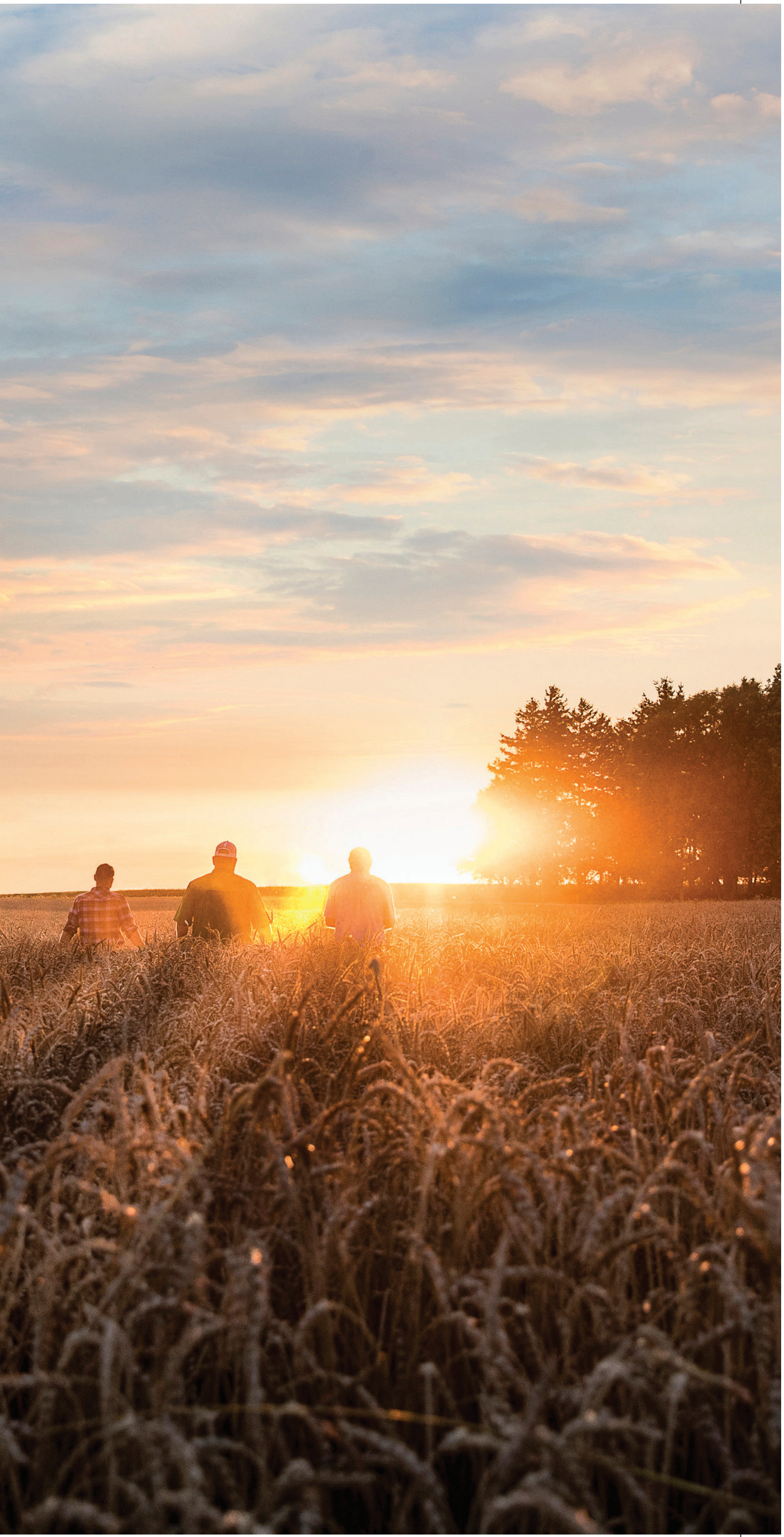

# 2022 SECOND QUARTER REPORT

AGFIRST FARM CREDIT BANK

# MEETING THE MOMENT

# *Second QUARTER 2022*

## Table of Contents



**CERTIFICATION**

The undersigned certify that we have reviewed the June 30, 2022, quarterly report of AgFirst Farm Credit Bank, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

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

Leon T. Amerson
Chief Executive Officer & President

Stephen Gilbert
Chief Financial Officer

August 8, 2022

# Report on Internal Control Over Financial Reporting

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

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

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2022. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank's management concluded that as of June 30, 2022, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank's management determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2022.

Leon T. Amerson
Chief Executive Officer & President

Stephen Gilbert
Chief Financial Officer

August 8, 2022

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) as of and for the three and six months ended June 30, 2022. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2021 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. However, the results of operations for the three and six months may not be indicative of an entire year due to the seasonal nature of a portion of AgFirst's business.

## FORWARD-LOOKING INFORMATION

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

There have been no material changes to the risks described in the Bank's 2021 Annual Report. Terms not defined herein have the meaning set forth in the 2021 Annual Report.

## FINANCIAL CONDITION

### *Loan Portfolio*

Loans outstanding totaled $29.900 billion at June 30, 2022, an increase of $1.365 billion, or 4.78 percent, compared to total loans outstanding at December 31, 2021 and an increase of $3.021 billion, or 11.24 percent, since June 30, 2021.

AgFirst's loan portfolio consists of direct loans to District Associations (Direct Notes), Capital Markets (loan participations/syndications purchased), Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to Other Financing Institutions (OFIs) as shown below:

| **Loan Portfolio** | **June 30,** | **December 31,** | **June 30,** | **June 2022 Compared to December 2021** | | **June 2022 Compared to June 2021** | |
|---|---|---|---|---|---|---|---|
| *(dollars in thousands)* | **2022** | **2021** | **2021** | **$ Change** | **% Change** | **$ Change** | **% Change** |
| Direct Notes* | $ 20,499,315 | $ 19,739,633 | $ 18,688,371 | $ 759,682 | 3.85 % | $1,810,944 | 9.69 % |
| Capital Markets* | 6,192,223 | 5,724,229 | 5,132,179 | 467,994 | 8.18 % | 1,060,044 | 20.65 % |
| Correspondent Lending | 3,037,039 | 2,912,759 | 2,909,256 | 124,280 | 4.27 % | 127,783 | 4.39 % |
| Loans to OFIs | 171,708 | 159,061 | 149,126 | 12,647 | 7.95 % | 22,582 | 15.14 % |
| Total | $ 29,900,285 | $ 28,535,682 | $ 26,878,932 | $1,364,603 | 4.78 % | $3,021,353 | 11.24 % |

| | Portfolio Distribution | | |
|---|---|---|---|
| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
| Direct Notes* | 68.56 % | 69.18 % | 69.53 % |
| Capital Markets* | 20.71 % | 20.06 % | 19.09 % |
| Correspondent Lending | 10.16 % | 10.20 % | 10.82 % |
| Loans to OFIs | 0.57 % | 0.56 % | 0.56 % |
| Total | 100.00 % | 100.00 % | 100.00 % |

**Capital Markets and Direct Notes, net of participations sold*

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

Loan growth in the combined District portfolio since December 31, 2021, was primarily due to growth in the utilities, processing, and forestry segments. Compared to June 30, 2021, the year-over-year increase in loan growth was primarily in the forestry, processing, utilities, field crops, and nursery/greenhouse segments. Growth in both periods came from a combination of factors including new client acquisition, an increase in transactions due to government initiatives to expand broadband across the United States, expansion activities within the protein complex, borrower liquidity needs due to commodity price escalation, and merger and acquisition activity. See *Direct Notes*, *Capital Markets*, and *Correspondent Lending* sections below for further discussion of loan variances.

***Credit Quality***

Credit quality of AgFirst's loans is shown below:

| | Total Loan Portfolio Credit Quality as of: | | |
|---|---|---|---|
| **Classification** | **June 30, 2022** | **December 31, 2021** | **June 30, 2021** |
| Acceptable | 99.51 % | 99.45 % | 99.37 % |
| OAEM * | 0.29 % | 0.34 % | 0.45 % |
| Substandard/doubtful/loss | 0.20 % | 0.21 % | 0.18 % |

**Other Assets Especially Mentioned.*

The table above reflects credit quality improvement during the second quarter of 2022 compared to both prior periods presented. While Bank credit quality reflects overall improvement for the current period, it may be impacted in future quarters in response to potential changes in government support for agricultural sectors, inflationary input cost pressures, rising interest rates, and unforeseen impacts from geopolitical, trade, supply chain, weather, or animal- or human-related health events. See the *Direct Notes*, *Capital Markets*, and *Correspondent Lending* sections below for further discussion of the Bank's loan portfolio and credit quality.

***Direct Notes***

AgFirst's primary business is to provide funding, operational support, and technology services to District Associations. Each Association, in addition to the Bank, is a federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration (FCA). AgFirst provides a revolving line of credit, referred to as a Direct Note, to each of the District Associations. Each of the Associations funds its lending and general corporate activities primarily by borrowing under its Direct Note. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association. Each GFA contains minimum borrowing base margin, capital, and earnings requirements that must be maintained by the Association.

At June 30, 2022, the total Direct Note volume outstanding was $20.499 billion, an increase of $759.7 million, or 3.85 percent, compared to December 31, 2021. Bank patronage payments to Associations of approximately $440.3 million reduced Association Direct Notes at the beginning of 2022. Compared to June 30, 2021, Direct Note volume increased $1.811 billion, or 9.69%. See the *Loan Portfolio* section above for the primary reasons for the change in Direct Notes.

For all periods presented, 100% of Direct Notes were classified as acceptable, no District Associations were operating under a written agreement with the FCA, and none were operating under a special credit agreement pursuant to the GFA.

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

***Capital Markets***

The Capital Markets portfolio consists of loan participations and syndications purchased primarily from other System institutions, commercial banks, and other lenders. As of June 30, 2022, this portfolio totaled $6.192 billion, an increase of $468.0 million, or 8.18 percent, from December 31, 2021, and an increase of $1.060 billion, or 20.65 percent, from June 30, 2021. The increase from December 31, 2021, was primarily due to growth in the utilities and processing segments. When compared to June 30, 2021, the growth was primarily in the processing, utilities, and forestry segments. See *Loan Portfolio* section above for further discussion of growth in the portfolio.

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

Credit quality for the Capital Markets portfolio has remained relatively stable as shown in the following chart:

| | Capital Markets Credit Quality as of: | | |
|---|---|---|---|
| **Classification** | **June 30, 2022** | **December 31, 2021** | **June 30, 2021** |
| Acceptable | 97.85 % | 97.53 % | 96.98 % |
| OAEM* | 1.40 % | 1.68 % | 2.36 % |
| Substandard/doubtful/loss | 0.75 % | 0.79 % | 0.66 % |

**Other Assets Especially Mentioned.*

***Correspondent Lending***

The Correspondent Lending portfolio consists primarily of purchased first lien residential mortgages. As of June 30, 2022, the Correspondent Lending portfolio totaled $3.037 billion, an increase of $124.3 million, or 4.27 percent, from December 31, 2021, and an increase of $127.8 million, or 4.39 percent, from June 30, 2021.

As of June 30, 2022, $658.2 million, or 21.67 percent of loans in the Correspondent Lending portfolio include a long-term standby commitment to purchase (LTSP). The LTSPs from the Federal National Mortgage Association (Fannie Mae) and/or Federal Agricultural Mortgage Corporation (Farmer Mac), give AgFirst the right to deliver delinquent loans to the guarantor at par. The balance of guaranteed loans will continue to decline as the LTSP program is no longer being utilized.

At June 30, 2022, 99.56 percent of the total Correspondent Lending loans, including accrued interest, was classified as acceptable and 0.44 percent was classified as substandard compared to 99.48 percent acceptable and 0.52 percent substandard at December 31, 2021. There were no loans classified as OAEM for the periods presented.

***Nonaccrual Loans***

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank totaled $46.9 million at June 30, 2022 compared to $35.2 million at December 31, 2021. The increase is primarily related to one large borrower relationship transitioning into nonaccrual status during the second quarter. At June 30, 2022, total nonaccrual loans were primarily classified in the rural home loan (33.44 percent of the total), utilities (23.51 percent), and field crops (22.72 percent) segments. At December 31, 2021, total nonaccrual loans were primarily classified in the rural home loan (49.17 percent of the total), utilities (31.27 percent), and tobacco (15.25 percent) segments. Nonaccrual loans were 0.16 percent and 0.12 percent of total loans outstanding at June 30, 2022 and December 31, 2021, respectively.

***Troubled Debt Restructurings***

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. TDRs totaled $42.2 million at June 30, 2022, an increase of $12.5 million since December 31, 2021 primarily as a result of loan modifications at the end of the pandemic-related forbearance programs offered by FNMA. TDRs at June 30, 2022 were comprised of $30.6 million of accruing restructured loans and $11.5 million of nonaccrual restructured loans. Restructured loans were primarily in the rural home loan (68.31 percent of the total) segment.

***Other Property Owned***

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. The Bank had no OPO at both June 30, 2022, and December 31, 2021.

***Allowance for Loan Losses***

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was $21.4 million at June 30, 2022, as compared with $20.1 million at December 31, 2021. The allowance at June 30, 2022 included specific reserves of $2.7 million (12.75 percent of the total) and general reserves of $18.7 million (87.25 percent). See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals included in the net provision expense of $1.8 million recorded during the six months ended June 30, 2022.

The total allowance at June 30, 2022 was comprised primarily of reserves for the rural home loan (27.05 percent of the total), utilities (17.27 percent), processing (15.68 percent), tree fruits and nuts (7.73 percent), forestry (6.33 percent) and field crops (5.15 percent) segments. The allowance for loan losses was 0.07 percent of total loans outstanding at both June 30, 2022, and December 31, 2021. See Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information.

***Interest Rate Risk Management***

At June 30, 2022, the Bank's twelve-month Cumulative Repricing/Maturity Gap was a $381.9 million liability sensitive position, compared to a $2.973 billion asset sensitive position at December 31, 2021. This change is primarily due to slower forecast prepayment speeds on fixed rate loans resulting from higher interest rates when compared to December 31, 2021. A liability sensitive position means the volume of repricing/maturing liabilities exceeded the volume of assets that mature or reprice during that time period, which generally implies a decrease in net interest income in rising interest rate scenarios and higher net interest income in falling interest rate scenarios. However, a gap analysis does not capture the optionality that is inherent in some of the Bank's assets and liabilities. For example, during a period of rising interest rates, call options on fixed-rate debt may not be exercised and prepayment options on fixed-rate assets also slow as the economic incentive for borrowers to refinance decreases. In contrast, during a period of falling interest rates, call options on debt may be exercised and prepayment activity on loans increases. To supplement the Repricing/Maturity Gap analysis, the Bank utilizes a financial simulation model for measuring interest rate sensitivity of net interest income and market value of equity.

The following tables represent AgFirst's projected change over the next twelve months in net interest income and market value of equity for various rate movements as of June 30, 2022. Interest rate sensitivity for net interest income and market value of equity have not changed significantly since December 31, 2021. The upward and downward shocks are generally based on movements in interest rates which are considered significant enough to capture the effects of embedded options and convexity within the assets and liabilities so that underlying risk may be revealed.

**Net Interest Income**
*(dollars in thousands)*

| Scenarios | Net Interest Income | $ Change | % Change |
|---|---|---|---|
| +4.0% Shock | $628,171 | $34,436 | 5.80% |
| +2.0% Shock | $612,332 | $18,597 | 3.13% |
| Base line * | $593,735 | — | — |
| -50% of 3M Tbill** | $588,338 | $(5,397) | (0.91)% |

**Market Value of Equity**
*(dollars in thousands)*

| Scenarios | Assets | Liabilities | Equity | $ Change | % Change |
|---|---|---|---|---|---|
| Book Value | $40,391,585 | $38,559,126 | $1,832,459 | — | — |
| +4.0% Shock | $34,626,781 | $33,344,492 | $1,282,289 | $(441,824) | (25.63)% |
| +2.0% Shock | $36,411,004 | $34,956,927 | $1,454,077 | $(270,036) | (15.66)% |
| Base line * | $38,468,697 | $36,744,584 | $1,724,113 | — | — |
| -50% of 3M Tbill** | $39,417,447 | $37,519,716 | $1,897,731 | $173,618 | 10.07% |

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

** *When the three-month Treasury bill interest rate is less than 4 percent, both the minus 200 and minus 400 basis point shocks are replaced with a downward shock which is equal to one-half of the three-month Treasury bill rate. At June 30, 2022, this downward shock was (85) basis points.*

### *LIBOR Transition*

The Bank and Associations have exposure to LIBOR arising from loans made to customers, investment securities purchased, and Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf.

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

The Bank and Associations have implemented LIBOR transition plans and continue to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks. See the Bank's 2021 Annual Report for further discussion on the LIBOR transition.

The following is a summary of Bank variable-rate financial instruments outstanding with LIBOR exposure at period end:

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| *(dollars in millions)* | Due Before June 30, 2023 | Due After June 30, 2023 | Total | % Due After June 30, 2023 to Balance Sheet Line Item | % Without fallback provisions |
| Investments | $ — | $ 870 | $ 870 | 9.4% | 0.2% |
| Loans | 191 | 2,704 | 2,895 | 9.0% | 0.9% |
| Total Assets | $ 191 | $ 3,574 | $ 3,765 | 8.8% | 0.7% |
| Systemwide debt securities | $ 235 | $ — | $ 235 | N/A | N/A |
| Total Liabilities and Equity | $ 235 | $ — | $ 235 | N/A | N/A |

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| *(dollars in millions)* | Due Before June 30, 2023 | Due After June 30, 2023 | Total | % Due After June 30, 2023 to Balance Sheet Line Item | % Without fallback provisions |
| Investments | $ — | $ 1,022 | $ 1,022 | 10.9% | 0.2% |
| Loans | 314 | 3,115 | 3,429 | 10.9% | 1.2% |
| Total Assets | $ 314 | $ 4,137 | $ 4,451 | 10.5% | 0.9% |
| Systemwide debt securities | $ 310 | $ — | $ 310 | N/A | N/A |
| Preferred stock | — | 33 | 33 | 100.0% | 100.0% |
| Total Liabilities and Equity | $ 310 | $ 33 | $ 343 | 0.1% | 0.1% |

The Bank is evaluating all variable rate instruments and actively monitoring LIBOR exposure of the financial instruments listed in the table above as part of its LIBOR transition Plan (Plan). The Plan includes implementing fallback language into variable-rate financial instruments which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. A large portion of the Bank's loans that have exposure to LIBOR are purchased from other financial institutions and the Bank is dependent on the other financial institutions to perform the borrower negotiations.

In accordance with the Plan, remaining outstanding shares of the Bank's preferred stock were redeemed on June 15, 2022. See further discussion of the perpetual preferred stock in the 2021 Annual Report.

The following is a summary of total Association variable-rate financial instruments outstanding with LIBOR exposure at period end:

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| *(dollars in millions)* | Due Before June 30, 2023 | Due After June 30, 2023 | Total | % Due After June 30, 2023 to Balance Sheet Line Item | % Without fallback provisions |
| Loans | $ 93 | $ 1,326 | $ 1,419 | 4.9% | 0.5% |
| Total Assets | $ 93 | $ 1,326 | $ 1,419 | 4.8% | 0.4% |

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| *(dollars in millions)* | Due Before June 30, 2023 | Due After June 30, 2023 | Total | % Due After June 30, 2023 to Balance Sheet Line Item | % Without fallback provisions |
| Loans | $ 168 | $ 1,598 | $ 1,766 | 6.1% | 0.8% |
| Total Assets | $ 168 | $ 1,598 | $ 1,766 | 5.9% | 0.8% |

### *Liquidity and Funding Sources*

One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. Along with normal cash flows associated with lending operations, AgFirst has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Funding Corporation; and cash and investments.

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

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

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

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

At June 30, 2022, AgFirst had $38.393 billion in total debt outstanding compared to $36.357 billion at December 31, 2021, an increase of $2.0 billion, or 5.60 percent.

To mitigate the risk of a disruption in the Bank's ability to issue debt securities, the Bank has investment securities repurchase agreements in place with several commercial banks for commitments totaling approximately $6.050 billion. A standard repurchase agreement involves the acquisition of immediately available funds through the sale of securities with a simultaneous commitment to repurchase the same securities on a certain date within one year at a specified price, including interest at an agreed upon rate. In addition, the System has established lines of credit in the event contingency funding is needed to meet obligations of System banks.

Cash and cash equivalents, which decreased $155.3 million from December 31, 2021 to a total of $870.0 million at June 30, 2022, consist primarily of cash on deposit and money market securities that are short-term in nature (maturities of overnight to 90 days). Incremental movements in cash and cash equivalents balances between reporting periods are due primarily to changes in liquidity needs.

Investments in debt securities totaled $9.246 billion, or 22.89 percent of total assets at June 30, 2022, compared to $9.337 billion, or 23.77 percent as of December 31, 2021, a decrease of $90.3 million, or 0.97 percent. The majority of investments, $9.231 billion as of June 30, 2022, are classified as being available for sale. Available-for-sale investments at June 30, 2022 included $139.5 million in U.S. Treasury securities, $4.283 billion in U.S. government guaranteed securities, $4.480 billion in U.S. government agency guaranteed securities, and $328.4 million in non-agency asset-backed securities. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited. See Note 3, *Investments*, in the Notes to the Financial Statements for further information regarding types of securities that may be held under applicable FCA guidelines.

Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines which provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its quarterly average daily balance of loans outstanding. Based upon FCA guidelines, at June 30, 2022, the Bank's eligible available-for-sale investments were 34.01 percent of its quarterly average daily balance of loans outstanding.

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

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

At June 30, 2022, AgFirst met each of the individual level criteria above and had a total of 241 days of maturing debt coverage compared to 235 days at December 31, 2021. The increase resulted primarily from a change in the timing of upcoming debt maturities. Cash provided by the Bank's operating activities is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

See Note 3, *Investments*, and Note 4, *Debt*, in the Notes to the Financial Statements for further information.

### *Capital*

Total shareholders' equity decreased $470.3 million, or 20.42 percent, from December 31, 2021 to $1.832 billion at June 30, 2022. This decrease is primarily attributed to a decrease in unrealized gains on investments of $652.3 million due to an increase in interest rates which decreased the fair value of existing available-for-sale fixed-rate investment securities and redemption of perpetual preferred stock of $32.5 million occurred in June 2022 (see *Future of LIBOR* section above). These decreases were partially offset by an increase in retained earnings from net income of $216.3 million.

### *Regulatory Capital Ratios*

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. The requirements are determined by regulatory ratios as defined by the FCA.

AgFirst's regulatory ratios are shown in the following table:

| | Regulatory Minimum, Including Buffer* | 6/30/22 | 12/31/21 | 6/30/21 |
|---|---|---|---|---|
| Permanent Capital Ratio | 7.00 % | 15.64 % | 18.73 % | 18.34 % |
| Common Equity Tier 1 (CET1) Capital Ratio | 7.00 % | 15.44 % | 18.47 % | 18.01 % |
| Tier 1 Capital Ratio | 8.50 % | 15.62 % | 18.70 % | 18.31 % |
| Total Regulatory Capital Ratio | 10.50 % | 15.76 % | 18.85 % | 18.46 % |
| Tier 1 Leverage Ratio** | 5.00 % | 5.97 % | 6.87 % | 6.54 % |
| Unallocated Retained Earnings (URE) and URE Equivalents | 1.50 % | 5.15 % | 6.09 % | 5.71 % |

** Includes full capital conservation buffers.*
*** The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

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

For all periods presented, AgFirst exceeded minimum regulatory requirements for all of the ratios. The Bank's capital ratios declined at June 30, 2022 compared to December 31, 2021 and June 30, 2021 due primarily to the declaration of 2021 cash patronage of $463.6 million on December 31, 2021, which represented approximately 95.38 percent of 2021 net income. Because the capital ratios are calculated using a three-month average daily balance, the full impact of this reduction in capital was not present in the year-end ratios. Additionally, the increase in total assets and risk-weighted assets contributed to the decrease when comparing to both December 31, 2021, and June 30, 2021.

## RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2022, was $216.3 million compared to $240.4 million for the six months ended June 30, 2021, a decrease of $24.1 million, or 10.04 percent. Net income for the three months ended June 30, 2022, was $103.6 million compared to $116.6 million for the three months ended June 30, 2021, a decrease of $12.9 million, or 11.11 percent. See below for further discussion of the change in net income by major components.

***Key Results of Operations Comparisons***

| | Annualized for the Six Months Ended June 30, 2022 | For the Year Ended December 31, 2021 | Annualized for the Six Months Ended June 30, 2021 |
|---|---|---|---|
| Return on average assets | 1.11 % | 1.31 % | 1.33 % |
| Return on average shareholders' equity | 20.71 % | 18.33 % | 18.98 % |
| Net interest margin | 1.62 % | 1.78 % | 1.83 % |
| Operating expense as a percentage of net interest income and noninterest income | 33.18 % | 28.22 % | 27.60 % |
| Net (charge-offs) recoveries to average loans | 0.00 % | (0.01)% | 0.03 % |

The annualized return on average assets, net interest margin, and operating expense as a percentage of net interest income and noninterest income were all negatively impacted by lower net interest spread (i.e. the difference between the yield on earning assets and the cost of interest-bearing liabilities) for the first six months of 2022 compared to the same period in 2021 and to the year ended December 31, 2021. Despite lower net income, the return on average shareholder's equity was higher primarily due to the reduction in total shareholder's equity as discussed in the *Capital* section. For the operating expense as a percentage of net interest income and noninterest expense ratio, operating expense consists of noninterest expenses excluding losses (gains) from other property owned. The operating expense as a percentage of net interest income and noninterest income ratio was also negatively impacted by higher other operating expense discussed in the *Noninterest Expenses* section below.

Net (charge-offs) recoveries were minimal for all periods presented.

See *Allowance for Loan Losses*, *Net Interest Income*, *Noninterest Income*, and *Noninterest Expenses* sections for further discussion.

***Net Interest Income***

Net interest income for the three months ended June 30, 2022, was $152.9 million compared to $160.6 million for the same period of 2021, a decrease of $7.7 million or 4.81 percent. Net interest income for the six months ended June 30, 2022, was $308.8 million compared to $321.3 million for the same period of 2021, a decrease of $12.5 million, or 3.89 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.57 percent and 1.62 percent, for the three and six months ended June 30, 2022, decreases of 22 and 20 basis points, respectively, compared to the same period in the prior year. The decreases in net interest income were primarily the result of higher rates and volume of interest-bearing liabilities, which were partially offset by higher yields and volume of interest earning assets.

The COVID-19 impact on interest rates provided the Bank opportunities to call and replace a significant volume of debt during 2020 and, to a lesser extent, during 2021. Exercising the call options and replacing the called debt with bonds generally having a similar maturity, resulted in a significant decrease in the cost of interest-bearing liabilities as compared to the yield on the assets funded by those liabilities. Over time, the inflated spread between the yield on earning assets and the cost of interest-bearing liabilities will return to a more normal level. The decrease in net interest income as compared to prior periods reflects this return toward a more normalized relationship between the yield on earning assets and the spread on bearing liabilities, partially offset by an increase in interest-earning asset volume.

The effects of changes in volume and interest rates on net interest income for the three and six months ended June 30, 2022, as compared with the corresponding period in 2021, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

| | For the Three Months Ended June 30, 2022 vs. June 30, 2021 | | | For the Six Months Ended June 30, 2022 vs. June 30, 2021 | | |
|---|---|---|---|---|---|---|
| | Increase (decrease) due to changes in: | | | Increase (decrease) due to changes in: | | |
| *(dollars in thousands)* | **Volume** | **Rate** | **Total** | **Volume** | **Rate** | **Total** |
| Interest Income: | | | | | | |
| Loans | $ 19,650 | $ 13,356 | $ 33,006 | $ 35,908 | $ 10,516 | $ 46,424 |
| Investments & Cash Equivalents | 1,067 | 8,920 | 9,987 | 3,088 | 11,856 | 14,944 |
| Other | 2 | 203 | 205 | 3 | 214 | 217 |
| Total Interest Income | 20,719 | 22,479 | 43,198 | 38,999 | 22,586 | 61,585 |
| Interest Expense: | | | | | | |
| Interest-Bearing Liabilities | 9,293 | 41,624 | 50,917 | 13,530 | 60,560 | 74,090 |
| Changes in Net Interest Income | $ 11,426 | $ (19,145) | $ (7,719) | $ 25,469 | $ (37,974) | $ (12,505) |

***Provision for Loan Losses***

AgFirst measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. Loan loss provision was a net expense of $562 thousand and $1.8 million for the three and six months ended June 30, 2022, respectively, compared to a net expense of $831 thousand and $1.9 million, respectively, for the corresponding periods in 2021.

For the three and six months ended June 30, 2022, the provision for loan losses included provision expense for specific reserves of $121 thousand and $1.0 million, respectively, and provision expense for general reserves of $441 thousand and $799 thousand, respectively.  Total net provision expense for the three months ended June 30, 2022, primarily related to provision expense for borrowers in the utilities ($340 thousand) segment.  Total provision expense for the six months ended June 30, 2022, primarily related to provision expense for borrowers in the rural home loan ($1.2 million) segment.

For the three and six months ended June 30, 2021, the provision for loan losses included net provision expense for specific reserves of $2.6 million and $2.9 million, respectively, and net provision reversals for general reserves of $1.8 million and $1.0 million, respectively. Total net provision expense for the three months ended June 30, 2021 primarily related to provision expense for borrowers in the utilities ($1.5 million) and tobacco ($211 thousand) segments, partially offset by provision reversals in the nursery/greenhouse ($278 thousand) and forestry ($180 thousand) segments. For the six-month period in 2021, the net provision expense primarily related to provision expense for borrowers in the utilities ($2.4 million), processing ($186 thousand), and tobacco ($170 thousand) segments, partially offset by provision reversals in the forestry ($642 thousand), rural home loan ($189 thousand), and nursery/greenhouse ($153 thousand) segments.

See the *Allowance for Loan Losses* section above and Note 2, *Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for further information.

### *Noninterest Income*

The following table illustrates the changes in noninterest income:

| **Change in Noninterest Income** | **For the Three Months Ended June 30,** | | | **For the Six Months Ended June 30,** | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | **2022** | **2021** | **Increase/ (Decrease)** | **2022** | **2021** | **Increase/ (Decrease)** |
| Loan fees | $ 3,748 | $ 3,184 | $ 564 | $ 6,714 | $ 6,212 | $ 502 |
| Gains on investments, net | — | 330 | (330) | — | 330 | (330) |
| Gains (losses) on debt extinguishment | 56 | (2,614) | 2,670 | 56 | (4,834) | 4,890 |
| (Losses) gains on other transactions | (863) | 1,238 | (2,101) | (182) | 2,474 | (2,656) |
| Patronage refunds from other Farm Credit institutions | 3,640 | 716 | 2,924 | 6,015 | 5,117 | 898 |
| Other noninterest income | 1,951 | 2,121 | (170) | 5,019 | 4,137 | 882 |
| Total noninterest income | $ 8,532 | $ 4,975 | $ 3,557 | $ 17,622 | $ 13,436 | $ 4,186 |

For the three and six months ended June 30, 2022 compared to the corresponding periods in 2021, noninterest income increased $3.6 million and $4.2 million, respectively. Significant line-item dollar variances are discussed below.

Debt issuance expense is amortized into interest expense over the contractual life of the underlying debt security. Debt is called to take advantage of favorable market interest rate changes. When debt securities are called prior to maturity, any unamortized issuance cost is expensed through gains (losses) on debt extinguishment. The amount of issuance cost expensed when a bond is called is dependent upon both the size and remaining maturity of the bond when called. Losses on called debt are more than offset by interest expense savings realized over the life of the replacement debt. There were no call options exercised on bonds during the three and six months ended 2022 due to the rising interest rate environment compared to $2.670 billion and $5.361 billion for the three and six months ended June 30, 2021, respectively. Despite not exercising any call options on bonds during 2022, the Bank repurchased and subsequently cancelled one discount note that resulted in $56 thousand in gains during the second quarter of 2022. Accordingly, losses on debt extinguishment decreased $2.7 million and $4.9 million for the three and six months ended June 30, 2022, compared to the same period in 2021. See *Net Interest Income* section above for further discussion.

For the three months ended June 30, 2022, the increase in patronage refunds from other Farm Credit institutions was primarily due to the timing of 2022 patronage refunds from Associations compared to 2021. Patronage from other System institutions, including Associations, reflects distributions of earnings on loans sold by AgFirst to those institutions.

For the three and six months ended June 30, 2022, net losses on other transactions were $863 thousand and $182 thousand, respectively, compared to net gains of $1.2 million and $2.5 million for the corresponding periods in the prior year. The decreases in both the three and six months ended June 30, 2022, were primarily due to decreases in the market value of certain nonqualified retirement plan trust assets of $2.3 million and $3.7 million, respectively.

***Noninterest Expenses***

The following table illustrates the changes in noninterest expenses:

| **Change in Noninterest Expenses** | **For the Three Months Ended June 30,** | | | **For the Six Months Ended June 30,** | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | **2022** | **2021** | **Increase/ (Decrease)** | **2022** | **2021** | **Increase/ (Decrease)** |
| Salaries and employee benefits | $ 18,837 | $ 20,157 | $ (1,320) | $ 37,710 | $ 39,877 | $ (2,167) |
| Occupancy and equipment | 1,701 | 1,719 | (18) | 3,557 | 3,553 | 4 |
| Insurance Fund premiums | 7,847 | 4,458 | 3,389 | 12,810 | 8,790 | 4,020 |
| Purchased services | 14,711 | 9,584 | 5,127 | 27,808 | 17,172 | 10,636 |
| Data processing | 7,886 | 6,628 | 1,258 | 14,854 | 12,096 | 2,758 |
| Other operating expenses | 6,282 | 5,613 | 669 | 11,565 | 10,907 | 658 |
| Losses from other property owned | — | 52 | (52) | — | 19 | (19) |
| Total noninterest expenses | $ 57,264 | $ 48,211 | $ 9,053 | $ 108,304 | $ 92,414 | $ 15,890 |

Noninterest expenses for the three and six months ended June 30, 2022, increased $9.1 million and $15.9 million compared to the corresponding periods in 2021. Significant line-item dollar variances are discussed below.

Salaries and employee benefits decreased $2.2 million for the six months ended June 30, 2022. The decrease is primarily attributed to a $1.7 million expense reduction resulting from a decrease in the market value of nonqualified benefit plan assets and a $1.4 million reduction in pension expenses stemming from large lump sum payments made in the fourth quarter of 2021 to individuals that reduced the projected benefit obligations.

Insurance Fund premiums increased $3.4 million and $4.0 million for the three and six months ended June 30, 2022, respectively, compared to the same periods in 2021. The increases resulted primarily due to an increase in the premium assessment rate from 16 basis points in 2021 to 20 basis points in 2022. The second quarter increase includes a retroactive increase from 16 to 20 basis points in the premium rate to the beginning of the year that was communicated by FCSIC in June.

The Bank operates as the centralized service provider for the District Associations which results in costs incurred at the Bank that are expected to be offset through efficiencies gained at District Associations. As a result of significant technology initiatives, purchased services increased by $5.1 million and $10.6 million for the three and six months ended June 30, 2022, respectively, when compared to the same periods in the prior year. In addition, data processing expenses increased $2.8 million for the six months ended June 30, 2022, compared to the same period in 2021. The increase resulted primarily from higher software depreciation and maintenance costs.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2021 Annual Report of AgFirst Farm Credit Bank for recently adopted accounting pronouncements. Additional information on new and pending Updates is provided in the following table.

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

| Summary of Guidance | Adoption and Potential Financial Statement Impact |
|---|---|
| ***Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*** | |
| • Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets.<br>• Changes the present incurred loss impairment guidance for loans to an expected loss model.<br>• Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.<br>• Eliminates existing guidance for purchased credit impaired (PCI) loans and requires recognition of an allowance for expected credit losses on these financial assets.<br>• Eliminates the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan.<br>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.<br>• Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted. | • Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance.<br>• The new guidance is expected to result in a change in allowance for credit losses due to several factors, including:<br>1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,<br>2. An allowance will be established for estimated credit losses on any debt securities,<br>3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.<br>• The extent of the increase which depends upon the nature and characteristics of the Bank's portfolio, and the macroeconomic conditions and forecasts at that date is under evaluation.<br>• The guidance will be adopted January 1, 2023. |

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**NOTE:** Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, Controller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank's website, *www.agfirst.com*. AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

## REGULATORY MATTERS

On April 14, 2022, the FCA approved a final rule that amends certain regulations to address changes in accounting principles generally accepted in the United States. Such changes reflect the Current Expected Credit Losses (CECL) methodology that will replace the incurred loss methodology upon adoption. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. The regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. In addition, the regulation does not include an exclusion for the CECL day 1 cumulative effective adjustment from the "safe harbor" deemed prior approval provision. The rule will be effective on January 1, 2023.

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

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

# Balance Sheets

| *(dollars in thousands)* | June 30, 2022 | December 31, 2021 |
|---|---|---|
| | *(unaudited)* | *(audited)* |
| **Assets** | | |
| Cash | **$ 570,012** | $ 625,288 |
| Cash equivalents | **300,000** | 400,000 |
| Investments in debt securities: | | |
| Available-for-sale (amortized cost of $9,861,282 and $9,295,565, respectively) | **9,230,969** | 9,317,572 |
| Held-to-maturity (fair value of $15,700 and $21,632, respectively) | **15,394** | 19,133 |
| Total investments in debt securities | **9,246,363** | 9,336,705 |
| Loans | **29,900,285** | 28,535,682 |
| Allowance for loan losses | **(21,383)** | (20,147) |
| Net loans | **29,878,902** | 28,515,535 |
| Accrued interest receivable | **97,541** | 84,532 |
| Accounts receivable | **74,770** | 110,935 |
| Equity investments in other Farm Credit institutions | **85,090** | 84,922 |
| Premises and equipment, net | **100,998** | 83,891 |
| Other assets | **37,909** | 32,746 |
| Total assets | **$ 40,391,585** | $ 39,274,554 |
| **Liabilities** | | |
| Systemwide bonds payable | **$ 33,946,893** | $ 31,440,802 |
| Systemwide notes payable | **4,445,969** | 4,915,969 |
| Accrued interest payable | **75,892** | 40,941 |
| Accounts payable | **46,050** | 525,841 |
| Other liabilities | **44,322** | 48,221 |
| Total liabilities | **38,559,126** | 36,971,774 |
| Commitments and contingencies (Note 8) | | |
| **Shareholders' Equity** | | |
| Perpetual preferred stock | — | 32,500 |
| Capital stock and participation certificates | **299,131** | 299,131 |
| Additional paid-in-capital | **63,668** | 63,673 |
| Retained earnings | | |
| Allocated | **413** | 416 |
| Unallocated | **2,102,637** | 1,888,462 |
| Accumulated other comprehensive (loss) income | **(633,390)** | 18,598 |
| Total shareholders' equity | **1,832,459** | 2,302,780 |
| Total liabilities and equity | **$ 40,391,585** | $ 39,274,554 |

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

# Statements of Comprehensive Income

*(unaudited)*

| *(dollars in thousands)* | For the Three Months Ended June 30, 2022 | For the Three Months Ended June 30, 2021 | For the Six Months Ended June 30, 2022 | For the Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| **Interest Income** | | | | |
| Investments | **$ 42,073** | $ 32,086 | **$ 78,535** | $ 63,591 |
| Loans | **205,058** | 172,052 | **386,945** | 340,521 |
| Other | **225** | 20 | **257** | 40 |
| Total interest income | **247,356** | 204,158 | **465,737** | 404,152 |
| **Interest Expense** | **94,454** | 43,537 | **156,908** | 82,818 |
| Net interest income | **152,902** | 160,621 | **308,829** | 321,334 |
| Provision for allowance for loan losses | **562** | 831 | **1,839** | 1,915 |
| Net interest income after provision for allowance for loan losses | **152,340** | 159,790 | **306,990** | 319,419 |
| **Noninterest Income** | | | | |
| Loan fees | **3,748** | 3,184 | **6,714** | 6,212 |
| Gains on investments, net | **—** | 330 | **—** | 330 |
| Gains (losses) on debt extinguishment | **56** | (2,614) | **56** | (4,834) |
| (Losses) gains on other transactions | **(863)** | 1,238 | **(182)** | 2,474 |
| Patronage refunds from other Farm Credit institutions | **3,640** | 716 | **6,015** | 5,117 |
| Other noninterest income | **1,951** | 2,121 | **5,019** | 4,137 |
| Total noninterest income | **8,532** | 4,975 | **17,622** | 13,436 |
| **Noninterest Expenses** | | | | |
| Salaries and employee benefits | **18,837** | 20,157 | **37,710** | 39,877 |
| Occupancy and equipment | **1,701** | 1,719 | **3,557** | 3,553 |
| Insurance Fund premiums | **7,847** | 4,458 | **12,810** | 8,790 |
| Purchased services | **14,711** | 9,584 | **27,808** | 17,172 |
| Data processing | **7,886** | 6,628 | **14,854** | 12,096 |
| Other operating expenses | **6,282** | 5,613 | **11,565** | 10,907 |
| Losses from other property owned | **—** | 52 | **—** | 19 |
| Total noninterest expenses | **57,264** | 48,211 | **108,304** | 92,414 |
| **Net income** | **$ 103,608** | $ 116,554 | **$ 216,308** | $ 240,441 |
| **Other comprehensive (loss) income:** | | | | |
| Unrealized (losses) gains on investments | **(270,936)** | 48,993 | **(652,320)** | (45,460) |
| Change in value of cash flow hedges | **(9)** | (24) | **(18)** | (41) |
| Employee benefit plans adjustments | **175** | 212 | **350** | 425 |
| Other comprehensive (loss) income (Note 5) | **(270,770)** | 49,181 | **(651,988)** | (45,076) |
| **Comprehensive (loss) income** | **$ (167,162)** | $ 165,735 | **$ (435,680)** | $ 195,365 |

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

# Statements of Changes in Shareholders' Equity

*(unaudited)*

| *(dollars in thousands)* | Perpetual Preferred Stock | Capital Stock and Participation Certificates | Additional Paid-In-Capital | Retained Earnings Allocated | Retained Earnings Unallocated | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2020 | $ 49,250 | $ 311,859 | $ 58,883 | $ 416 | $ 1,871,594 | $ 185,862 | $ 2,477,864 |
| Comprehensive income (loss) | | | | | 240,441 | (45,076) | 195,365 |
| Redemption of perpetual preferred stock (Note 5) | (9,750) | | 3,022 | | | | (6,728) |
| Dividends paid on perpetual preferred stock | | | | | (301) | | (301) |
| Patronage distribution adjustment | | | | | (1,063) | | (1,063) |
| Balance at June 30, 2021 | $ 39,500 | $ 311,859 | $ 61,905 | $ 416 | $ 2,110,671 | $ 140,786 | $ 2,665,137 |
| Balance at December 31, 2021 | $ 32,500 | $ 299,131 | $ 63,673 | $ 416 | $ 1,888,462 | $ 18,598 | $ 2,302,780 |
| **Comprehensive income (loss)** | | | | | **216,308** | **(651,988)** | **(435,680)** |
| **Redemption of perpetual preferred stock (Note 5)** | **(32,500)** | | **(5)** | | | | **(32,505)** |
| **Dividends paid on perpetual preferred stock** | | | | | **(271)** | | **(271)** |
| **Retained earnings retired** | | | | **(3)** | | | **(3)** |
| **Patronage distribution adjustment** | | | | | **(1,862)** | | **(1,862)** |
| **Balance at June 30, 2022** | **$ —** | **$ 299,131** | **$ 63,668** | **$ 413** | **$ 2,102,637** | **$ (633,390)** | **$ 1,832,459** |

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

# Statements of Cash Flows

*(unaudited)*

| *(dollars in thousands)* | For the Six Months Ended June 30, 2022 | 2021 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | **$ 216,308** | **$ 240,441** |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation on premises and equipment | **7,985** | **6,367** |
| Amortization of net deferred loan costs and premium amortization | **989** | **4,983** |
| Premium amortization on investment securities | **5,799** | **10,819** |
| Discount accretion on bonds and notes | **16,168** | **9,587** |
| Provision for loan losses | **1,839** | **1,915** |
| Losses on other property owned, net | — | **(41)** |
| Gains on investments, net | — | **(330)** |
| (Gains) losses on debt extinguishment | **(56)** | **4,834** |
| Losses (gains) on other transactions | **182** | **(2,474)** |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accrued interest receivable | **(13,009)** | **122** |
| Decrease in accounts receivable | **36,165** | **45,755** |
| Increase in accrued interest payable | **34,951** | **5,595** |
| Decrease in accounts payable | **(16,236)** | **(5,418)** |
| Change in other, net | **(8,932)** | **(1,897)** |
| Total adjustments | **65,845** | **79,817** |
| Net cash provided by operating activities | **282,153** | **320,258** |
| **Cash flows from investing activities:** | | |
| Investment securities purchased | **(1,877,755)** | (1,985,905) |
| Proceeds from maturities and prepayments of investment securities | **1,309,960** | 1,355,466 |
| Proceeds from sales of investment securities | — | 44,224 |
| Net increase in loans | **(1,366,195)** | (659,821) |
| Increase in equity investments in other Farm Credit System institutions | **(168)** | (629) |
| Net increase in premises and equipment | **(25,085)** | (12,638) |
| Proceeds from sale of premises and equipment | **31** | 25 |
| Proceeds from sale of other property owned | — | 280 |
| Net cash used in investing activities | **(1,959,212)** | (1,258,998) |
| **Cash flows from financing activities:** | | |
| Bonds and notes issued | **10,601,979** | 15,079,452 |
| Bonds and notes retired | **(8,582,000)** | (14,240,000) |
| Redemption of perpetual preferred stock | **(32,505)** | (6,728) |
| Distribution to shareholders | **(465,417)** | (391,292) |
| Dividends paid on perpetual preferred stock | **(271)** | (301) |
| Retained earnings retired | **(3)** | — |
| Net cash provided by financing activities | **1,521,783** | 441,131 |
| Net decrease in cash and cash equivalents | **(155,276)** | (497,609) |
| Cash and cash equivalents, beginning of period | **1,025,288** | 1,213,685 |
| Cash and cash equivalents, end of period | **$ 870,012** | $ 716,076 |
| **Supplemental schedule of non-cash activities:** | | |
| Receipt of property in settlement of loans | **$ —** | $ 392 |
| Change in unrealized losses on investments, net | **(652,320)** | (45,460) |
| Employee benefit plans adjustments | **(350)** | (425) |
| **Supplemental information:** | | |
| Interest paid | **$ 105,790** | $ 67,636 |

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

# Notes to the Financial Statements

*(unaudited)*

**Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements**

***Organization***

The accompanying financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank). AgFirst and its related Agricultural Credit Associations (Associations or District Associations) are collectively referred to as the AgFirst District (District). A complete description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the Bank as of and for the year ended December 31, 2021, are contained in the 2021 Annual Report to Shareholders. These unaudited interim financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Following approval by AgFirst, the FCA, and shareholders, effective July 1, 2022, MidAtlantic Farm Credit, ACA and AgChoice Farm Credit, ACA merged to form Horizon Farm Credit, ACA. Combined total assets for these two Associations approximate $5.9 billion.

On April 11, 2022, the boards of AgCarolina Farm Credit, ACA and Cape Fear Farm Credit, ACA announced intentions to pursue a merger. The Associations, with combined total assets of $2.4 billion, anticipate a merger date of January 1, 2023, subject to receiving all regulatory and shareholder approvals required.

On May 25, 2022, the boards of Carolina Farm Credit, ACA and AgSouth Farm Credit, ACA announced intentions to pursue a merger. The Associations, with combined total assets of $4.0 billion, anticipate a merger date of April 1, 2023, subject to receiving all regulatory and shareholder approvals required.

The merger activities listed above have not and are not expected to have a material impact on the Bank's Balance Sheet and Results of Operations.

***Basis of Presentation***

In the opinion of management, the accompanying financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

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

The results of any interim period are not necessarily indicative of those to be expected for a full year.

***Significant Accounting Policies***

The Bank's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

***Accounting Standards Effective During the Period***
There were no changes in the accounting principles applied from the latest Annual Report.

## Note 2 — Loans and Allowance for Loan Losses

A summary of loans outstanding at period end follows:

| *(dollars in thousands)* | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Direct Notes | $ 20,499,315 | $ 19,739,633 |
| Real estate mortgage | 1,149,552 | 1,153,729 |
| Production and intermediate-term | 962,752 | 1,032,288 |
| Loans to cooperatives | 716,182 | 527,118 |
| Processing and marketing | 1,809,487 | 1,680,782 |
| Farm-related business | 105,166 | 79,888 |
| Communication | 606,910 | 545,699 |
| Power and water/waste disposal | 883,222 | 748,563 |
| Rural residential real estate | 2,917,234 | 2,784,761 |
| International | 73,316 | 76,739 |
| Lease receivables | 428 | 2,273 |
| Loans to other financing institutions (OFIs) | 171,708 | 159,061 |
| Other (including Mission Related) | 5,013 | 5,148 |
| Total loans | $ 29,900,285 | $ 28,535,682 |

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations (Direct Notes). These notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore, the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly. The risk funds of an Association, including both capital and the allowance for loan losses, also protect the interest of the Bank.

The Bank may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. During the first six months of 2022, the Bank purchased $342.7 million of residential mortgage loans from various Farm Credit System (System) associations and sold $626 thousand from the portfolio. These amounts are not included in the table below. The following tables present the principal balance of participation loans at periods ended:

| | June 30, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Within AgFirst District | | Within Farm Credit System | | Outside Farm Credit System | | Total | |
| *(dollars in thousands)* | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Direct Notes | $ — | $ — | $ — | $ 1,284,313 | $ — | $ — | $ — | $ 1,284,313 |
| Real estate mortgage | 1,074,014 | 248,237 | 428,172 | 223,855 | 8,983 | — | 1,511,169 | 472,092 |
| Production and intermediate-term | 788,578 | 305,644 | 594,560 | 261,086 | 147,723 | — | 1,530,861 | 566,730 |
| Loans to cooperatives | — | 106,461 | 823,729 | — | — | — | 823,729 | 106,461 |
| Processing and marketing | 642,680 | 618,779 | 841,473 | 473,531 | 1,420,236 | — | 2,904,389 | 1,092,310 |
| Farm-related business | 73,989 | 7,002 | 15,000 | — | 23,250 | — | 112,239 | 7,002 |
| Communication | — | 201,804 | 810,173 | — | — | — | 810,173 | 201,804 |
| Power and water/waste disposal | — | 28,553 | 913,460 | — | — | — | 913,460 | 28,553 |
| International | — | 37,465 | 110,919 | — | — | — | 110,919 | 37,465 |
| Lease receivables | — | — | 428 | — | — | — | 428 | — |
| Other (including Mission Related) | 5,052 | — | — | — | — | — | 5,052 | — |
| Total | $ 2,584,313 | $ 1,553,945 | $ 4,537,914 | $ 2,242,785 | $ 1,600,192 | $ — | $ 8,722,419 | $ 3,796,730 |

| | December 31, 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Within AgFirst District | | Within Farm Credit System | | Outside Farm Credit System | | Total | |
| *(dollars in thousands)* | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Direct Notes | $ — | $ — | $ — | $ 1,207,458 | $ — | $ — | $ — | $ 1,207,458 |
| Real estate mortgage | 1,094,172 | 264,859 | 417,944 | 222,116 | 9,167 | — | 1,521,283 | 486,975 |
| Production and intermediate-term | 938,030 | 326,938 | 599,514 | 339,299 | 163,456 | — | 1,701,000 | 666,237 |
| Loans to cooperatives | — | 82,727 | 611,092 | — | — | — | 611,092 | 82,727 |
| Processing and marketing | 619,044 | 491,104 | 742,446 | 394,633 | 1,231,307 | 23,209 | 2,592,797 | 908,946 |
| Farm-related business | 68,074 | 3,127 | 15,000 | — | — | — | 83,074 | 3,127 |
| Communication | — | 124,573 | 671,467 | — | — | — | 671,467 | 124,573 |
| Power and water/waste disposal | — | 27,564 | 777,742 | — | — | — | 777,742 | 27,564 |
| International | — | 37,465 | 114,375 | — | — | — | 114,375 | 37,465 |
| Lease receivables | — | — | 2,273 | — | — | — | 2,273 | — |
| Other (including Mission Related) | 5,189 | — | — | — | — | — | 5,189 | — |
| Total | $ 2,724,509 | $ 1,358,357 | $ 3,951,853 | $ 2,163,506 | $ 1,403,930 | $ 23,209 | $ 8,080,292 | $ 3,545,072 |

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

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Direct Notes:** | | |
| Acceptable | 100.00 % | 100.00 % |
| OAEM | — | — |
| Substandard/doubtful/loss | — | — |
| | 100.00 % | 100.00 % |
| **Real estate mortgage:** | | |
| Acceptable | 97.68 % | 96.89 % |
| OAEM | 2.04 | 2.68 |
| Substandard/doubtful/loss | 0.28 | 0.43 |
| | 100.00 % | 100.00 % |
| **Production and intermediate-term:** | | |
| Acceptable | 94.22 % | 95.34 % |
| OAEM | 3.01 | 2.33 |
| Substandard/doubtful/loss | 2.77 | 2.33 |
| | 100.00 % | 100.00 % |
| **Loans to cooperatives:** | | |
| Acceptable | 100.00 % | 95.38 % |
| OAEM | — | 4.62 |
| Substandard/doubtful/loss | — | — |
| | 100.00 % | 100.00 % |
| **Processing and marketing:** | | |
| Acceptable | 97.83 % | 98.70 % |
| OAEM | 1.88 | 0.98 |
| Substandard/doubtful/loss | 0.29 | 0.32 |
| | 100.00 % | 100.00 % |
| **Farm-related business:** | | |
| Acceptable | 100.00 % | 100.00 % |
| OAEM | — | — |
| Substandard/doubtful/loss | — | — |
| | 100.00 % | 100.00 % |
| **Communication:** | | |
| Acceptable | 100.00 % | 100.00 % |
| OAEM | — | — |
| Substandard/doubtful/loss | — | — |
| | 100.00 % | 100.00 % |

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Power and water/waste disposal:** | | |
| Acceptable | 98.76 % | 98.54 % |
| OAEM | — | — |
| Substandard/doubtful/loss | 1.24 | 1.46 |
| | 100.00 % | 100.00 % |
| **Rural residential real estate:** | | |
| Acceptable | 99.54 % | 99.46 % |
| OAEM | — | — |
| Substandard/doubtful/loss | 0.46 | 0.54 |
| | 100.00 % | 100.00 % |
| **International:** | | |
| Acceptable | 100.00 % | 100.00 % |
| OAEM | — | — |
| Substandard/doubtful/loss | — | — |
| | 100.00 % | 100.00 % |
| **Lease receivables:** | | |
| Acceptable | 100.00 % | 100.00 % |
| OAEM | — | — |
| Substandard/doubtful/loss | — | — |
| | 100.00 % | 100.00 % |
| **Loans to OFIs:** | | |
| Acceptable | 100.00 % | 100.00 % |
| OAEM | — | — |
| Substandard/doubtful/loss | — | — |
| | 100.00 % | 100.00 % |
| **Other (including Mission Related):** | | |
| Acceptable | 100.00 % | 100.00 % |
| OAEM | — | — |
| Substandard/doubtful/loss | — | — |
| | 100.00 % | 100.00 % |
| **Total loans:** | | |
| Acceptable | 99.51 % | 99.45 % |
| OAEM | 0.29 | 0.34 |
| Substandard/doubtful/loss | 0.20 | 0.21 |
| | 100.00 % | 100.00 % |

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

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | **30 Through 89 Days Past Due** | **90 Days or More Past Due** | **Total Past Due** | **Not Past Due or Less Than 30 Days Past Due** | **Total Loans** |
| Direct Notes | $ — | $ — | $ — | $ 20,543,753 | $ 20,543,753 |
| Real estate mortgage | 88 | — | 88 | 1,156,456 | 1,156,544 |
| Production and intermediate-term | 992 | — | 992 | 965,653 | 966,645 |
| Loans to cooperatives | — | — | — | 717,635 | 717,635 |
| Processing and marketing | 14,451 | — | 14,451 | 1,799,616 | 1,814,067 |
| Farm-related business | — | — | — | 105,423 | 105,423 |
| Communication | — | — | — | 607,067 | 607,067 |
| Power and water/waste disposal | — | 10,980 | 10,980 | 874,663 | 885,643 |
| Rural residential real estate | 5,692 | 9,378 | 15,070 | 2,908,864 | 2,923,934 |
| International | — | — | — | 73,773 | 73,773 |
| Lease receivables | — | — | — | 430 | 430 |
| Loans to OFIs | — | — | — | 172,013 | 172,013 |
| Other (including Mission Related) | — | — | — | 5,088 | 5,088 |
| Total | $ 21,223 | $ 20,358 | $ 41,581 | $ 29,930,434 | $ 29,972,015 |

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | **30 Through 89 Days Past Due** | **90 Days or More Past Due** | **Total Past Due** | **Not Past Due or Less Than 30 Days Past Due** | **Total Loans** |
| Direct Notes | $ — | $ — | $ — | $ 19,778,813 | $ 19,778,813 |
| Real estate mortgage | 1,643 | — | 1,643 | 1,158,223 | 1,159,866 |
| Production and intermediate-term | — | — | — | 1,035,686 | 1,035,686 |
| Loans to cooperatives | — | — | — | 527,727 | 527,727 |
| Processing and marketing | — | — | — | 1,684,429 | 1,684,429 |
| Farm-related business | — | — | — | 80,138 | 80,138 |
| Communication | — | — | — | 545,840 | 545,840 |
| Power and water/waste disposal | 55,251 | 10,980 | 66,231 | 684,273 | 750,504 |
| Rural residential real estate | 25,945 | 11,828 | 37,773 | 2,753,193 | 2,790,966 |
| International | — | — | — | 77,121 | 77,121 |
| Lease receivables | — | — | — | 2,280 | 2,280 |
| Loans to OFIs | — | — | — | 159,327 | 159,327 |
| Other (including Mission Related) | — | — | — | 5,225 | 5,225 |
| Total | $ 82,839 | $ 22,808 | $ 105,647 | $ 28,492,275 | $ 28,597,922 |

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

| *(dollars in thousands)* | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Nonaccrual loans:** | | |
| Real estate mortgage | $ 3,625 | $ 1,537 |
| Production and intermediate-term | 11,244 | — |
| Processing and marketing | 5,326 | 5,365 |
| Power and water/waste disposal | 10,980 | 10,980 |
| Rural residential real estate | 15,688 | 17,297 |
| Total | $ 46,863 | $ 35,179 |
| **Accruing restructured loans:** | | |
| Real estate mortgage | $ 1,031 | $ 1,050 |
| Production and intermediate-term | 1,131 | 1,257 |
| Rural residential real estate | 24,938 | 19,106 |
| Other (including Mission Related) | 3,549 | 3,687 |
| Total | $ 30,649 | $ 25,100 |
| **Accruing loans 90 days or more past due:** | | |
| Rural residential real estate | 247 | 5,781 |
| Total | $ 247 | $ 5,781 |
| Total nonperforming loans | $ 77,759 | $ 66,060 |
| Other property owned | — | — |
| Total nonperforming assets | $ 77,759 | $ 66,060 |
| Nonaccrual loans as a percentage of total loans | 0.16 % | 0.12 % |
| Nonperforming assets as a percentage of total loans and other property owned | 0.26 % | 0.23 % |
| Nonperforming assets as a percentage of capital | 4.24 % | 2.87 % |

The following table presents information related to the recorded investment of impaired loans at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

| *(dollars in thousands)* | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Impaired nonaccrual loans:** | | |
| Current as to principal and interest | $ 27,649 | $ 13,601 |
| Past due | 19,214 | 21,578 |
| Total nonaccrual loans | $ 46,863 | $ 35,179 |
| **Impaired accrual loans:** | | |
| Restructured | $ 30,649 | $ 25,100 |
| 90 days or more past due | 247 | 5,781 |
| Total impaired accrual loans | $ 30,896 | $ 30,881 |
| Total impaired loans | $ 77,759 | $ 66,060 |
| Additional commitments to lend | $ 15 | $ 7,360 |

The Bank maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Bank has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

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

| *(dollars in thousands)* | June 30, 2022 | | | For the Three Months Ended June 30, 2022 | | Six Months Ended June 30, 2022 | |
|---|---|---|---|---|---|---|---|
| **Impaired Loans** | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | **Average Impaired Loans** | **Interest Income Recognized on Impaired Loans** | **Average Impaired Loans** | **Interest Income Recognized on Impaired Loans** |
| **With a related allowance for credit losses:** | | | | | | | |
| Real estate mortgage | $ 156 | $ 155 | $ 21 | $ 156 | $ — | $ 158 | $ — |
| Production and intermediate-term | — | — | — | — | — | — | — |
| Processing and marketing | — | — | — | — | — | — | — |
| Farm-related business | — | — | — | — | — | — | — |
| Power and water/waste disposal | 10,980 | 10,999 | 1,760 | 10,980 | — | 10,990 | — |
| Rural residential real estate | 23,930 | 23,440 | 853 | 23,272 | — | 22,937 | — |
| Other (including Mission Related) | 3,549 | 3,544 | 92 | 3,589 | 56 | 3,635 | 113 |
| Total | $ 38,615 | $ 38,138 | $ 2,726 | $ 37,997 | $ 56 | $ 37,720 | $ 113 |
| **With no related allowance for credit losses:** | | | | | | | |
| Real estate mortgage | $ 4,500 | $ 4,510 | $ — | $ 1,524 | $ 113 | $ 1,876 | $ 147 |
| Production and intermediate-term | 12,375 | 12,392 | — | 858 | 29 | 1,046 | 57 |
| Processing and marketing | 5,326 | 5,429 | — | 1,188 | — | 3,279 | — |
| Farm-related business | — | — | — | 5,335 | — | 2,667 | — |
| Power and water/waste disposal | — | — | — | — | — | — | — |
| Rural residential real estate | 16,943 | 16,664 | — | 17,634 | 502 | 18,410 | 995 |
| Other (including Mission Related) | — | — | — | — | — | — | — |
| Total | $ 39,144 | $ 38,995 | $ — | $ 26,539 | $ 644 | $ 27,278 | $ 1,199 |
| **Total impaired loans:** | | | | | | | |
| Real estate mortgage | $ 4,656 | $ 4,665 | $ 21 | $ 1,680 | $ 113 | $ 2,034 | $ 147 |
| Production and intermediate-term | 12,375 | 12,392 | — | 858 | 29 | 1,046 | 57 |
| Processing and marketing | 5,326 | 5,429 | — | 1,188 | — | 3,279 | — |
| Farm-related business | — | — | — | 5,335 | — | 2,667 | — |
| Power and water/waste disposal | 10,980 | 10,999 | 1,760 | 10,980 | — | 10,990 | — |
| Rural residential real estate | 40,873 | 40,104 | 853 | 40,906 | 502 | 41,347 | 995 |
| Other (including Mission Related) | 3,549 | 3,544 | 92 | 3,589 | 56 | 3,635 | 113 |
| Total | $ 77,759 | $ 77,133 | $ 2,726 | $ 64,536 | $ 700 | $ 64,998 | $ 1,312 |

| *(dollars in thousands)* | December 31, 2021 | | | Year Ended December 31, 2021 | |
|---|---|---|---|---|---|
| **Impaired Loans** | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | **Average Impaired Loans** | **Interest Income Recognized on Impaired Loans** |
| **With a related allowance for credit losses:** | | | | | |
| Real Estate Mortgage | $ 100 | $ 99 | $ — | $ 241 | $ — |
| Production and Intermediate Term | — | — | — | — | — |
| Processing and Marketing | — | — | — | 2,179 | — |
| Power and Water/Waste Disposal | 10,980 | 10,999 | 1,760 | 6,777 | — |
| Rural Residential Real Estate | 19,092 | 18,749 | 436 | 11,685 | — |
| Other (including Mission Related) | 3,687 | 3,681 | 92 | 3,735 | 232 |
| Total | $ 33,859 | $ 33,528 | $ 2,288 | $ 24,617 | $ 232 |
| **With no related allowance for credit losses:** | | | | | |
| Real Estate Mortgage | $ 2,487 | $ 2,516 | $ — | $ 3,277 | $ 219 |
| Production and Intermediate Term | 1,257 | 1,252 | — | 4,573 | 418 |
| Processing and Marketing | 5,365 | 5,429 | — | 1,415 | — |
| Power and Water/Waste Disposal | — | — | — | — | — |
| Rural Residential Real Estate | 23,092 | 22,342 | — | 17,169 | 1,636 |
| Other (including Mission Related) | — | — | — | — | — |
| Total | $ 32,201 | $ 31,539 | $ — | $ 26,434 | $ 2,273 |
| **Total impaired loans:** | | | | | |
| Real Estate Mortgage | $ 2,587 | $ 2,615 | $ — | $ 3,518 | $ 219 |
| Production and Intermediate Term | 1,257 | 1,252 | — | 4,573 | 418 |
| Processing and Marketing | 5,365 | 5,429 | — | 3,594 | — |
| Power and Water/Waste Disposal | 10,980 | 10,999 | 1,760 | 6,777 | — |
| Rural Residential Real Estate | 42,184 | 41,091 | 436 | 28,854 | 1,636 |
| Other (including Mission Related) | 3,687 | 3,681 | 92 | 3,735 | 232 |
| Total | $ 66,060 | $ 65,067 | $ 2,288 | $ 51,051 | $ 2,505 |

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

| *(dollars in thousands)* | Direct Notes | Real Estate Mortgage | Production and Intermediate-term | Agribusiness* | Communication | Power and Water/Waste Disposal | Rural Residential Real Estate | International | Other** | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Activity related to the allowance for credit losses:** | | | | | | | | | | |
| Balance at March 31, 2022 | $ — | $ 1,518 | $ 3,506 | $ 5,956 | $ 1,048 | $ 2,648 | $ 5,556 | $ 84 | $ 407 | $ 20,723 |
| Charge-offs | — | — | (10) | — | — | — | (86) | — | — | (96) |
| Recoveries | — | — | — | — | — | — | 194 | — | — | 194 |
| Provision for loan losses | — | (125) | (298) | 489 | 99 | 245 | 120 | 9 | 23 | 562 |
| Balance at June 30, 2022 | $ — | $ 1,393 | $ 3,198 | $ 6,445 | $ 1,147 | $ 2,893 | $ 5,784 | $ 93 | $ 430 | $ 21,383 |
| Balance at December 31, 2021 | $ — | $ 1,513 | $ 3,583 | $ 5,532 | $ 994 | $ 2,854 | $ 5,149 | $ 84 | $ 438 | $ 20,147 |
| Charge-offs | — | — | (10) | — | — | — | (900) | — | — | (910) |
| Recoveries | — | — | — | — | — | — | 307 | — | — | 307 |
| Provision for loan losses | — | (120) | (375) | 913 | 153 | 39 | 1,228 | 9 | (8) | 1,839 |
| Balance at June 30, 2022 | $ — | $ 1,393 | $ 3,198 | $ 6,445 | $ 1,147 | $ 2,893 | $ 5,784 | $ 93 | $ 430 | $ 21,383 |
| Balance at March 31, 2021 | $ — | $ 1,554 | $ 3,352 | $ 4,994 | $ 929 | $ 1,706 | $ 5,974 | $ 140 | $ 364 | $ 19,013 |
| Charge-offs | — | — | — | — | — | — | (182) | — | — | (182) |
| Recoveries | — | — | 501 | — | — | — | 7 | — | — | 508 |
| Provision for loan losses | — | (53) | (640) | 110 | 71 | 1,409 | (98) | 4 | 28 | 831 |
| Balance at June 30, 2021 | $ — | $ 1,501 | $ 3,213 | $ 5,104 | $ 1,000 | $ 3,115 | $ 5,701 | $ 144 | $ 392 | $ 20,170 |
| Balance at December 31, 2020 | $ — | $ 1,551 | $ 3,289 | $ 4,553 | $ 923 | $ 1,024 | $ 6,394 | $ 130 | $ 393 | $ 18,257 |
| Charge-offs | — | — | — | — | — | — | (524) | — | — | (524) |
| Recoveries | — | — | — | — | — | — | 21 | — | — | 21 |
| Provision for loan losses | — | (50) | (577) | 551 | 77 | 2,091 | (190) | 14 | (1) | 1,915 |
| Balance at June 30, 2021 | $ — | $ 1,501 | $ 2,712 | $ 5,104 | $ 1,000 | $ 3,115 | $ 5,701 | $ 144 | $ 392 | $ 19,669 |
| **Allowance on loans evaluated for impairment:** | | | | | | | | | | |
| Individually | $ — | $ 21 | $ — | $ — | $ — | $ 1,760 | $ 853 | $ — | $ 92 | $ 2,726 |
| Collectively | — | 1,372 | 3,198 | 6,445 | 1,147 | 1,133 | 4,931 | 93 | 338 | 18,657 |
| Balance at June 30, 2022 | $ — | $ 1,393 | $ 3,198 | $ 6,445 | $ 1,147 | $ 2,893 | $ 5,784 | $ 93 | $ 430 | $ 21,383 |
| Individually | $ — | $ — | $ — | $ — | $ — | $ 1,760 | $ 436 | $ — | $ 92 | $ 2,288 |
| Collectively | — | 1,513 | 3,583 | 5,532 | 994 | 1,094 | 4,713 | 84 | 346 | 17,859 |
| Balance at December 31, 2021 | $ — | $ 1,513 | $ 3,583 | $ 5,532 | $ 994 | $ 2,854 | $ 5,149 | $ 84 | $ 438 | $ 20,147 |
| **Recorded investment in loans evaluated for impairment:** | | | | | | | | | | |
| Individually | $ 20,543,753 | $ 122,421 | $ 12,375 | $ 5,326 | $ — | $ 10,980 | $ 585,652 | $ — | $ 3,549 | $ 21,284,056 |
| Collectively | — | 1,034,123 | 954,270 | 2,631,799 | 607,067 | 874,663 | 2,338,282 | 73,773 | 173,982 | 8,687,959 |
| Balance at June 30, 2022 | $ 20,543,753 | $ 1,156,544 | $ 966,645 | $ 2,637,125 | $ 607,067 | $ 885,643 | $ 2,923,934 | $ 73,773 | $ 177,531 | $ 29,972,015 |
| Individually | $ 19,778,813 | $ 128,017 | $ 1,257 | $ 5,365 | $ — | $ 10,980 | $ 636,322 | $ — | $ 3,687 | $ 20,564,441 |
| Collectively | — | 1,031,849 | 1,034,429 | 2,286,929 | 545,840 | 739,524 | 2,154,644 | 77,121 | 163,145 | 8,033,481 |
| Balance at December 31, 2021 | $ 19,778,813 | $ 1,159,866 | $ 1,035,686 | $ 2,292,294 | $ 545,840 | $ 750,504 | $ 2,790,966 | $ 77,121 | $ 166,832 | $ 28,597,922 |

* *Includes the loan types: Loans to Cooperatives, Processing and Marketing, and Farm-related Business.*

** *Includes the loan types: Mission Related Loans, Loans to OFIs, and Lease Receivables.*

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

| *(dollars in thousands)* | Three Months Ended June 30, 2022 | | | | |
|---|---|---|---|---|---|
| **Outstanding Recorded Investment** | **Interest Concessions** | **Principal Concessions** | **Other Concessions** | **Total** | **Charge-offs** |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ — | $ 471 | $ — | $ 471 | |
| Production and intermediate term | 2,292 | 4,883 | — | 7,175 | |
| Rural residential real estate | 1,417 | 1,154 | — | 2,571 | |
| Total | $ 3,709 | $ 6,508 | $ — | $ 10,217 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ — | $ 471 | $ — | $ 471 | |
| Production and intermediate term | 2,292 | 4,883 | — | 7,175 | |
| Rural residential real estate | 1,530 | 1,243 | — | 2,773 | $ 113 |
| Total | $ 3,822 | $ 6,597 | $ — | $ 10,419 | $ 113 |

| *(dollars in thousands)* | Six Months Ended June 30, 2022 | | | | |
|---|---|---|---|---|---|
| **Outstanding Recorded Investment** | **Interest Concessions** | **Principal Concessions** | **Other Concessions** | **Total** | **Charge-offs** |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ — | $ 471 | $ — | $ 471 | |
| Production and intermediate term | 2,292 | 4,883 | — | 7,175 | |
| Rural residential real estate | 8,495 | 1,384 | — | 9,879 | |
| Total | $ 10,787 | $ 6,738 | $ — | $ 17,525 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ — | $ 471 | $ — | $ 471 | |
| Production and intermediate term | 2,292 | 4,883 | — | 7,175 | |
| Rural residential real estate | 9,334 | 1,532 | — | 10,866 | $ 868 |
| Total | $ 11,626 | $ 6,886 | $ — | $ 18,512 | $ 868 |

| *(dollars in thousands)* | Three Months Ended June 30, 2021 | | | | |
|---|---|---|---|---|---|
| **Outstanding Recorded Investment** | **Interest Concessions** | **Principal Concessions** | **Other Concessions** | **Total** | **Charge-offs** |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ 58 | $ — | $ — | $ 58 | |
| Rural residential real estate | 3,063 | — | — | 3,063 | |
| Total | $ 3,121 | $ — | $ — | $ 3,121 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ 59 | $ — | $ — | $ 59 | |
| Rural residential real estate | 3,262 | — | — | 3,262 | — |
| Total | $ 3,321 | $ — | $ — | $ 3,321 | $ — |

| *(dollars in thousands)* | Six Months Ended June 30, 2021 | | | | |
|---|---|---|---|---|---|
| **Outstanding Recorded Investment** | **Interest Concessions** | **Principal Concessions** | **Other Concessions** | **Total** | **Charge-offs** |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ 644 | $ — | $ — | $ 644 | |
| Rural residential real estate | 3,642 | — | — | 3,642 | |
| Total | $ 4,286 | $ — | $ — | $ 4,286 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ 651 | $ — | $ — | $ 651 | |
| Rural residential real estate | 3,878 | — | — | 3,878 | — |
| Total | $ 4,529 | $ — | $ — | $ 4,529 | $ — |

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

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollars in thousands)* | 2022 | 2021 | 2022 | 2021 |
| **Defaulted troubled debt restructurings:** | | | | |
| Real estate mortgage | $ — | $ 605 | $ — | $ 605 |
| Rural residential real estate | $ 2,974 | $ 383 | $ 6,358 | $ 383 |
| Total | $ 2,974 | $ 988 | $ 6,358 | $ 988 |

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

| | Total TDRs | | Nonaccrual TDRs | |
|---|---|---|---|---|
| *(dollars in thousands)* | June 30, 2022 | December 31, 2021 | June 30, 2022 | December 31, 2021 |
| Real estate mortgage | $ 1,524 | $ 1,231 | $ 493 | $ 181 |
| Production and intermediate-term | 8,285 | 1,257 | 7,154 | — |
| Rural residential real estate | 28,797 | 23,491 | 3,859 | 4,385 |
| Other (including Mission Related) | 3,549 | 3,687 | — | — |
| Total | $ 42,155 | $ 29,666 | $ 11,506 | $ 4,566 |
| Additional commitments to lend | $ — | $ — | | |

## Note 3 — Investments

***Equity Investments in Other Farm Credit System Institutions***

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

***Investments in Debt Securities***

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

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

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

An agreement with a commercial bank requires AgFirst to maintain $50.0 million as a compensating balance. At June 30, 2022, the Bank held $41.0 million in U.S. Treasury securities for that purpose. The remainder of the compensating balance was held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

**Available-for-sale**

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

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| U.S. Govt. Treasury Securities | $ 142,600 | $ — | $ (3,090) | $ 139,510 | 0.22 % |
| U.S. Govt. Guaranteed | 4,572,934 | 4,112 | (293,554) | 4,283,492 | 2.07 |
| U.S. Govt. Agency Guaranteed | 4,816,084 | 1,814 | (338,282) | 4,479,616 | 1.63 |
| Non-Agency ABSs | 329,664 | 79 | (1,392) | 328,351 | 2.21 |
| Total | $ 9,861,282 | $ 6,005 | $ (636,318) | $ 9,230,969 | 1.83 % |

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

**Held-to-maturity**

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

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| U.S. Govt. Agency Guaranteed | $ 458 | $ (1) | $ (8) | $ 449 | 5.92 % |
| RABs and Other | 14,936 | 458 | (143) | 15,251 | 5.92 |
| Total | $ 15,394 | $ 457 | $ (151) | $ 15,700 | 5.92 % |

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| U.S. Govt. Agency Guaranteed | $ 475 | $ — | $ (8) | $ 467 | 5.94 % |
| RABs and Other | 18,658 | 2,507 | — | 21,165 | 5.94 |
| Total | $ 19,133 | $ 2,507 | $ (8) | $ 21,632 | 5.94 % |

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at June 30, 2022 follows:

**Available-for-sale**

| | Due in 1 Year or Less | | Due After 1 Year Through 5 Years | | Due After 5 Years Through 10 Years | | Due After 10 Years | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield |
| U.S. Govt. Treasury Securities | $ 113,478 | 0.14 % | $ 26,032 | 0.55 % | $ — | — % | $ — | — % | $ 139,510 | 0.22 % |
| U.S. Govt. Guaranteed | — | — | 5,042 | 2.56 | 425,363 | 2.12 | 3,853,087 | 2.07 | 4,283,492 | 2.07 |
| U.S. Govt. Agency Guaranteed | 3,758 | 1.59 | 221,972 | 1.27 | 1,113,045 | 1.03 | 3,140,841 | 1.85 | 4,479,616 | 1.63 |
| Non-Agency ABSs | — | — | 328,351 | 2.21 | — | — | — | — | 328,351 | 2.21 |
| Total fair value | $ 117,236 | 0.18 % | $ 581,397 | 1.76 % | $1,538,408 | 1.34 % | $6,993,928 | 1.97 % | $9,230,969 | 1.83 % |
| Total amortized cost | $ 118,882 | | $ 594,970 | | $1,580,656 | | $7,566,774 | | $9,861,282 | |

**Held-to-maturity**

| (dollars in thousands) | Due in 1 Year or Less | | Due After 1 Year Through 5 Years | | Due After 5 Years Through 10 Years | | Due After 10 Years | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield |
| U.S. Govt. Agency Guaranteed | $ — | — % | $ — | — % | $ — | — % | $ 458 | 5.92 % | $ 458 | 5.92 % |
| RABs and Other | — | — | 4,345 | 6.12 | — | — | 10,591 | 5.83 | 14,936 | 5.92 |
| Total amortized cost | $ — | — % | $ 4,345 | 6.12 % | — | — % | $ 11,049 | 5.84 % | $ 15,394 | 5.92 % |
| Total fair value | $ — | | $ 4,343 | | $ — | | $ 11,357 | | $ 15,700 | |

A substantial portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following tables show the fair value and gross unrealized losses for all investments that have been in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

| | June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months Or Greater | | Total | |
| (dollars in thousands) | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Govt. Treasury Securities | $ 90,221 | $ (2,376) | $ 49,289 | $ (714) | $ 139,510 | $ (3,090) |
| U.S. Govt. Guaranteed | 3,414,280 | (238,997) | 439,680 | (54,557) | 3,853,960 | (293,554) |
| U.S. Govt. Agency Guaranteed | 3,728,896 | (294,887) | 354,970 | (43,403) | 4,083,866 | (338,290) |
| Non-Agency ABSs | 172,823 | (1,392) | — | — | 172,823 | (1,392) |
| RABs and Other | 6,214 | (143) | — | — | 6,214 | (143) |
| Total | $ 7,412,434 | $ (537,795) | $ 843,939 | $ (98,674) | $ 8,256,373 | $ (636,469) |

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

The recording of an impairment loss is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Bank intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss recognized equals the full difference between amortized cost and fair value of the security. When the Bank does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Bank performs periodic credit reviews, including OTTI analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

The Bank has not recognized any credit losses for the periods presented as the impairments were deemed temporary and result from non-credit related factors. The Bank has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. government guaranteed and government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost.

## Note 4 — Debt

### *Bonds and Notes*

AgFirst, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued jointly by the System banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks.

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

The following table provides a summary of AgFirst's participation in outstanding Systemwide Debt Securities by maturity.

| | June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Bonds | | Discount Notes | | Total | |
| **Maturities** | **Amortized Cost** | **Weighted Average Interest Rate** | **Amortized Cost** | **Weighted Average Interest Rate** | **Amortized Cost** | **Weighted Average Interest Rate** |
| One year or less | $ 8,515,370 | 0.63 % | $ 4,445,969 | 1.16 % | $ 12,961,339 | 0.81 % |
| Greater than one year to two years | 6,588,915 | 0.89 | — | — | 6,588,915 | 0.89 |
| Greater than two years to three years | 4,337,512 | 0.92 | — | — | 4,337,512 | 0.92 |
| Greater than three years to four years | 3,052,884 | 1.23 | — | — | 3,052,884 | 1.23 |
| Greater than four years to five years | 2,357,283 | 1.27 | — | — | 2,357,283 | 1.27 |
| Greater than five years | 9,094,929 | 2.04 | — | — | 9,094,929 | 2.04 |
| Total | $ 33,946,893 | 1.19 % | $ 4,445,969 | 1.16 % | $ 38,392,862 | 1.19 % |

Discount notes are issued with maturities of one year or less. The weighted average maturity of discount notes at June 30, 2022 was 144 days.

## Note 5 — Shareholders' Equity

### *Perpetual Preferred Stock*

On June 15, 2022, the remaining perpetual preferred stock of $32.5 million was redeemed at par. See further discussion of the perpetual preferred stock in the 2021 Annual Report.

### *Accumulated Other Comprehensive Income*

The following tables present the activity related to accumulated other comprehensive income (AOCI):

**Changes in Accumulated Other Comprehensive Income by Component** *(a)*

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollars in thousands)* | **2022** | **2021** | **2022** | **2021** |
| **Investment Securities:** | | | | |
| Balance at beginning of period | $ (359,377) | $ 96,076 | $ 22,007 | $ 190,529 |
| Other comprehensive income before reclassifications | (270,936) | 49,323 | (652,320) | (45,130) |
| Amounts reclassified from AOCI | — | (330) | — | (330) |
| Net current period other comprehensive income | (270,936) | 48,993 | (652,320) | (45,460) |
| Balance at end of period | $ (630,313) | $ 145,069 | $ (630,313) | $ 145,069 |
| **Cash Flow Hedges:** | | | | |
| Balance at beginning of period | $ 192 | $ 270 | $ 201 | $ 287 |
| Other comprehensive income before reclassifications | (59) | — | (53) | — |
| Amounts reclassified from AOCI | 50 | (24) | 35 | (41) |
| Net current period other comprehensive income | (9) | (24) | (18) | (41) |
| Balance at end of period | $ 183 | $ 246 | $ 183 | $ 246 |
| **Employee Benefit Plans:** | | | | |
| Balance at beginning of period | $ (3,435) | $ (4,741) | $ (3,610) | $ (4,954) |
| Other comprehensive income before reclassifications | — | — | — | — |
| Amounts reclassified from AOCI | 175 | 212 | 350 | 425 |
| Net current period other comprehensive income | 175 | 212 | 350 | 425 |
| Balance at end of period | $ (3,260) | $ (4,529) | $ (3,260) | $ (4,529) |
| **Total Accumulated Other Comprehensive Income:** | | | | |
| Balance at beginning of period | $ (362,620) | $ 91,605 | $ 18,598 | $ 185,862 |
| Other comprehensive income before reclassifications | (270,995) | 49,323 | (652,373) | (45,130) |
| Amounts reclassified from AOCI | 225 | (142) | 385 | 54 |
| Net current period other comprehensive income | (270,770) | 49,181 | (651,988) | (45,076) |
| Balance at end of period | $ (633,390) | $ 140,786 | $ (633,390) | $ 140,786 |

**Reclassifications Out of Accumulated Other Comprehensive Income** *(b)*

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | **2022** | **2021** | **2022** | **2021** | **Income Statement Line Item** |
| **Investment Securities:** | | | | | |
| Sales gains & losses | $ — | $ 330 | $ — | $ 330 | Gains (losses) on investments, net |
| Holding gains & losses | — | — | — | — | Net other-than-temporary impairment |
| Net amounts reclassified | — | 330 | — | 330 | |
| **Cash Flow Hedges:** | | | | | |
| Interest income | $ 9 | $ 24 | $ 18 | $ 41 | Interest income on investment securities |
| Gains (losses) on other transactions | (59) | — | (53) | — | Gains (losses) on other transactions |
| Net amounts reclassified | (50) | 24 | (35) | 41 | |
| **Employee Benefit Plans:** | | | | | |
| Periodic pension costs | $ (175) | $ (212) | $ (350) | $ (425) | See Note 7. |
| Net amounts reclassified | (175) | (212) | (350) | (425) | |
| Total reclassifications for period | $ (225) | $ 142 | $ (385) | $ (54) | |

*(a) Amounts in parentheses indicate debits to AOCI.*
*(b) Amounts in parentheses indicate debits to profit/loss.*

**Note 6 — Fair Value Measurement**

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

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

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. Level 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Level 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

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

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the most recent Annual Report to Shareholders.

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

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | **Total Carrying Amount** | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** |
| **Recurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Investments in debt securities available-for-sale: | | | | | |
| U.S. Govt. Treasury securities | $ 139,510 | $ — | $ 139,510 | $ — | $ 139,510 |
| U.S. Govt. guaranteed | 4,283,492 | — | 4,283,492 | — | 4,283,492 |
| U.S. Govt. Agency guaranteed | 4,479,616 | — | 4,479,616 | — | 4,479,616 |
| Non-agency ABSs | 328,351 | — | 328,351 | — | 328,351 |
| Total investments in debt securities available-for-sale | 9,230,969 | — | 9,230,969 | — | 9,230,969 |
| Cash equivalents | 300,000 | — | 300,000 | — | 300,000 |
| Assets held in trust funds | 17,390 | 17,390 | — | — | 17,390 |
| Recurring Assets | $ 9,548,359 | $ 17,390 | $ 9,530,969 | $ — | $ 9,548,359 |
| **Nonrecurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Impaired loans | $ 35,889 | $ — | $ — | $ 35,889 | $ 35,889 |
| Nonrecurring Assets | $ 35,889 | $ — | $ — | $ 35,889 | $ 35,889 |
| **Other Financial Instruments** | | | | | |
| **Assets:** | | | | | |
| Cash | $ 570,012 | $ 570,012 | $ — | $ — | $ 570,012 |
| Investments in debt securities held-to-maturity | 15,394 | — | 449 | 15,251 | 15,700 |
| Loans | 29,843,013 | — | — | 28,395,967 | 28,395,967 |
| Other Financial Assets | $ 30,428,419 | $ 570,012 | $ 449 | $ 28,411,218 | $ 28,981,679 |
| **Liabilities:** | | | | | |
| Systemwide debt securities | $ 38,392,862 | $ — | $ — | $ 36,661,800 | $ 36,661,800 |
| Other Financial Liabilities | $ 38,392,862 | $ — | $ — | $ 36,661,800 | $ 36,661,800 |

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

### *Uncertainty in Measurements of Fair Value*
Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables at the end of this Note 6. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

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

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

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

***Inputs to Valuation Techniques***

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

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

***Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements***

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

**Information about Recurring and Nonrecurring Level 2 Fair Value Measurements**

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

**Information about Other Financial Instrument Fair Value Measurements**

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

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

## Note 7 — Employee Benefit Plans

Following are retirement and other postretirement benefit expenses for the Bank:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollars in thousands)* | 2021 | 2020 | 2022 | 2021 |
| Pension | $ 1,326 | $ 2,225 | $ 2,409 | $ 4,210 |
| 401k | 1,127 | 1,007 | 2,262 | 2,022 |
| Other postretirement benefits | 322 | 241 | 544 | 490 |
| Total | $ 2,775 | $ 3,473 | $ 5,215 | $ 6,722 |

Expenses in the above table include allocated estimates of funding for multiemployer plans in which the Bank participates. These amounts may change when a total funding amount and allocation is determined by the respective Plans' Sponsor Committees. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2022.

Further details regarding employee benefit plans are contained in the most recent annual report to Shareholders.

## Note 8 — Commitments and Contingencies

Under the Farm Credit Act of 1971, each System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the four banks are jointly and severally liable for the bonds and notes of the other System banks under the terms of the Joint and Several Liability Allocation Agreement. Published in the Federal Register, the agreement prescribes the payment mechanisms to be employed in the event one of the banks is unable to meet its debt obligations.

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

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

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

| *(dollars in billions)* | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Total System bonds and notes | $ 374.812 | $ 352.823 |

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

## Note 9 — Additional Financial Information

### *Offsetting of Financial Assets*

| *(dollars in thousands)* | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Reverse repurchase and similar arrangements | $ 300,000 | $ 400,000 |
| Gross Amount of Recognized Assets | 300,000 | 400,000 |
| Reverse repurchase and similar arrangements | — | — |
| Gross Amounts Offset in the Balance Sheets | — | — |
| **Net Amounts of Assets Presented in the Balance Sheets** | $ 300,000 | $ 400,000 |
| Financial Instruments | (300,000) | (400,000) |
| Gross Amounts Not Offset in the Balance Sheets | (300,000) | (400,000) |
| **Net Amount** | $ — | $ — |

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

The reverse repurchase agreements are accounted for as collateralized lending.

### *Combined Districtwide Financial Statements*

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

## Note 10 — Subsequent Events

The Bank evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through August 8, 2022, which was the date the financial statements were issued.

On July 1, 2022, MidAtlantic Farm Credit, ACA and AgChoice Farm Credit, ACA merged to form Horizon Farm Credit, ACA. See further discussion in *Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*.

# Additional Regulatory Information

*(unaudited)*

**Overview**

The following quantitative disclosures contain regulatory disclosures as required for the Bank under Regulation §628.62 and §628.63 for risk-adjusted ratios: common equity tier 1, tier 1 capital and total regulatory capital ratios. These disclosures should be read in conjunction with our 2021 Annual report, which includes additional qualitative disclosures. As required, these disclosures are made available for at least three years and can be accessed within the financial reports on AgFirst's website at www.agfirst.com.

| Disclosure Requirement | Description | Quarterly Report Reference |
|---|---|---|
| Scope of Application | Corporate entity and structure | 41 |
| Capital Structure | Regulatory capital components | 41 |
| Capital Adequacy | Risk-weighted assets<br>Regulatory capital ratios | 42 |
| Capital Buffers | Quantitative disclosures | 42 |
| Credit Risk | Summary of exposures<br>Industry distribution<br>Contractual maturity<br>Geographical distribution<br>Impaired loans and allowance for credit losses | 43 |
| Credit Risk Mitigation | Exposures with reduced capital requirements | 43 |
| Counterparty Credit Risk-Related | Counterparty exposures | 48 |
| Securitization | Securitization exposures | 48 |
| Equities | General description | 49 |
| Interest Rate Risk for Non-Trading | Interest rate sensitivity | 49 |

**SCOPE OF APPLICATION**

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

As of June 30, 2022, the AgFirst District consisted of the Bank and 19 District Associations. All 19 were structured as Agricultural Credit Association (ACA) holding companies, with Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries. AgFirst is owned jointly by these 19 Associations, certain Other Financing Institutions (OFIs), other System institutions. As of July 1, 2022, two District Associations merged and subsequent to this merger the AgFirst District consists of 18 District Associations. See further discussion in *Note 1 - Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements.* The Bank does not have any subsidiaries requiring consolidation; therefore, there are no consolidated entities for which the total capital requirement is deducted, there are no restrictions on transfer of funds or total capital with other consolidated entities and no subsidiary exists which is below the minimum total capital requirement individually or when aggregated at the Bank's level. In conjunction with other System entities, the Bank jointly owns certain service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the FCS Building Association (FCSBA), and the Farm Credit Association Captive Insurance Corporation (Captive). Certain of the Bank's investments in other System institutions, including the investment in the Funding Corporation and FCSBA, are deducted from capital as only the institution that issued the equities may count the amount as capital.

## CAPITAL STRUCTURE

The table below outlines the Bank's capital structure for the capital adequacy calculations as of June 30, 2022:

| *(dollars in thousands)* | 3-Month Average Daily Balance |
|---|---|
| **Common Equity Tier 1 Capital (CET1)** | |
| Common cooperative equities: | |
| Statutory minimum purchased borrower stock | $ 23 |
| Other required member purchased stock | 99,171 |
| Allocated equities: | |
| Allocated stock subject to retirement | 199,937 |
| Nonqualified allocated surplus subject to retirement | 415 |
| Unallocated retained earnings | 2,068,875 |
| Paid-in capital | 63,670 |
| Regulatory adjustments and deductions made to CET1* | (81,050) |
| Total CET1 Capital | $ 2,351,041 |
| **Additional Tier 1 Capital (AT1)** | |
| Non-cumulative perpetual preferred stock | $ 26,429 |
| Regulatory adjustments and deductions made to AT1 | — |
| Total AT1 Capital | $ 26,429 |
| Total Tier 1 Capital | $ 2,377,470 |
| **Tier 2 Capital** | |
| Allowance for loan losses | $ 20,730 |
| Reserve for unfunded commitments | 272 |
| Regulatory adjustments and deductions made to total capital | — |
| Total Tier 2 Capital | $ 21,002 |
| Total Regulatory Capital | $ 2,398,472 |

**Primarily investments in other System institutions.*

## CAPITAL ADEQUACY AND CAPITAL BUFFERS

The table below outlines the Bank's risk-weighted assets, by exposure, calculated on a three-month average daily balance (including accrued interest of that exposure) as of June 30, 2022:

| *(dollars in thousands)* | Risk-Weighted Assets |
|---|---|
| Exposures to: | |
| Government-sponsored entities, including Direct Notes to Associations | $ 5,114,377 |
| Depository institutions | 27,536 |
| Corporate exposures, including borrower loans and leases | 6,632,422 |
| Residential mortgage loans | 1,094,039 |
| Past due > 90 days and nonaccrual loans | 39,788 |
| Securitizations | 82,411 |
| Exposures to obligors and other assets | 184,439 |
| Off-balance sheet exposures | 2,047,191 |
| Total risk-weighted assets | $ 15,222,203 |

As of June 30, 2022, the Bank exceeded all capital requirements to which it was subject, including applicable capital buffers. The risk-adjusted capital ratios exceeded the regulatory minimum levels, including the conservation buffer, by at least 5.26 percent. Additionally, the Tier 1 leverage ratio was 0.97 percent in excess of the required minimum leverage ratio, including the buffer. If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The following sets forth the regulatory capital ratios as of June 30, 2022:

| Ratio | Regulatory Minimum Requirement | Capital Conservation Buffer | Minimum Requirement, Including Buffer | Capital Ratios |
|---|---|---|---|---|
| Risk-adjusted ratios: | | | | |
| CET1 Capital | 4.50 % | 2.50 % | 7.00 % | 15.44 % |
| Tier 1 Capital | 6.00 % | 2.50 % | 8.50 % | 15.62 % |
| Total Regulatory Capital | 8.00 % | 2.50 % | 10.50 % | 15.76 % |
| Permanent Capital | 7.00 % | 0.00 % | 7.00 % | 15.64 % |
| Non-risk-adjusted ratios: | | | | |
| Tier 1 Leverage* | 4.00 % | 1.00 % | 5.00 % | 5.97 % |
| URE and URE Equivalents Leverage | 1.50 % | 0.00 % | 1.50 % | 5.15 % |

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

## CREDIT RISK

System entities have specific lending authorities within their chartered territories. The Bank is subject to credit risk by lending to the District's FLCAs, PCAs, and ACAs as well as OFIs. The Bank also purchases participations and syndications and first lien residential mortgage loans. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired based on characteristics such as probability of default (PD) and loss given default (LGD). Allowance needs by geographic region are only considered in rare circumstances that may not otherwise be reflected in the PD and LGD (flooding, drought, etc.). There was no allowance attributed to a geographic area as of June 30, 2022. See Note 2, *Loans and Allowance for Loan Losses*, and Note 3, *Investments*, in the Notes to the Financial Statements for quantitative disclosures related to the Bank's credit risk.

## CREDIT RISK MITIGATION

### *Credit Risk Mitigation Related to Loans*

The Bank uses various strategies to mitigate credit risk in its lending portfolio. As described in Note 1 of the Bank's Annual Report, a substantial portion of the loan balance is concentrated in notes receivable from the District Associations to fund their earning assets, which collateralize the notes. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their respective retail loan portfolios. Excluding accrued interest receivable, at June 30, 2022, the Bank's Direct Note portfolio totaled $20.499 billion and aggregate District Associations' loan portfolios totaled $27.051 billion.

The following table illustrates certain significant credit risk mitigants within AgFirst's loan portfolio, including accrued interest, which reduce capital requirements as of June 30, 2022:

| *(dollars in thousands)* | Ending Balance | 3-Month Average Balance | Risk-Weighted Exposures | % of Total Loans |
|---|---|---|---|---|
| Loans with unconditional guarantee | $ 9,411 | $ 11,879 | $ — | — % |
| Loans with conditional guarantee | 659,515 | 674,007 | 134,801 | 2 % |
| Direct Notes | 20,543,753 | 20,132,888 | 4,026,578 | 69 % |
| Total | $ 21,212,679 | $ 20,818,774 | $ 4,161,379 | 71 % |

The following table illustrates the geographic distribution of the aggregate loan portfolios for AgFirst District Associations which approximates the credit risk in the Direct Note portfolio as of June 30, 2022:

**AgFirst Total District Associations**
**Loan Portfolios by State**

| | Percent of Portfolio |
|---|---|
| North Carolina | 16 % |
| Pennsylvania | 11 |
| Georgia | 11 |
| Virginia | 9 |
| Ohio | 9 |
| Florida | 8 |
| Alabama | 6 |
| Maryland | 6 |
| South Carolina | 6 |
| Kentucky | 3 |
| Mississippi | 3 |
| Louisiana | 2 |
| Delaware | 2 |
| All Other States | 8 |
| Total | 100 % |

The following table illustrates the various major commodity groups in the aggregate District Associations' loan portfolios based on borrower eligibility as a percentage of the aggregate outstanding District Associations' loan volume at June 30, 2022:

**AgFirst Total District Associations**
**Loan Portfolios by Commodity Group**
**Based on Eligibility**

| | Percent of Portfolio |
|---|---|
| Forestry | 16 % |
| Poultry | 13 |
| Field Crops | 12 |
| Cattle | 9 |
| Grains | 8 |
| Corn | 5 |
| Other Real Estate | 5 |
| Dairy | 4 |
| Tree Fruits and Nuts | 3 |
| Nursery/Greenhouse | 3 |
| Processing | 3 |
| Rural Home Loans | 3 |
| Cotton | 3 |
| Swine | 2 |
| Other | 11 |
| Total | 100 % |

The following table illustrates the aggregate District Associations' loan portfolios based upon repayment dependency by commodity as a percentage of the aggregate outstanding District Associations' loan volume at June 30, 2022:

**AgFirst Total District Associations Loan Portfolios by Commodity Group Based on Repayment Dependency**

| | Percent of Portfolio |
|---|---|
| Non-Farm Income | 35 % |
| Poultry | 12 |
| Field Crops | 6 |
| Grains | 6 |
| Forestry | 5 |
| Corn | 5 |
| Dairy | 4 |
| Cattle | 3 |
| Cotton | 3 |
| Tree Fruits and Nuts | 2 |
| Other Real Estate | 2 |
| Processing | 2 |
| Nursery/Greenhouse | 2 |
| Swine | 2 |
| Other | 11 |
| Total | 100 % |

The following table illustrates AgFirst's loan portfolio by geographic distribution at June 30, 2022. This table includes the Bank's Direct Notes in total and does not include accrued interest.

**AgFirst Loan Portfolio by State**

| | At Period End | | | Year-to-Date Average Balance | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Outstanding Loans | Unfunded Amounts | Total Exposure | Outstanding Loans | Unfunded Amounts | Total Exposure |
| Georgia | $ 1,072,727 | $ 510,314 | $ 1,583,041 | $ 1,040,885 | $ 467,782 | $ 1,508,667 |
| North Carolina | 1,323,778 | 244,956 | 1,568,734 | 1,319,630 | 236,482 | 1,556,112 |
| Florida | 651,053 | 405,068 | 1,056,121 | 651,427 | 378,832 | 1,030,259 |
| Texas | 569,302 | 178,937 | 748,239 | 543,011 | 165,492 | 708,503 |
| Minnesota | 370,989 | 260,470 | 631,459 | 378,720 | 242,119 | 620,839 |
| South Carolina | 495,388 | 98,749 | 594,137 | 464,501 | 94,296 | 558,797 |
| Virginia | 477,848 | 111,256 | 589,104 | 470,380 | 111,963 | 582,343 |
| Pennsylvania | 305,791 | 173,383 | 479,174 | 259,230 | 150,859 | 410,089 |
| New York | 331,739 | 134,395 | 466,134 | 329,154 | 133,650 | 462,804 |
| California | 370,144 | 89,126 | 459,270 | 353,545 | 86,208 | 439,753 |
| Ohio | 291,599 | 136,115 | 427,714 | 311,960 | 117,953 | 429,913 |
| Illinois | 243,399 | 128,967 | 372,366 | 223,842 | 123,878 | 347,720 |
| Missouri | 163,290 | 158,013 | 321,303 | 169,461 | 153,788 | 323,249 |
| Maryland | 273,141 | 15,936 | 289,077 | 269,878 | 14,508 | 284,386 |
| Louisiana | 159,941 | 120,163 | 280,104 | 168,403 | 126,241 | 294,644 |
| Kentucky | 229,702 | 17,517 | 247,219 | 231,302 | 12,883 | 244,185 |
| Indiana | 118,368 | 111,613 | 229,981 | 117,239 | 63,174 | 180,413 |
| Mississippi | 68,272 | 159,953 | 228,225 | 83,419 | 142,357 | 225,776 |
| All other states | 1,884,499 | 1,068,625 | 2,953,124 | 1,867,965 | 945,256 | 2,813,221 |
| Direct Notes | 20,499,315 | 4,524,242 | 25,023,557 | 19,679,361 | 5,389,206 | 25,068,567 |
| Total loans | $ 29,900,285 | $ 8,647,798 | $ 38,548,083 | $ 28,933,313 | $ 9,156,927 | $ 38,090,240 |

The following table shows the various major commodity groups in the portfolio based on borrower eligibility at June 30, 2022. This table includes the Bank's Direct Notes in total and does not include accrued interest.

**AgFirst Loan Portfolio by Commodity Group Based on Eligibility**

| | At Period End | | | Year-to-Date Average Balance | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Outstanding Loans | Unfunded Amounts | Total Exposure | Outstanding Loans | Unfunded Amounts | Total Exposure |
| Rural Home Loans | $ 2,917,234 | $ 202,425 | $ 3,119,659 | $ 2,848,451 | $ 173,663 | $ 3,022,114 |
| Utilities | 1,338,922 | 934,138 | 2,273,060 | 1,240,284 | 876,837 | 2,117,121 |
| Processing | 1,325,047 | 936,011 | 2,261,058 | 1,286,477 | 920,770 | 2,207,247 |
| Forestry | 1,010,110 | 458,609 | 1,468,719 | 994,549 | 450,485 | 1,445,034 |
| Field Crops | 398,091 | 262,938 | 661,029 | 407,208 | 205,112 | 612,320 |
| Tree Fruits and Nuts | 281,991 | 218,125 | 500,116 | 296,207 | 173,031 | 469,238 |
| Grains | 183,639 | 157,940 | 341,579 | 193,122 | 118,890 | 312,012 |
| Nursery/Greenhouse | 233,022 | 58,687 | 291,709 | 216,448 | 46,581 | 263,029 |
| Dairy | 194,856 | 75,296 | 270,152 | 190,186 | 61,583 | 251,769 |
| Swine | 155,066 | 91,467 | 246,533 | 173,602 | 85,068 | 258,670 |
| Other | 1,362,992 | 727,920 | 2,090,912 | 1,407,418 | 655,701 | 2,063,119 |
| Direct Notes | 20,499,315 | 4,524,242 | 25,023,557 | 19,679,361 | 5,389,206 | 25,068,567 |
| Total loans | $ 29,900,285 | $ 8,647,798 | $ 38,548,083 | $ 28,933,313 | $ 9,156,927 | $ 38,090,240 |

The following table segregates loans based upon repayment dependency by commodity at June 30, 2022. This table includes the Bank's Direct Notes in total and does not include accrued interest.

**AgFirst Loan Portfolio by Commodity Group Based on Repayment Dependency**

| | At Period End | | | Year-to-Date Average Balance | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Outstanding Loans | Unfunded Amounts | Total Exposure | Outstanding Loans | Unfunded Amounts | Total Exposure |
| Non-Farm Income | $ 3,282,119 | $ 253,589 | $ 3,535,708 | $ 3,213,535 | $ 217,925 | $ 3,431,460 |
| Processing | 1,329,497 | 923,737 | 2,253,234 | 1,279,859 | 925,886 | 2,205,745 |
| Utilities | 1,309,479 | 934,138 | 2,243,617 | 1,240,284 | 876,837 | 2,117,121 |
| Forestry | 884,695 | 449,851 | 1,334,546 | 872,294 | 423,499 | 1,295,793 |
| Field Crops | 418,351 | 280,562 | 698,913 | 425,135 | 225,527 | 650,662 |
| Tree Fruits and Nuts | 246,879 | 199,039 | 445,918 | 267,289 | 147,767 | 415,056 |
| Grains | 206,417 | 168,001 | 374,418 | 219,932 | 125,059 | 344,991 |
| Dairy | 190,820 | 73,865 | 264,685 | 184,848 | 61,396 | 246,244 |
| Swine | 116,570 | 91,467 | 208,037 | 134,293 | 85,068 | 219,361 |
| Other | 1,416,143 | 749,307 | 2,165,450 | 1,416,483 | 678,757 | 2,095,240 |
| Direct Notes | 20,499,315 | 4,524,242 | 25,023,557 | 19,679,361 | 5,389,206 | 25,068,567 |
| Total loans | $ 29,900,285 | $ 8,647,798 | $ 38,548,083 | $ 28,933,313 | $ 9,156,927 | $ 38,090,240 |

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

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | Due Less Than 1 Year | Due 1 Through 5 Years | Due 5 to 15 Years | Due After 15 Years | Total |
| Direct Notes | $ 1,617,028 | $ 4,405,176 | $ 8,254,456 | $ 6,222,655 | $ 20,499,315 |
| Real estate mortgage | 5,591 | 226,966 | 656,398 | 260,597 | 1,149,552 |
| Production and intermediate-term | 164,134 | 529,216 | 260,663 | 8,739 | 962,752 |
| Loans to cooperatives | 107,187 | 497,483 | 111,512 | — | 716,182 |
| Processing and marketing | 147,284 | 1,124,006 | 520,513 | 17,684 | 1,809,487 |
| Farm-related business | — | 69,750 | 9,693 | 25,723 | 105,166 |
| Communication | — | 309,170 | 297,740 | — | 606,910 |
| Power and water/waste disposal | 79,783 | 259,189 | 282,688 | 261,562 | 883,222 |
| Rural residential real estate | 140,434 | 25,311 | 384,124 | 2,367,365 | 2,917,234 |
| International | — | 34,831 | 38,485 | — | 73,316 |
| Lease receivables | — | — | 428 | — | 428 |
| Loans to OFIs | 136,035 | 35,673 | — | — | 171,708 |
| Other (including Mission Related) | — | 334 | 4,679 | — | 5,013 |
| Total loans | $ 2,397,476 | $ 7,517,105 | $ 10,821,379 | $ 9,164,325 | $ 29,900,285 |
| Percentage | 8.02 % | 25.14 % | 36.19 % | 30.65 % | 100.00 % |

The following table illustrates AgFirst's impaired loans by geographic distribution at June 30, 2022. This table does not include accrued interest.

| Total Outstanding Impaired Loans by State | | |
|---|---|---|
| *(dollars in thousands)* | At Period End | Year-to-Date Average Balance |
| North Carolina | $ 19,751 | $ 20,091 |
| Georgia | 18,184 | 5,849 |
| Texas | 15,011 | 14,365 |
| South Carolina | 5,224 | 5,481 |
| Florida | 3,527 | 2,661 |
| Arkansas | 3,508 | 3,631 |
| Maryland | 2,908 | 3,138 |
| Virginia | 2,749 | 2,242 |
| Tennessee | 1,276 | 1,453 |
| Kentucky | 1,184 | 1,318 |
| All other states | 4,260 | 4,768 |
| Total impaired loans | $ 77,582 | $ 64,997 |

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

***Credit Risk Mitigation Related to Investments***

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

The following table shows the investment exposures covered by a guarantee as of June 30, 2022. This table does not include accrued interest.

| (dollars in thousands) | Amortized Cost | Fair Value | % of Total Investments | Risk- Weighted Exposures |
|---|---|---|---|---|
| **Unconditional Guarantee:** | | | | |
| U.S. Govt. Treasury Securities | $ 142,600 | $ 139,510 | 2 % | $ — |
| U.S. Govt. Guaranteed | 4,572,934 | 4,283,492 | 46 % | — |
| **Conditional Guarantee:** | | | | |
| U.S. Govt. Agency Guaranteed | 4,816,542 | 4,480,065 | 48 % | 953,498 |
| **Total** | $ 9,532,076 | $ 8,903,067 | 96 % | $ 953,498 |

## COUNTERPARTY CREDIT RISK

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

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

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

At June 30, 2022, the Bank had two foreign currency forward commitments outstanding with a notional value of $1.5 million.

## SECURITIZATION

The Bank has elected to utilize the simplified supervisory formula risk-based capital approach (SSFA) for securitization exposures. As such, the Bank's asset-backed securities (ABS) portfolio is risk weighted on an individual security level. As of June 30, 2022, all securities in this portfolio were risk weighted 39.97 percent. Total risk-weighted assets for these investment securities utilizing a three-month average daily balance was $78.7 million at June 30, 2022. At June 30, 2022, the Bank's ABS portfolio included, excluding accrued interest, $68.7 million of automobile ABSs and $261.0 million of credit card ABSs.

As of June 30, 2022, the Bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital. For the six months ended June 30, 2022, there were no sales of ABS securities that resulted in realized gains or losses.

Refer to Note 3, *Investments*, in the Notes to the Financial Statements for additional information related to purchases and sales of securitization exposures as well as the amortized cost, unrealized gains/(losses) and fair value of mortgage-backed securities (MBSs) and ABSs held in the Bank's investment portfolio.

**EQUITIES**

At June 30, 2022, the Bank had no equity investments other than equity investments in other Farm Credit institutions.

**INTEREST RATE RISK**

For discussion of AgFirst's market value of equity and projected change over the next twelve months in net interest income for various rate movements as of June 30, 2022, see the *Interest Rate Sensitivity* section of Management's Discussion and Analysis of Financial Condition and Results of Operations.