**		2,667		2,945
Other non-interest expense		**106**		12		2
Total non-interest expense	**$**	**27,569**	$	24,993	$	23,132
Operating rate		**1.7%**		1.6%		1.7%

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

Other operating expense increased due to higher director's compensation and loan servicing expenses.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 5 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2021, we had $234.8 million available under our line of credit. We generally apply excess cash to this line of credit. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

Note Payable Information

(dollars in thousands)

For the year ended December 31		2021		2020		2019
Average balance	**$**	**1,342,526**	$	1,243,029	$	1,100,091
Average interest rate		**1.6%**		2.1%		3.0%

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

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

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

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

CAPITAL ADEQUACY

Total members' equity was $344.9 million, $325.0 million, and $304.9 million at December 31, 2021, 2020, and 2019, respectively. Total members' equity increased $19.9 million from December 31, 2020, primarily due to net income for the year partially offset by patronage distribution accruals.

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

Regulatory Capital Requirements and Ratios

As of December 31	**2021**	2020	2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**18.8%**	18.5%	20.0%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**18.8%**	18.5%	20.0%	6.0%	2.5%	8.5%
Total capital ratio	**18.9%**	18.6%	20.2%	8.0%	2.5%	10.5%
Permanent capital ratio	**18.8%**	18.5%	20.0%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**18.6%**	18.1%	19.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.0%**	18.4%	19.6%	1.5%	N/A	1.5%

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

Capital ratios are directly impacted by changes in capital, assets, and off-balance sheet commitments. Refer to the Loan Portfolio section for further discussion of the changes in assets. Additional information on regulatory ratios and members' equity information is included in Note 6 to the accompanying Consolidated Financial Statements and off-balance sheet commitments are discussed in Note 10 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum permanent capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. Our optimum permanent capital target is 15.5%, as defined in our 2022 capital plan.

Due to the COVID-19 pandemic, a mid-year patronage distribution was declared in 2020 for the first time in our Association's history. There is no expectation at this time that a mid-year patronage distribution will occur again. If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. We do not foresee any events that would result in this prohibition in 2022.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 5 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

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

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

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

Investment

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

As an AgDirect, LLP partnering association, we are required to purchase stock in AgDirect, which purchases an equivalent amount of stock in AgriBank.

Patronage

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

Purchased Services

As of December 31, 2021, we purchased certain business services from AgriBank. Until the formation of SunStream Business Services (SunStream) on April 1, 2020, we also purchased financial and retail information technology, collateral, tax reporting, and insurance services from AgriBank. These services are now purchased from SunStream. For further discussion on our relationship with SunStream see the Other Relationships and Programs section. Additional related party information is included in Note 9 to the accompanying Consolidated Financial Statements.

Impact on Members' Investment

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

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

AgCountry CFG: We participate as a preferred partner in AgCountry CFG, an alliance with certain other associations in the AgriBank District to better meet the financial needs of agricultural producers and agribusiness operations. AgCountry CFG is directed by representatives from participating associations. The income, expense, and credit risks are allocated based on each association's participation interest of the AgCountry CFG volume. Each association determines its commitment for new volume opportunities based on its capacity and preferences. We had $352.7 million, $335.2 million, and $303.1 million of AgCountry CFG volume at December 31, 2021, 2020, and 2019, respectively. We also had $153.6 million of available commitment on AgCountry CFG loans at December 31, 2021.

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

SunStream Business Services: We have a relationship with SunStream, which involves purchasing financial and retail information technology, tax reporting, and insurance services. SunStream was a division of AgriBank prior to April 1, 2020, when SunStream formed a separate System service corporation of which we are a partial owner. As of December 31, 2021, and 2020, our investment in SunStream was $503 thousand. Additional related party information is included in Note 9 to the accompanying Consolidated Financial Statements. We also guarantee the amounts borrowed by SunStream on their line of credit with AgriBank, up to $40.0 million. Refer to Note 10 to the accompanying Consolidated Financial Statements for further disclosure.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), a System service corporation, which involves purchasing human resource, benefit, payroll, and workforce management services. As of December 31, 2021, 2020, and 2019, our investment in Foundations was $17 thousand. Additional related party information is included in Note 9 to the accompanying Consolidated Financial Statements.

Rural Business Investment Company: We and other Farm Credit Institutions are among the limited partners for a Rural Business Investment Company (RBIC). Refer to Note 10 to the accompanying Consolidated Financial Statements for further disclosure.

Unincorporated Business Entities (UBEs)

In certain circumstances we may establish separate entities to acquire and manage complex collateral, primarily for legal liability purposes.

AgDirect, LLP: We participate in the AgDirect trade credit financing program, which includes origination and refinancing of agriculture equipment loans through independent equipment dealers. The program is facilitated by another AgriBank District association through a limited liability partnership in which we are a partial owner. Our investment in AgDirect, LLP, was $1.9 million, $1.5 million, and $1.6 million at December 31, 2021, 2020, and 2019, respectively.

Programs

We are involved in a number of programs designed to improve our credit delivery, related services, and marketplace presence.

AgDirect: We participate in the AgDirect trade credit financing program. Refer to the UBEs section for further discussion on this program.

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

REPORT OF MANAGEMENT

Farm Credit Services of Western Arkansas, ACA

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

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

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

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

Cody Jones
Chairperson of the Board
Farm Credit Services of Western Arkansas, ACA

Brandon Haberer
President and Chief Executive Officer
Farm Credit Services of Western Arkansas, ACA

Lori Schumacher
Senior Vice President of Finance and Chief Financial Officer
Farm Credit Services of Western Arkansas, ACA

March 11, 2022

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Farm Credit Services of Western Arkansas, ACA

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

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

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

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

Brandon Haberer

Brandon Haberer
President and Chief Executive Officer
Farm Credit Services of Western Arkansas, ACA

Lori Schumacher

Lori Schumacher
Senior Vice President of Finance and Chief Financial Officer
Farm Credit Services of Western Arkansas, ACA

March 11, 2022

REPORT OF AUDIT COMMITTEE

Farm Credit Services of Western Arkansas, ACA

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

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

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

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

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

Kim Hogan
Chairperson of the Audit Committee
Farm Credit Services of Western Arkansas, ACA

Audit Committee Members:
Audie "Renny" Chesshir
Stephen Young

March 11, 2022

Report of Independent Auditors

To the Board of Directors of Farm Credit Services of Western Arkansas, ACA,

Opinion

We have audited the accompanying consolidated financial statements of Farm Credit Services of Western Arkansas, ACA, and its subsidiaries (the “Association”), which comprise the consolidated statements of condition as of December 31, 2021, 2020 and 2019, and the related consolidated statements of comprehensive income, changes in members’ equity and cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Other Information

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

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

PricewaterhouseCoopers LLP

Minneapolis, Minnesota
March 11, 2022

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
T: (612) 596 6000, F: (612) 373 7160, www.pwc.com

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Services of Western Arkansas, ACA

(in thousands)

As of December 31	2021	2020	2019
ASSETS			
Loans	**$ 1,659,308**	$ 1,605,846	$ 1,428,851
Allowance for loan losses	**2,276**	2,251	2,571
Net loans	**1,657,032**	1,603,595	1,426,280
Investment in AgriBank, FCB	**38,815**	36,342	32,252
Accrued interest receivable	**9,806**	9,823	11,120
Other assets	**27,093**	23,758	20,757
Total assets	**$ 1,732,746**	$ 1,673,518	$ 1,490,409
LIABILITIES			
Note payable to AgriBank, FCB	**$ 1,360,997**	$ 1,318,159	$ 1,146,921
Accrued interest payable	**5,280**	5,445	8,087
Deferred tax liabilities, net	**621**	355	347
Patronage distribution payable	**11,500**	6,215	10,300
Other liabilities	**9,466**	18,340	19,856
Total liabilities	**1,387,864**	1,348,514	1,185,511
Contingencies and commitments (Note 10)			
MEMBERS' EQUITY			
Capital stock and participation certificates	**6,049**	5,950	5,570
Unallocated surplus	**338,833**	319,333	299,884
Accumulated other comprehensive loss	**--**	(279)	(556)
Total members' equity	**344,882**	325,004	304,898
Total liabilities and members' equity	**$ 1,732,746**	$ 1,673,518	$ 1,490,409

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Services of Western Arkansas, ACA

(in thousands)

For the year ended December 31	**2021**	2020	2019
Interest income	**$ 67,696**	$ 70,801	$ 74,244
Interest expense	**21,355**	26,334	32,472
Net interest income	**46,341**	44,467	41,772
Provision for credit losses	**400**	257	420
Net interest income after provision for credit losses	**45,941**	44,210	41,352
Non-interest income			
Patronage income	**8,532**	7,954	7,054
Financially related services income	**32**	23	27
Fee income	**4,281**	2,997	2,183
Other non-interest income	**159**	515	605
Total non-interest income	**13,004**	11,489	9,869
Non-interest expense			
Salaries and employee benefits	**15,535**	15,274	13,978
Other operating expense	**11,928**	9,707	9,152
Other non-interest expense	**106**	12	2
Total non-interest expense	**27,569**	24,993	23,132
Income before income taxes	**31,376**	30,706	28,089
Provision for income taxes	**338**	47	196
Net income	**$ 31,038**	$ 30,659	$ 27,893
Other comprehensive income (loss)			
Employee benefit plans activity	**$ 279**	$ 277	$ (278)
Total other comprehensive income (loss)	**279**	277	(278)
Comprehensive income	**$ 31,317**	$ 30,936	$ 27,615

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Services of Western Arkansas, ACA

(in thousands)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive (Loss) Income	Total Members' Equity
Balance as of December 31, 2018	$ 5,390	$ 282,289	$ (278)	$ 287,401
Net income	--	27,893	--	27,893
Other comprehensive loss	--	--	(278)	(278)
Unallocated surplus designated for patronage distributions	--	(10,298)	--	(10,298)
Capital stock and participation certificates issued	618	--	--	618
Capital stock and participation certificates retired	(438)	--	--	(438)
Balance as of December 31, 2019	5,570	299,884	(556)	304,898
Net income	--	30,659	--	30,659
Other comprehensive income	--	--	277	277
Unallocated surplus designated for patronage distributions	--	(11,210)	--	(11,210)
Capital stock and participation certificates issued	922	--	--	922
Capital stock and participation certificates retired	(542)	--	--	(542)
Balance as of December 31, 2020	5,950	319,333	(279)	325,004
Net income	**--**	**31,038**	**--**	**31,038**
Other comprehensive income	**--**	**--**	**279**	**279**
Unallocated surplus designated for patronage distributions	**--**	**(11,538)**	**--**	**(11,538)**
Capital stock and participation certificates issued	**838**	**--**	**--**	**838**
Capital stock and participation certificates retired	**(739)**	**--**	**--**	**(739)**
Balance as of December 31, 2021	**$ 6,049**	**$ 338,833**	**$ --**	**$ 344,882**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Farm Credit Services of Western Arkansas, ACA

(in thousands)

For the year ended December 31	**2021**	2020	2019
Cash flows from operating activities			
Net income	**$ 31,038**	$ 30,659	$ 27,893
Depreciation on premises and equipment	**588**	559	603
Gain on sale of premises and equipment, net	**(70)**	(16)	(126)
Amortization of discounts on loans, net	**(69)**	(268)	(66)
Provision for credit losses	**400**	257	420
Stock patronage received from AgriBank, FCB	**(1,132)**	--	(2,870)
Loss (gain) on other property owned, net	**3**	(3)	(5)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**(232)**	972	(773)
Increase in other assets	**(2,695)**	(2,033)	(339)
(Decrease) increase in accrued interest payable	**(165)**	(2,642)	551
(Decrease) increase in other liabilities	**(716)**	15	1,701
Net cash provided by operating activities	**26,950**	27,500	26,989
Cash flows from investing activities			
Increase in loans, net	**(61,442)**	(178,916)	(101,956)
Purchases of investment in AgriBank, FCB, net	**(1,341)**	(4,090)	(1,879)
(Purchases) redemptions of investment in other Farm Credit Institutions, net	**(406)**	(162)	59
Proceeds from sales of other property owned	**570**	368	117
Purchases of premises and equipment, net	**(667)**	(552)	(233)
Net cash used in investing activities	**(63,286)**	(183,352)	(103,892)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**42,838**	171,238	86,092
Patronage distributions paid	**(6,253)**	(15,295)	(9,098)
Capital stock and participation certificates retired, net	**(249)**	(91)	(91)
Net cash provided by financing activities	**36,336**	155,852	76,903
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Exchange of non-cash assets or liabilities	**$ (7,613)**	$ (1,470)	$ 11,622
Supplemental information			
Interest paid	**$ 21,520**	$ 28,976	$ 31,921
Taxes paid, net	**128**	12	106

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Farm Credit Services of Western Arkansas, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

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

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

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

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

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

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

Association

Farm Credit Services of Western Arkansas, ACA (the Association) and its subsidiaries, Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, PCA (subsidiaries) are lending institutions of the System. We are a borrower-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Baxter, Benton, Boone, Calhoun, Carroll, Clark, Columbia, Conway, Crawford, Dallas, Faulkner, Franklin, Garland, Grant, Hempstead, Hot Spring, Howard, Johnson, LaFayette, Little River, Logan, Madison, Marion, Miller, Montgomery, Nevada, Newton, Ouachita, Perry, Pike, Polk, Pope, Saline, Scott, Searcy, Sebastian, Sevier, Union, Van Buren, Washington, and Yell in the state of Arkansas.

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

We offer credit life and term life insurance to borrowers and those eligible to borrow. We also offer fee appraisals to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

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

Principles of Consolidation

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

Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the fair value less estimated selling costs upon acquisition and is included in "Other assets" in the Consolidated Statements of Condition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in "Other non-interest expense" in the Consolidated Statements of Comprehensive Income.

Other Investment: The carrying amount of the investment in the Rural Business Investment Company, in which we are a limited partner and hold a non-controlling interest, is at cost and is included in "Other assets" in the Consolidated Statements of Condition. The investment is assessed for impairment. If impairment exists, losses are included in Net income in the Consolidated Statements of Comprehensive Income in the year of impairment. Income on the investment is limited to distributions received. In circumstances when distributions exceed our share of earnings after the date of the investment, these distributions are applied to reduce the carrying value of the investment and are not recognized as income.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in "Other assets" in the Consolidated Statements of Condition. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets.

Gains or losses on disposition are included in “Other non-interest income” or “Other non-interest expense”, respectively, in the Consolidated Statements of Comprehensive Income. Depreciation and maintenance and repair expenses are included in “Other operating expense” in the Consolidated Statements of Comprehensive Income and improvements are capitalized.

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

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

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

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

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

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

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

Beginning January 1, 2021, certain employees also participate in the Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the Internal Revenue Service (IRS), are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations.

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

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

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

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

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

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

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

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

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

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

Recently Issued or Adopted Accounting Pronouncements

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

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

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2021**		2020		2019	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 1,118,058**	**67.4%**	$ 1,072,737	66.8%	$ 938,325	65.7%
Production and intermediate-term	**192,025**	**11.6%**	202,622	12.6%	197,799	13.8%
Agribusiness	**231,486**	**14.0%**	226,380	14.1%	183,486	12.8%
Other	**117,739**	**7.0%**	104,107	6.5%	109,241	7.7%
Total	**$ 1,659,308**	**100.0%**	$ 1,605,846	100.0%	$ 1,428,851	100.0%

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

Portfolio Concentrations

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

As of December 31, 2021, volume plus commitments to our ten largest borrowers totaled an amount equal to 6.8% of total loans and commitments.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include real estate, equipment, inventory, livestock, and income-producing property. Long-term real estate loans are secured by the first liens on the underlying real property.

Participations

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

Participations Purchased and Sold

	AgriBank		Other Farm Credit Institutions		Total	
(in thousands)	Participations		Participations		Participations	
As of December 31, 2021	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ --**	**$ 44,752**	**$ (5,787)**	**$ 44,752**	**$ (5,787)**
Production and intermediate-term	**--**	**--**	**51,686**	**--**	**51,686**	**--**
Agribusiness	**--**	**--**	**226,956**	**--**	**226,956**	**--**
Other	**--**	**--**	**102,424**	**--**	**102,424**	**--**
Total	**$ --**	**$ --**	**$ 425,818**	**$ (5,787)**	**$ 425,818**	**$ (5,787)**

	AgriBank		Other Farm Credit Institutions		Total	
	Participations		Participations		Participations	
As of December 31, 2020	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (9,414)	$ 45,018	$ (7,188)	$ 45,018	$ (16,602)
Production and intermediate-term	--	--	64,033	--	64,033	--
Agribusiness	--	--	222,019	--	222,019	--
Other	--	--	90,613	--	90,613	--
Total	$ --	$ (9,414)	$ 421,683	$ (7,188)	$ 421,683	$ (16,602)

	AgriBank		Other Farm Credit Institutions		Total	
	Participations		Participations		Participations	
As of December 31, 2019	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (12,578)	$ 29,525	$ --	$ 29,525	$ (12,578)
Production and intermediate-term	--	--	51,395	--	51,395	--
Agribusiness	--	--	180,990	--	180,990	--
Other	--	--	98,307	--	98,307	--
Total	$ --	$ (12,578)	$ 360,217	$ --	$ 360,217	$ (12,578)

Credit Quality and Delinquency

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

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

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

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2021	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 1,105,763**	**98.2%**	**$ 10,714**	**1.0%**	**$ 8,447**	**0.8%**	**$ 1,124,924**	**100.0%**
Production and intermediate-term	**182,045**	**93.7%**	**3,742**	**1.9%**	**8,553**	**4.4%**	**194,340**	**100.0%**
Agribusiness	**226,451**	**97.6%**	**3,532**	**1.5%**	**2,009**	**0.9%**	**231,992**	**100.0%**
Other	**116,776**	**99.1%**	**756**	**0.6%**	**326**	**0.3%**	**117,858**	**100.0%**
Total	**$ 1,631,035**	**97.7%**	**$ 18,744**	**1.1%**	**$ 19,335**	**1.2%**	**$ 1,669,114**	**100.0%**

As of December 31, 2020	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$ 1,062,339	98.4%	$ 7,532	0.7%	$ 9,846	0.9%	$ 1,079,717	100.0%
Production and intermediate-term	188,967	92.2%	9,807	4.8%	6,148	3.0%	204,922	100.0%
Agribusiness	219,228	96.6%	6,271	2.8%	1,332	0.6%	226,831	100.0%
Other	103,161	99.0%	654	0.6%	384	0.4%	104,199	100.0%
Total	$ 1,573,695	97.4%	$ 24,264	1.5%	$ 17,710	1.1%	$ 1,615,669	100.0%

As of December 31, 2019	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$ 927,893	98.2%	$ 8,943	0.9%	$ 8,751	0.9%	$ 945,587	100.0%
Production and intermediate-term	188,560	93.8%	4,899	2.4%	7,556	3.8%	201,015	100.0%
Agribusiness	173,512	94.3%	7,836	4.3%	2,644	1.4%	183,992	100.0%
Other	103,350	94.4%	1,262	1.2%	4,765	4.4%	109,377	100.0%
Total	$ 1,393,315	96.8%	$ 22,940	1.6%	$ 23,716	1.6%	$ 1,439,971	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands) **As of December 31, 2021**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	**$ 2,883**	**$ 1,356**	**$ 4,239**	**$ 1,120,685**	**$ 1,124,924**
Production and intermediate-term	**182**	**692**	**874**	**193,466**	**194,340**
Agribusiness	**--**	**--**	**--**	**231,992**	**231,992**
Other	**6**	**--**	**6**	**117,852**	**117,858**
Total	**$ 3,071**	**$ 2,048**	**$ 5,119**	**$ 1,663,995**	**$ 1,669,114**

As of December 31, 2020	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	$ 2,442	$ 2,106	$ 4,548	$ 1,075,169	$ 1,079,717
Production and intermediate-term	343	1,248	1,591	203,331	204,922
Agribusiness	--	--	--	226,831	226,831
Other	--	--	--	104,199	104,199
Total	$ 2,785	$ 3,354	$ 6,139	$ 1,609,530	$ 1,615,669

As of December 31, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	$ 2,432	$ 2,170	$ 4,602	$ 940,985	$ 945,587
Production and intermediate-term	201	809	1,010	200,005	201,015
Agribusiness	--	--	--	183,992	183,992
Other	41	--	41	109,336	109,377
Total	$ 2,674	$ 2,979	$ 5,653	$ 1,434,318	$ 1,439,971

Note: Accruing loans include accrued interest receivable.

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

Risk Loans

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

Risk Loan Information

(in thousands) As of December 31	2021	2020	2019
Nonaccrual loans:			
Current as to principal and interest	**$ 2,670**	$ 2,135	$ 6,094
Past due	**3,215**	4,851	3,426
Total nonaccrual loans	**5,885**	6,986	9,520
Accruing restructured loans	**2,914**	3,094	3,618
Accruing loans 90 days or more past due	**--**	--	--
Total risk loans	**$ 8,799**	$ 10,080	$ 13,138
Volume with specific allowance	**$ 824**	$ 1,267	$ 3,301
Volume without specific allowance	**7,975**	8,813	9,837
Total risk loans	**$ 8,799**	$ 10,080	$ 13,138
Total specific allowance	**$ 256**	$ 193	$ 897

For the year ended December 31	2021	2020	2019
Income on accrual risk loans	**$ 125**	$ 156	$ 196
Income on nonaccrual loans	**294**	370	526
Total income on risk loans	**$ 419**	$ 526	$ 722
Average risk loans	**$ 9,506**	$ 12,123	$ 11,711

Note: Accruing loans include accrued interest receivable.

Nonaccrual Loans by Loan Type

(in thousands) As of December 31	2021	2020	2019
Real estate mortgage	**$ 4,523**	$ 5,334	$ 5,148
Production and intermediate-term	**1,036**	1,616	1,942
Agribusiness	**--**	--	3
Other	**326**	36	2,427
Total	**$ 5,885**	$ 6,986	$ 9,520

Additional Impaired Loan Information by Loan Type

	As of December 31, 2021			For the year ended December 31, 2021	
(in thousands)	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	**$ 495**	**$ 454**	**$ 168**	**$ 636**	**$ --**
Production and intermediate-term	**41**	**43**	**27**	**151**	**--**
Agribusiness	**--**	**--**	**--**	**--**	**--**
Other	**288**	**294**	**61**	**249**	**--**
Total	**$ 824**	**$ 791**	**$ 256**	**$ 1,036**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$ 4,817**	**$ 5,449**	**$ --**	**$ 5,214**	**$ 257**
Production and intermediate-term	**1,407**	**1,772**	**--**	**1,437**	**162**
Agribusiness	**1,713**	**1,708**	**--**	**1,758**	**--**
Other	**38**	**38**	**--**	**61**	**--**
Total	**$ 7,975**	**$ 8,967**	**$ --**	**$ 8,470**	**$ 419**
Total impaired loans:					
Real estate mortgage	**$ 5,312**	**$ 5,903**	**$ 168**	**$ 5,850**	**$ 257**
Production and intermediate-term	**1,448**	**1,815**	**27**	**1,588**	**162**
Agribusiness	**1,713**	**1,708**	**--**	**1,758**	**--**
Other	**326**	**332**	**61**	**310**	**--**
Total	**$ 8,799**	**$ 9,758**	**$ 256**	**$ 9,506**	**$ 419**

	As of December 31, 2020			For the year ended December 31, 2020	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 960	$ 951	$ 81	$ 599	$ --
Production and intermediate-term	307	268	112	331	--
Agribusiness	--	--	--	1	--
Other	--	--	--	1,428	--
Total	$ 1,267	$ 1,219	$ 193	$ 2,359	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 5,063	$ 5,403	$ --	$ 5,113	$ 299
Production and intermediate-term	1,882	2,374	--	2,251	132
Agribusiness	1,832	1,827	--	1,907	95
Other	36	36	--	493	--
Total	$ 8,813	$ 9,640	$ --	$ 9,764	$ 526
Total impaired loans:					
Real estate mortgage	$ 6,023	$ 6,354	$ 81	$ 5,712	$ 299
Production and intermediate-term	2,189	2,642	112	2,582	132
Agribusiness	1,832	1,827	--	1,908	95
Other	36	36	--	1,921	--
Total	$ 10,080	$ 10,859	$ 193	$ 12,123	$ 526

	As of December 31, 2019			For the year ended December 31, 2019	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 789	$ 783	$ 123	$ 527	$ --
Production and intermediate-term	123	105	34	127	--
Agribusiness	3	3	3	3	--
Other	2,386	2,710	737	2,573	--
Total	$ 3,301	$ 3,601	$ 897	$ 3,230	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 5,084	$ 5,432	$ --	$ 3,393	$ 363
Production and intermediate-term	2,724	3,231	--	2,825	359
Agribusiness	1,988	1,980	--	2,249	--
Other	41	40	--	14	--
Total	$ 9,837	$ 10,683	$ --	$ 8,481	$ 722
Total impaired loans:					
Real estate mortgage	$ 5,873	$ 6,215	$ 123	$ 3,920	$ 363
Production and intermediate-term	2,847	3,336	34	2,952	359
Agribusiness	1,991	1,983	3	2,252	--
Other	2,427	2,750	737	2,587	--
Total	$ 13,138	$ 14,284	$ 897	$ 11,711	$ 722

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

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

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

Troubled Debt Restructurings (TDRs)

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

TDR Activity

(in thousands) For the year ended December 31	**2021**		2020		2019	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ --**	**$ --**	$ --	$ --	$ 200	$ 214
Production and intermediate-term	**--**	**--**	--	--	269	180
Total	**$ --**	**$ --**	$ --	$ --	$ 469	$ 394

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

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

There were no TDRs that defaulted during the years ended December 31, 2021, 2020, or 2019, in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of December 31	**2021**	2020	2019
Accrual status:			
Real estate mortgage	**$ 789**	$ 688	$ 725
Production and intermediate-term	**412**	574	905
Agribusiness	**1,713**	1,832	1,988
Total TDRs in accrual status	**$ 2,914**	$ 3,094	$ 3,618
Nonaccrual status:			
Real estate mortgage	**$ 284**	$ 771	$ 778
Production and intermediate-term	**475**	580	631
Agribusiness	**--**	--	--
Total TDRs in nonaccrual status	**$ 759**	$ 1,351	$ 1,409
Total TDRs:			
Real estate mortgage	**$ 1,073**	$ 1,459	$ 1,503
Production and intermediate-term	**887**	1,154	1,536
Agribusiness	**1,713**	1,832	1,988
Total TDRs	**$ 3,673**	$ 4,445	$ 5,027

There were no commitments to lend to borrowers whose loans have been modified in a TDR at December 31, 2021.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	**2021**	2020	2019
Balance at beginning of year	**$ 2,251**	$ 2,571	$ 2,444
Provision for loan losses	**415**	424	351
Loan recoveries	**40**	44	139
Loan charge-offs	**(430)**	(788)	(363)
Balance at end of year	**$ 2,276**	$ 2,251	$ 2,571

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

Credit Loss Information on Unfunded Commitments

(in thousands) For the year ended December 31	2021	2020	2019
(Reversal of) provision for credit losses	**$ (15)**	$ (167)	$ 69

As of December 31	2021	2020	2019
Accrued credit losses	**$ 33**	$ 48	$ 215

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

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2020	**$ 803**	**$ 685**	**$ 595**	**$ 168**	**$ 2,251**
Provision for (reversal of) loan losses	**304**	**33**	**(3)**	**81**	**415**
Loan recoveries	**9**	**31**	**--**	**--**	**40**
Loan charge-offs	**(273)**	**(157)**	**--**	**--**	**(430)**
Balance as of December 31, 2021	**$ 843**	**$ 592**	**$ 592**	**$ 249**	**$ 2,276**
Ending balance: individually evaluated for impairment	**$ 168**	**$ 27**	**$ --**	**$ 61**	**$ 256**
Ending balance: collectively evaluated for impairment	**$ 675**	**$ 565**	**$ 592**	**$ 188**	**$ 2,020**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2021	**$ 1,124,924**	**$ 194,340**	**$ 231,992**	**$ 117,858**	**$ 1,669,114**
Ending balance: individually evaluated for impairment	**$ 5,312**	**$ 1,448**	**$ 1,713**	**$ 326**	**$ 8,799**
Ending balance: collectively evaluated for impairment	**$ 1,119,612**	**$ 192,892**	**$ 230,279**	**$ 117,532**	**$ 1,660,315**

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2019	$ 681	$ 346	$ 548	$ 996	$ 2,571
Provision for (reversal of) loan losses	181	367	47	(171)	424
Loan recoveries	30	14	--	--	44
Loan charge-offs	(89)	(42)	--	(657)	(788)
Balance as of December 31, 2020	$ 803	$ 685	$ 595	$ 168	$ 2,251
Ending balance: individually evaluated for impairment	$ 81	$ 112	$ --	$ --	$ 193
Ending balance: collectively evaluated for impairment	$ 722	$ 573	$ 595	$ 168	$ 2,058
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2020	$ 1,079,717	$ 204,922	$ 226,831	$ 104,199	$ 1,615,669
Ending balance: individually evaluated for impairment	$ 6,023	$ 2,189	$ 1,832	$ 36	$ 10,080
Ending balance: collectively evaluated for impairment	$ 1,073,694	$ 202,733	$ 224,999	$ 104,163	$ 1,605,589

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2018	$ 608	$ 399	$ 457	$ 980	$ 2,444
Provision for loan losses	76	69	190	16	351
Loan recoveries	12	127	--	--	139
Loan charge-offs	(15)	(249)	(99)	--	(363)
Balance as of December 31, 2019	$ 681	$ 346	$ 548	$ 996	$ 2,571
Ending balance: individually evaluated for impairment	$ 123	$ 34	$ 3	$ 737	$ 897
Ending balance: collectively evaluated for impairment	$ 558	$ 312	$ 545	$ 259	$ 1,674
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2019	$ 945,587	$ 201,015	$ 183,992	$ 109,377	$ 1,439,971
Ending balance: individually evaluated for impairment	$ 5,873	$ 2,847	$ 1,991	$ 2,427	$ 13,138
Ending balance: collectively evaluated for impairment	$ 939,714	$ 198,168	$ 182,001	$ 106,950	$ 1,426,833

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

NOTE 4: INVESTMENT IN AGRIBANK

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

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

NOTE 5: NOTE PAYABLE TO AGRIBANK

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

Note Payable Information

(dollars in thousands) As of December 31	**2021**	2020	2019
Line of credit	**$ 1,600,000**	$ 1,600,000	$ 1,400,000
Outstanding principal under the line of credit	**1,360,997**	1,318,159	1,146,921
Interest rate	**1.6%**	1.6%	2.8%

Our note payable is scheduled to mature on May 31, 2023. We intend to renegotiate the note payable no later than the maturity date.

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

NOTE 6: MEMBERS' EQUITY

Capitalization Requirements

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

Regulatory Capitalization Requirements

Regulatory Capital Requirements and Ratios

As of December 31	**2021**	2020	2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**18.8%**	18.5%	20.0%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**18.8%**	18.5%	20.0%	6.0%	2.5%	8.5%
Total capital ratio	**18.9%**	18.6%	20.2%	8.0%	2.5%	10.5%
Permanent capital ratio	**18.8%**	18.5%	20.0%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**18.6%**	18.1%	19.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.0%**	18.4%	19.6%	1.5%	N/A	1.5%

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

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

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

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

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

Description of Equities

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

	Number of Shares		
As of December 31	**2021**	2020	2019
Class C common stock (at-risk)	**1,180,319**	1,162,029	1,091,074
Series 2 participation certificates (at-risk)	**29,450**	28,028	22,988

Under our bylaws, we are also authorized to issue Class B, Class D, and Class E common stock and Class F preferred stock. Each of these classes of common stock is at-risk and nonvoting with a $5.00 par value per share. Currently, no stock of these classes has been issued.

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

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

In the event of our liquidation or dissolution, according to our bylaws, any assets remaining after payment or retirement of all liabilities shall be distributed first pro rata to holders of preferred stock, and lastly, pro rata, to holders of all classes of common stock and participation certificates.

In the event of impairment, losses will be absorbed first pro rata by holders of common stock and participation certificates, then pro rata by holders of preferred stock.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of $11.5 million, and $10.3 million at December 31, 2021, and 2019, respectively. On June 1, 2020, our board of directors declared a $5.0 million dollar patronage payment to members to help with COVID-19 relief, this was paid to members in June 2020. As a result of the mid-year patronage payment our accrued distributions were $6.2 million at December 31, 2020. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

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

NOTE 7: INCOME TAXES

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands)

For the year ended December 31	**2021**	2020	2019
Current:			
Federal	**$ 57**	$ 31	$ 35
State	**15**	8	11
Total current	**$ 72**	$ 39	$ 46
Deferred:			
Federal	**$ 215**	$ 5	$ 113
State	**51**	3	37
Total deferred	**266**	8	150
Provision for income taxes	**$ 338**	$ 47	$ 196
Effective tax rate	**1.1%**	0.2%	0.7%

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

(in thousands)

For the year ended December 31	**2021**	2020	2019
Federal tax at statutory rates	**$ 6,589**	$ 6,448	$ 5,899
State tax, net	**63**	11	21
Patronage distributions	**(151)**	(117)	(2,117)
Effect of non-taxable entity	**(6,169)**	(6,288)	(3,694)
Other	**6**	(7)	87
Provision for income taxes	**$ 338**	$ 47	$ 196

Deferred Income Taxes

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

Deferred Tax Assets and Liabilities

(in thousands)

As of December 31	**2021**	2020	2019
Allowance for loan losses	**$ 136**	$ 191	$ 102
Postretirement benefit accrual	**126**	130	134
Deferred fee income, net	**21**	13	--
Accrued incentive	**218**	226	217
Accrued patronage income not received	**(119)**	(89)	(91)
AgriBank 2002 allocated stock	**(229)**	(230)	(230)
Accrued pension asset	**(773)**	(618)	(499)
Depreciation	**1**	--	--
Other assets	**34**	22	22
Other liabilities	**(36)**	--	(2)
Deferred tax liabilities, net	**$ (621)**	$ (355)	$ (347)
Gross deferred tax assets	**$ 536**	$ 582	$ 475
Gross deferred tax liabilities	**$ (1,157)**	$ (937)	$ (822)

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

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $19.6 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $308.5 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

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

NOTE 8: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

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

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

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

AgriBank District Retirement Plan Information

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

For the year ended December 31		2021		2020		2019
Total plan expense	**$**	**28,048**	$	42,785	$	36,636
Our allocated share of plan expenses		**560**		931		755
Contributions by participating employers		**90,000**		90,000		90,000
Our allocated share of contributions		**2,063**		2,091		1,974

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

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

Benefits paid to participants in the District were $88.6 million in 2021. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2022 is $90.0 million. Our allocated share of these pension contributions is expected to be $2.0 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

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

Pension Restoration Plan Information

(in thousands) As of December 31		2021		2020		2019
Our unfunded liability	**$**	**--**	$	436	$	846

For the year ended December 31		2021		2020		2019
Our allocated share of plan expenses	**$**	**272**	$	296	$	59
Our cash contributions		**428**		428		428

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. We paid the remaining obligation under the plan during 2021; therefore, there was no unfunded liability as of December 31, 2021.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. Our allocated share of the components of net periodic benefit cost other than the service cost component, are included in “Other operating expense” in the Consolidated Statements of Comprehensive Income. Service costs related to the plan are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. The Pension Restoration Plan is unfunded and we make annual contributions to fund benefits paid to our retirees covered by the plan. Our cash contributions are equal to the benefits paid. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year.

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

Defined Contribution Plans

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

Beginning January 1, 2021, we also participate in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the defined contribution plan if it were not for certain IRS limitations.

Employer contribution expenses for the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income, were $793 thousand, $681 thousand, and $643 thousand in 2021, 2020, and 2019, respectively. These expenses were equal to our cash contributions for each year.

NOTE 9: RELATED PARTY TRANSACTIONS

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

Related Party Loans Information

(in thousands) As of December 31	**2021**	2020	2019
Total related party loans	**$ 4,617**	$ 7,694	$ 7,684
For the year ended December 31	**2021**	2020	2019
Advances to related parties	**$ 552**	$ 2,610	$ 1,989
Repayments by related parties	**1,233**	2,747	2,529

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

As discussed in Note 5, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio. All interest expense as shown on the Consolidated Statements of Comprehensive Income was paid to AgriBank.

Total patronage from AgriBank, which includes a partnership distribution from AgDirect, LLP, was $8.4 million, $7.7 million, and $7.0 million in 2021, 2020, and 2019, respectively. Patronage income for 2021 and 2019 was paid in cash and AgriBank stock. Patronage income for 2020 was paid in cash.

In addition, we received compensation from AgriBank for servicing loans of $15 thousand, $22 thousand, and $30 thousand in 2021, 2020, and 2019, respectively.

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

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

Additional Related Party Information

(in thousands) As of December 31	**2021**	2020	2019
Investment in AgriBank	**$ 38,815**	$ 36,342	$ 32,252
Investment in AgDirect, LLP	**1,938**	1,531	1,648
Investment in SunStream	**503**	503	--
Investment in Foundations	**17**	17	17
For the year ended December 31	**2021**	2020	2019
AgriBank District purchased services	**$ 1,564**	$ 1,303	$ 1,180

NOTE 10: CONTINGENCIES AND COMMITMENTS

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

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

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2021, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $291.7 million. Additionally, we had $4.4 million of issued standby letters of credit as of December 31, 2021.

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

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

We and other Farm Credit Institutions are among the limited partners for a Rural Business Investment Company (RBIC). As of December 31, 2021, our total commitment is $2.0 million of which $0.5 million is unfunded. The original commitment period was through December 2020, but was extended through April 2023.

NOTE 11: FAIR VALUE MEASUREMENTS

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

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

Non-Recurring Basis

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

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands)

As of December 31, 2021	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$ 596**	**$ 596**
Other property owned	**--**	**--**	**757**	**757**

As of December 31, 2020	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 1,128	$ 1,128
Other property owned	--	--	659	659

As of December 31, 2019	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 2,524	$ 2,524
Other property owned	--	--	--	--

Valuation Techniques

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

Other Property Owned: Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

NOTE 12: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 11, 2022, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our 2021 Consolidated Financial Statements or disclosure in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Farm Credit Services of Western Arkansas, ACA
(Unaudited)

Description of Business

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

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

Description of Property

Property Information

Location	Description	Usage
Russellville	Owned	Headquarters
Alma	Leased	Branch
Arkadelphia	Owned	Branch
Benton	Leased	Branch
Bentonville	Leased	Branch
Booneville	Leased	Branch
Clarksville	Owned	Branch
Danville	Owned	Branch
DeQueen	Owned	Branch
El Dorado	Leased	Branch
Fort Smith	Owned	Branch
Glenwood	Owned	Branch
Greenbrier	Owned	Branch
Greenforest	Owned	Branch
Harrison	Owned	Branch
Hope	Owned	Branch
Huntsville	Owned	Branch
Magnolia	Owned	Branch
Mena	Owned	Branch
Morrilton	Owned	Branch
Mountain Home	Leased	Branch
Nashville	Owned	Branch
Ozark	Owned	Branch
Paris	Owned	Branch
Perryville	Leased	Branch
Prairie Grove	Owned	Branch
Russellville	Owned	Branch
Sheridan	Leased	Branch
Siloam Springs	Owned	Branch
Texarkana	Owned	Branch
Tontitown	Owned	Branch
Waldron	Owned	Branch

Legal Proceedings

Information regarding legal proceedings is discussed in Note 10 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2021.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 6 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 5, 6, 7, 8, and 10 to the Consolidated Financial Statements in this Annual Report. All debt and other liabilities in the financial statements are uninsured.

Selected Financial Data

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

Management's Discussion and Analysis

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

Board of Directors

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

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

- The **Governance Committee** addresses issues of Board governance and the Board's continuing efforts to strengthen and renew the Board, administers a process for maintaining and periodically reviewing board policies, and administers a planning process focused upon achieving our mission and maintaining a viable, competitive institution.

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

- The **Legislative/Public Relations Committee** oversees advocacy within the State of Arkansas and other associations, along with member public relations.

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

Name	Principal occupation and other business affiliations
Steve Burke **Vice Chairperson** **Board Service Began:** 2005 **Current Term Expires:** 2023	**Principal occupation:** Self-employed livestock, poultry (grows poultry for Tyson), and timber farmer
Audie "Renny" Chesshir **Board Service Began:** 2019 **Current Term Expires:** 2023	**Principal occupation:** Self-employed livestock (cow calf operation) farmer
Kim Hogan **Appointed Director** **Financial Expert** **Board Service Began:** 2012 **Current Term Expires:** 2024	**Principal occupation:** Co-owner/Practicing CPA: Leding and Hogan, CPAs, P.A Livestock farmer **Other business affiliations:** Secretary and Treasurer: Toby Hogan, Inc., a property, auto, and life insurance agency President: Watalula Water Users Association
Ron Hubbard **Appointed Director** **Board Service Began:** 2004 **Current Term Expires:** 2022	**Principal occupation:** Self-employed livestock farmer **Other business affiliations:** Director: AgriBank District Farm Credit Council, a trade association representing the AgriBank District
Cody Jones **Chairperson** **Board Service Began:** 2018 **Current Term Expires:** 2022	**Principal occupation:** Self-employed poultry (grows poultry for OK Foods) and livestock (cow calf operation) farmer **Other business affiliations:** Director: Milltown Washburn Water, public water authority
Julie Lively **Board Service Began:** 2018 **Current Term Expires:** 2022	**Principal occupation:** Self-employed livestock and poultry farmer (grows poultry for Tyson) Consultant for Achieve 3000 Inc., a leader in online differentiated learning instruction
Kenneth Martin **Board Service Began:** 2016 **Current Term Expires:** 2024	**Principal occupation:** President: Martin Vet Services, self-employed veterinarian **Other business affiliations:** Member: DeQueen District School Board

Name	Principal occupation and other business affiliations
Ralph Allen Moore **Board Service Began:** 2021 **Current Term Expires:** 2025	**Principal occupation:** Self-employed crop and cattle farmer Vice President: NWA Hay & Straw LLC **Other business affiliations:** Director: Washington County Farm Bureau, insurance and agricultural advocacy Director: Washington County Fair Board, county fair Director: Farmers Co-op of feed, seed and fertilizer
Pam Faulkner-Moore[1] **Appointed Director** **Board Service Began:** 2019 **Current Term Expires:** 2023	**Principal occupation:** Self-employed beef cattle farmer Owner: P2 Consulting Vice President: Mortgage Solutions at Simple Nexus from February 2019 to Present Director: Advisory Consulting and Principle Business Analyst at Ellie Mae, Inc. from March 2010 to February 2019
Elizabeth F. Walker **Board Service Began:** 2021 **Current Term Expires:** 2025	**Principal occupation:** Manager of cattle and poultry farm with Lucky 13 Farm **Other business affiliations:** President: Horatio School Board Comissioner: AR Rural Development Commission Member: Sevier County FSA Board
Mark Wilcox **Board Service Began:** 2013 **Current Term Expires:** 2025	**Principal occupation:** Self-employed cattle farmer **Other business affiliations:** Director: Faulkner County Farm Bureau, involved in insurance
Stephen Young **Board Service Began:** 2020 **Current Term Expires:** 2024	**Principal occupation:** Self-employed poultry and cattle farmer with Triple T Farms Self-employed cabinet maker with Triple T Cabinet Shop

[1] Resigned in 2022

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. The Board of Directors has adopted a rate of $600 per day. Board members will also receive a $8,400 annual retainer fee. The chairperson of the Board and the financial expert(s) are paid an additional annual retainer fee of $8,400, the vice chairperson of the Board is paid an additional annual retainer fee of $2,400, the audit committee chairperson receives a monthly retainer of $500 a month, and the chairperson of the remaining committees receives an additional annual retainer of $1,200.

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

Name	Number of Days Served: Board Meetings	Number of Days Served: Other Official Activities	Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2021
Kenny Brixey [3]	21.0	7.0	$ --		$ 26,684
Steve Burke	28.0	3.0	1,000	Governance	24,023
Audie "Renny" Chesshir	32.0	7.0	--		30,228
Chuck Davis [1]	21.0	5.0	--		16,588
Robert Dixon [3]	16.0	4.0	--		16,525
Dusty Hampton [3]	13.0	3.0	--		12,772
Kim Hogan	30.0	13.0	6,000	Audit	33,343
Ron Hubbard	22.0	30.0	--		29,960
Cody Jones	34.0	26.0	--		40,487
Julie Lively	29.0	22.0	200	Governance	30,618
Kenneth Martin	24.0	2.0	--		19,811
Ralph Allen Moore [2]	4.0	1.0	--		4,706
Pam Faulkner-Moore [4]	23.0	22.0	--		30,160
Gene Pharr [1]	18.0	2.0	--		16,603
Elizabeth F. Walker [2]	4.0	5.0	--		7,325
Mark Wilcox	24.0	2.0	1,200	Legislative/Public Relations	21,469
Stephen Young	5.0	9.0	--		29,835
					$ 391,137

[1] Retired from the Board in 2021

[2] Elected to the Board during 2021

[3] Resigned in 2021

[4] Resigned in 2022

Senior Officers

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

Name and Position	Business experience and other business affiliations
Brandon Haberer President/Chief Executive Officer	**Business experience:** President/Chief Executive Officer from February 2019 to present Executive Vice President/Chief Operating Officer from October 2016 to January 2019 **Other business affiliations:** Board Member Arkansas Valley Electric
Lori Schumacher Senior Vice President of Finance/ Chief Financial Officer	**Business experience:** Senior Vice President of Finance/Chief Financial Officer from December 2005 to present **Other business affiliations:** Owner Crossroads Senior Care at Home, Inc.
Justin Carter Senior Vice President of Credit/ Chief Credit Officer	**Business experience:** Senior Vice President of Credit/Chief Credit Officer from October 2016 to present
Charlie McConnell Senior Vice President/ Chief Lending Officer	**Business experience:** Senior Vice President/Chief Lending Officer from October 2016 to present
Luann Berry Senior Vice President/ Chief Human Resources Officer	**Business experience:** Senior Vice President/Chief Human Resources Officer from April 2017 to present Vice President of Human Resources from November 2015 to April 2017
Perry McCourt Executive Vice President/ Chief Operating Officer/ Chief Information Officer	**Business experience:** Executive Vice President/Chief Operating Officer/Chief Information Officer from February 2019 to present Senior Vice President/Senior Operating Officer from January 2018 to January 2019 Regional Vice President/Senior Officer from August 2005 to December 2017 **Other business affiliations:** Board Member Arkansas Tech Ag Department Advisory Board

Senior Officer Compensation

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

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

Base Salary: The CEO and senior officer base salaries reflect the employee's experience and level of responsibility. Salary programs and guidelines are subject to review and approval by the Compensation Committee of our Board of Directors and are subject to adjustment based on changes in responsibilities or competitive market conditions. Market surveys are performed periodically to ensure alignment with competition.

Short-term Incentives: The CEO and senior officer incentives are paid annually based on performance criteria established by our Board of Directors. The criteria related to the overall association performance include return on assets, loan volume growth, operational expense management, customer growth, net income, and credit quality. These items are separately weighted throughout the plan to ensure a proper balance of risk where appropriate. To adjust for extraordinary items that may occur within a given year, incentives on performance measures are calculated on a 3 year rolling average. Additionally, performance criteria related to personal performance include attainment of personal objectives regarding leadership and integrity performance ratings. We calculate the incentives after the end of the plan year (the plan year is the calendar year). We pay out the incentives within 90 days of year end.

Retirement Plans: We have various post-employment benefit plans which are generally available to all Association employees, including the CEO and senior officers, based on dates of service to the Association and are not otherwise differentiated by position, unless specifically stated. Information regarding the post-employment benefit plans is included in Notes 2 and 8 to the Consolidated Financial Statements in this Annual Report.

Other Components of Compensation: Additionally, compensation associated with any vehicles, group term life insurance premiums, disability insurance premiums, or other taxable reimbursements may be made available to the CEO and senior officers based on job criteria or similar plans available to all employees.

Compensation to the CEO and Senior Officers

(in thousands) Name	Year	Salary	Bonus	Deferred/ Perquisites	Other	Total
Brandon Haberer, CEO	**2021**	**$ 312**	**$ 148**	**$ 24**	**$ 37**	**$ 521**
Brandon Haberer, CEO	2020	295	144	24	24	487
Brandon Haberer, CEO[1]	2019	267	124	15	25	431
Aggregate Number of Senior Officers, excluding CEO						
Five	**2021**	**$ 874**	**$ 341**	**$ 96**	**$ 228**	**$ 1,539**
Five	2020	833	325	90	451	1,699
Five	2019	789	297	58	693	1,837

[1]Brandon Haberer became the President and Chief Executive Officer, effective February 1, 2019. Prior to February 1, 2019, he was the Executive Vice President/Chief Operating Officer. Compensation as CEO reflects a full year of compensation.

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

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

- Employer match on defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide Pension Plan and the Pension Restoration Plan, as applicable, as disclosed in Note 8 to the Consolidated Financial Statements in this Annual Report. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association's future obligations under the pension plans. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.
- 2021 contains an employer match rollover for the CEO.

Any dollar value of tax reimbursement provided to the CEO or senior officers is included in the column for which the reimbursement was provided.

Generally, pension benefits increase annually as a result of an additional year of credited service and related compensation for plan participants. The value of the pension benefits increased significantly in 2020 and 2019, primarily due to the decrease in interest rates year over year.

Pension Benefits Attributable to Senior Officers

(dollars in thousands) **2021** Name	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Aggregate Number of Senior Officers				
Three	AgriBank District Retirement Plan	**28.5**	**$ 3,027**	**$ --**

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

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

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 9 to the Consolidated Financial Statements in this Annual Report.

Travel, Subsistence, and Other Related Expenses

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

3115 West 2nd Court
Russellville, AR 72801
(479) 968-1434
www.myaglender.com

The total directors' travel, subsistence, and other related expenses were $37 thousand, $46 thousand, and $178 thousand in 2021, 2020, and 2019, respectively.

Involvement in Certain Legal Proceedings

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

Member Privacy

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

Relationship with Qualified Public Accountant

There were no changes in the independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total financial statement audit fees paid during 2021 were $84 thousand. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel. In addition, we incurred $5 thousand for tax services.

Financial Statements

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

Young, Beginning, and Small Farmers and Ranchers

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

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Farm Credit Services of Western Arkansas, ACA

(Unaudited)

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

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

Mission Statement

The mission statement for Young, Beginning, and Small Farmers and Ranchers (YBS) is to maximize their financial success by providing industry leading financial services, agricultural expertise, and cooperative educational opportunities to help them succeed in the marketplace.

The Association believes it is living up to this mission because we are continually developing new programs and evolving the Young Beginning Small and Diverse (YBSD) Farmer program, which was introduced in 2010. The programs offer support toward minority farmer groups or needs; and for YBS farmers features differential lending standards, interest rate discounts, first-time real estate owner credits and payment of loan guarantee fees if a guaranteed loan is required. Annual financial reporting and meeting with a loan officer is also part of the program. Another program component is for YBS farmers to pursue farm management and/or financial management education.

Demographics

The 2017 United States Department of Agriculture (USDA) Ag-census is the source of demographic data for YBS farmer comparison and reflects 26,868 farmers in the 41 counties served by Farm Credit Services of Western Arkansas, ACA. According to the census of these farmers, 2,515 (9.0%) are young farmers, 9,885 (36.8%) are beginning farmers, and 24,104 (89.7%) are small farmers.

Quantitative Goals

Our goals and results for the 2021 YBS program are as follows:

	Customers by Percentage*		Loan Volume*	
Category	Goal	**2021 Results**	Goal	**2021 Results**
Young farmers	30%	**31%**	20%	**20%**
Beginning farmers	46%	**57%**	35%	**38%**
Small farmers	92%	**93%**	54%	**52%**

*Aggregate percentages exceed 100% as the categories overlap with one another.

Outreach Programs

As part of our commitment to supporting YBS farmers, each branch office supports a number of local events and activities that respond to their needs.

The Association has had a long standing Youth Loan Program for 4-H and FFA students. In 2010, the Association introduced a YBSD Farmer program. In 2015, the Military Lending Program was implemented. In 2016, a special loan program known as “Fresh and Local” was created for farmers who market products direct to consumers (i.e. farmers markets etc.). All of these programs were created to enhance lending to qualified farmers and features adjusted lending standards, interest rate advantages, and reduced fees. In 2019, a new loan program titled the YBS Poultry Loan Lending Program was developed to assist YBS farmers with limited equity and collateral by offering reduced interest rates and fees as well as reduced lending standards.

We provide essential related services as part of our commitment to the YBSD Farmer program. We offer these services throughout the year through our normal delivery channels.

Safety and Soundness of the Program

The YBS policy has been reviewed by the board and deemed to be within compliance and spirit of the FCA Regulations. Our board monitors the program on an ongoing basis and reviews YBS results on a quarterly basis.

Implementation of this policy is carried out through a sound, adequate, and constructive credit and related services program for YBS farmers and ranchers.

FUNDS HELD PROGRAM

Farm Credit Services of Western Arkansas, ACA

(Unaudited)

We offer a Funds Held Program ("Program") that provides for Borrowers to make uninsured advance payments on designated loans for the purpose of paying future maturities or other related charges.

The following terms and conditions apply to Program accounts in connection with loans from the Association, subject to any rights that the Association or Borrower may have as specified in loan documents governing designated loans.

Handling Advance Payments

- Advance payments received on a loan participating in the Program before the loan has been billed will normally be placed in the Program account ("Account") as of the date received, to be applied against the next installment or other related charges on the installment due date. This is subject to any rights that the Association may have to apply such payments in a different manner as specified in loan documents governing designated loans.
- Advance payments received on a loan participating in the Program after the loan has been billed will be directly applied to the installment due on the loan or other related charges and will not earn interest.
- Funds received in excess of the billed amount or other related charges will be placed in the Account.
- If a special prepayment of principal is desired, Borrowers must so specify at the time funds are paid to the Association.
- When an installment becomes due, any accrued interest in the Account and other funds in the Account will be automatically applied toward payment of the installment or related charges on the due date. If the balance in the Account is not adequate to pay the installment or related charges in full, Borrowers are expected to pay the difference by the installment due date. Any excess funds will remain in the Account.

Even when no installment or related charges are due, the Association may, at its option, apply funds from the Account without notice to Borrower as follows:

- **Protective Advances**. If the Borrowers fail to pay when due other items as required pursuant to the mortgage, deed of trust, promissory note or any other loan documents, the Association may apply funds in the Account to pay them.
- **Account Ceiling**. At any given point in time, the total in the Account may not exceed the unpaid balance of the related loans. If the Account balance exceeds the unpaid balance of the loan, the Association may apply the funds in the Account to repay the entire unpaid balance and will return any excess funds.
- **Transfer of Security**. If Borrowers sell, assign, or transfer any interest in the underlying collateral, the Association may apply the funds in the Account against the remaining loan balance.
- **Deceased Borrowers**. If all Borrowers are deceased, the Association may apply the funds in the Account to the remaining loan balance.

Interest on the Account

Interest will accrue on the Account at a rate determined by the Association, but the rate may never exceed the interest rate charged on the related loan. The current interest rate is calculated at a rate equal to two percent less the interest rate on the related loan. Interest on Account balances will normally accrue from the date of receipt of the funds until the date the funds are applied to the loan against an installment due or other related charges. The Association may change the interest rate from time to time, and may provide for different interest rates for different categories of loans. The Borrowers receive periodic statements of accounts, including Account balances, interest rates, and amounts of interest credit to the Account.

Borrower Withdrawals from Accounts

The Association may permit Borrowers to withdraw funds from the Account at the Association's discretion based on a credit review of each specific request. The Association permits up to four (4) withdrawals by Borrowers from Accounts within a calendar year.

Liquidation

Account balances are not insured. In the event of Association liquidation, all Borrowers having balances in these uninsured Accounts shall be notified according to FCA Regulations then in effect. Applicable FCA Regulations now provide that the notice shall instruct that the funds ceased earning interest when the receivership was instituted and will be applied against the outstanding indebtedness of any loans of the Borrowers unless, within 15 days notice, the Borrower provides direction to the Association to apply the funds according to existing loan documents.

Termination

If the Association terminates the Program, Account balances will be applied to the loan balance, and any remaining excess funds will be refunded to the Borrower.

FARM CREDIT SERVICES
OF WESTERN ARKANSAS, ACA

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