Northwest
FARM CREDIT SERVICES

2021 Annual Report

Here to Help You Grow®

BOARD of Directors

Dave Nisbet
Bay Center, WA

Derek Schafer
Ritzville, WA

Bill Martin
Rufus, OR

Andy Werkhoven
Monroe, WA

Shawn Walters
Newdale, ID

Vicki Eggebrecht
Malta, MT

Beth Kennar
Spokane, WA

Christy Burmeister-Smith
Bellingham, WA

Greg Hirai
Wendell, ID

Nels DeBruycker
Choteau, MT

VICE CHAIR
John Helle
Dillon, MT

CHAIR
Nate Riggers
Nezperce, ID

Duane (Skip) Gray
Albany, OR

Susan Doverspike
Burns, OR

Julie Shiflett
Spokane, WA

CHAIR Message

I'm extremely proud of our Northwest FCS customers. Despite continuing challenges of the pandemic, and extreme drought and fire conditions across the Northwest, our customers continue to be great stewards of their businesses and sound risk managers. It's encouraging to see sustained sound credit quality in our loan portfolio as we support the Northwest agriculture, forestry, and fisheries industries.

By all measures, 2021 was a strong year for the association. Based on our financial performance, the board voted to provide cash patronage dividends at 1.25% of our customers' eligible average daily loan balances. For 2021, total patronage was $165.2 million. Our board is committed to provide our customer-members with a reliable and consistent level of patronage which is an important benefit of being a cooperative member. Since 2000, Northwest FCS has paid more than $1.4 billion in cash patronage which has provided a significant economic boost to the rural communities we serve.

In addition to patronage, we increased our stewardship investment throughout the Northwest. In 2021, the board designated an additional $4 million in investments to universities and colleges to support the vital role higher education plays in industry research and developing our future producers and employees. The board also designated $4 million for our Local Advisory Committee members to guide stewardship investments towards local non-profit organizations in 2022. Our LAC members have been instrumental in supporting our Rural Community Grant program by identifying worthy causes and writing letters of support. We believe they understand better than anyone the unique needs in our local communities. We thank our LAC members for helping us better understand our communities' needs, changing economic conditions and customer sentiments across our diverse association.

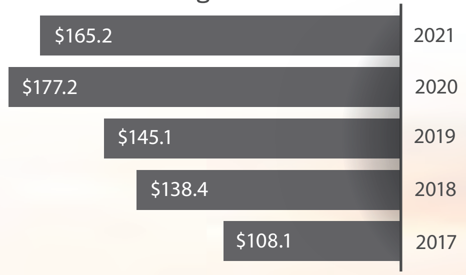
As our board looks toward the future, we are keenly aware of our responsibility to assure our association remains financially strong with adequate capacity and services to support future generations of business owners. Following considerable analysis and discussion, our board unanimously agreed to sign a letter of intent to merge with Farm Credit West, which serves producers, agribusinesses and related industries in California, Arizona and parts of Nevada. We are both successful, financially strong Farm Credit associations who have partnered together for many years to jointly finance customers, serve rural markets, and collaborate in operational areas.

We are currently assessing the benefits of a merger for stockholders and are finalizing merger agreement terms. Following review by our regulator, the Farm Credit Administration, the merger proposal will be submitted to customer-stockholders of both associations for their consideration and vote of approval in the fall.

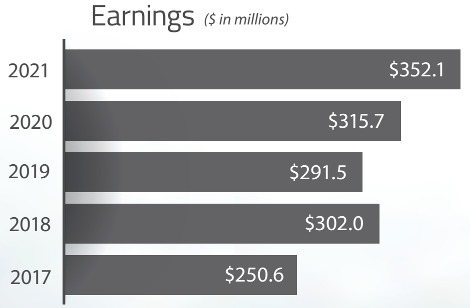
On behalf of the board, I want to thank Northwest FCS employees and management for continually finding ways to serve our customers effectively, despite changing conditions. We sincerely appreciate the customer-members who support this cooperative and contribute to our exceptional results. We look forward to continuing to support your businesses.

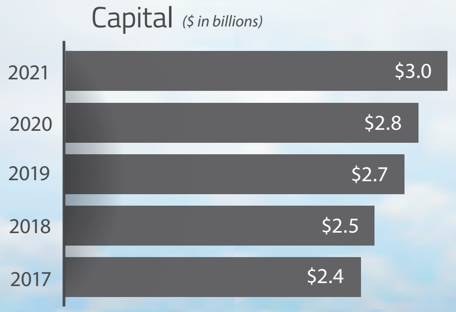
Nate Riggers
Board Chair

Cash Patronage Paid *($ in millions)*



Phil DiPofi
President and CEO





CEO Insights

Being a dependable lender through economic uncertainties is a vital part of our cooperative mission. 2021 was challenging, yet profitable for most customers as we continued to meet your increasing needs for capital and risk management tools to help grow and support your businesses.

The strong performance of our association in 2021 reflects positive economic conditions for agriculture and your ability to manage through volatility in supply chain issues, rising input costs and drought conditions across much of the Northwest. As we've seen time and again, in the midst of volatility, you continue to work through challenges and seek opportunities to best position your businesses for success.

Looking to the future, we continue to strengthen Northwest FCS' capacity in each of the core four areas of our business: relationships with customer-members; growth and retention of highly talented employees; operational enhancements and strong financial performance.

Customer Capacity

Each positive customer experience leads to more opportunities to build relationships and trust. That's why we continue to focus on being accessible and responsive, helpful, and clear in our communications and making it easier for you to do business with us. Our primary method for measuring customer engagement is research conducted and analyzed by the Gallup organization. With these insights we continue to learn and improve in our ability to deliver consistent, positive experiences for our customer-members.

Farm Credit's mission is to serve the entire spectrum of agriculture, forestry, and fisheries. In 2021 we continued to demonstrate a strong commitment to young, beginning, and small-farm producers. Some are just getting started, others are exploring new markets and finding innovative ways to be successful. As we engage in our mission to help people start and grow their businesses, we're learning more about producers from various backgrounds and the challenges they face. I'm proud of the opportunities and mentoring we provide through our AgVision program. In 2021, AgVision loan volume increased more than 9% and the number of AgVision customers increased more than 8%.

The low interest rate environment in 2021, combined with dynamic market conditions, fueled strong loan demand from new and existing customers. The number of new and renewed loans increased more than 9% compared to 2020. Crop insurance activity was robust also, with policies written covering more than 3.4 million acres across the Northwest with total grower coverage of more than $3.3 billion. Our insurance teams worked hard to support our customers through a very heavy claim year driven by severe drought, damaging heat, and fires.

Human Resource Capacity

During a year of continued impacts from the pandemic, our employees demonstrated their resiliency, adaptability, and commitment to serving our customers. With health and safety a top priority, our teams evolved from many working remotely at the beginning of the year, to all employees returning to our offices by mid-2021. Our employee engagement remains strong as we continue to focus on well-being, while ensuring we remain a high performing, mission-based business.

Throughout 2021, we evaluated workplace flexibility trends in the marketplace and how to continue to attract and retain high-performing employees. After thoughtful consideration, we've adopted a 'bank of days' approach that now provides up to six weeks of remote workday options for employees to use throughout 2022 as we continue to evaluate a long-term strategy for workplace design.

Northwest FCS continues to grow as a learning organization, exploring innovative ways to deliver learning that is accessible to all employees, easy to consume and impactful to their roles. Significant advances in employee education were made in leadership learning, tenured credit professionals learning and ongoing innovations to make learning easier and more impactful for our teams.

Operational Capacity

Across the organization we continue to focus on ways to make it easier for you to do business with us. Replacing our legacy online banking platform has been a high priority. During the pandemic, customers who hadn't used our digital banking tools before adapted well in using them to complete transactions and check on their account status. We used their feedback to launch our new online banking system and mobile app in 2021.

The new system received positive reviews and our support resources have been highly responsive. Customers say they appreciate the ability to set up different bank accounts and opt-in/out of online statements. We are adopting additional system capabilities to make it even easier to use.

Financial Capacity

Overall, the association performed exceptionally well in 2021. Your cooperative finished the year with net income of $352.1 million compared to $315.7 million in 2020. Increased earnings were primarily the result of continued loan growth, a credit loss reversal in 2021 compared to provision for credit losses in 2020, and an additional patronage distribution from CoBank. Capital increased from $2.8 billion in 2020 to $3.0 billion, which continues to allow us to be a source of strength for customer-members facing adversity. Most of our financial and credit metrics finished better than planned and we continued to maintain our operating expense and margin disciplines.

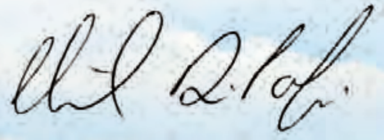
Based on Northwest FCS' positive financial results, the Northwest FCS Board of Directors approved a cash patronage dividend of 1.25% of a customer-member's eligible average daily loan balance during the year. In total, cash patronage paid for 2021 was $165.2 million. We believe this excess capital is best used by our customer-members to reinvest in their businesses and to invest in our local communities and the industries we serve.

Looking ahead

Consumer prices and other inflationary metrics have spiked recently due to disruptions in global supply chains amid the pandemic, turmoil in labor markets, low interest rates and strong consumer demand. Many contend higher inflation is transitory and will subside in the near term. Others believe higher inflation will persist. While it is unclear which economic scenario is more likely, we know current consumer price spikes are negatively affecting our employees and customers. We will continue to monitor these dynamics and adapt accordingly.

Our purpose as a cooperative is to improve the lives of our customers and employees, the communities where we work and raise our families and the Northwest food and fiber industries that perform a vital role in the U.S. and around the world. With strong earnings, capital, and liquidity, I'm confident we will manage well through the economic challenges and business opportunities we see in 2022.

Thank you for your continued support of our cooperative.



Local ADVISORS

IDAHO

Luke Adams	*Rupert*
Logan Alder	*Malad*
Greg Anderson	*American Falls*
Jeff Bartschi	*Montpelier*
Jeff Blanksma Jr.	*Hammett*
Chris Brannan	*Craigmont*
Connie Christensen	*Blackfoot*
Brent Clayton	*Ammon*
Joseph Clayton	*Eagle*
Craig Corbett	*Grace*
Coy Crapo	*St. Anthony*
Jack Faulkner	*Gooding*
Bruce Foster	*Aberdeen*
Darin Harper	*Declo*
Brantly Hatch	*Bancroft*
Burke Hillman	*Hamer*
Brian Huettig	*Hazelton*
Josh Jones	*Troy*
Philip Kaufman	*Lewiston*
Kryst Krein	*American Falls*
Spencer Larsen	*Blackfoot*
Derek Larson	*Burley*
Ron Lockwood	*Filer*
Brent Lott	*Idaho Falls*
Eric Maupin	*Ashton*
Joe Miller	*Jerome*
Adam Nielsen	*Jackson*
Nathan Noah	*Cambridge*
Rick Pancheri	*Howe*
Lisa Patterson	*Heyburn*
Greg Payne	*Caldwell*
Brenda Richards	*Murphy*
Kay Riley	*Fruitland*
Jade Searle	*Shelley*
Jeanne Stubbers	*Kamiah*
Allan Swainston	*Preston*
Gerald Tews	*Filer*
Camellia Thurgood	*Nampa*
Ritchey Toevs	*Aberdeen*
Jennifer Traughber	*Jerome*
Greg Troost	*Parma*
Garth VanOrden	*Blackfoot*
Shane Webster	*Rexburg*
Jordan Whittaker	*Leadore*
Jared Zito	*Hammett*

MONTANA

Les Arthun	*Wilsall*
Neil Barnosky	*Sheridan*
Tara Becken	*Big Timber*
David Bell	*Great Falls*
Roger Berg	*Hilger*
Bill Bergin, Jr.	*Melstone*
Mark Bergstrom	*Brady*
Dusty Berwick	*Bainville*
Shawna Billmayer	*Hogeland*
Ryan Bogar	*Vida*
Jonathan Bolstad	*Homestead*
Rich Bronec	*Carter*
Shilo Capp	*Volborg*
Mark Coverdell	*Fairfield*
Nate Finch	*Dillon*
Brandon Flynn	*Townsend*
Kristin Gasvoda	*Big Sandy*
Scott Glasscock	*Angela*
Jackie Grimsrud	*Roy*
Garrett Grubb	*Conrad*
Colleen Gustafson	*Browning*
Courtney Herzog	*Rapelje*
Jared Holzrichter	*Frazer*
Blaine Hoversland	*Wolf Point*
Michael Huber	*Great Falls*
Tony Johnson	*Dell*
Tyler Judisch	*Ledger*
Kelly Kehler	*St. Xavier*
Steve Lackman	*Miles City*
Sherwin Leep	*Bozeman*
Andrew Maki	*Corvallis*
Jim McCabe	*Ekalaka*
Jared Miller	*Gildford*
Kurt Myllymaki	*Stanford*
Ken Olson	*Richey*
Miles Passmore	*Kalispell*
Tracey Pearce	*Twin Bridges*
Trudi Peterson	*Judith Gap*
Ryan Pfeifle	*Great Falls*
Bruce Richter	*Joplin*
Jeff Schafer	*Denton*
Shon Simonson	*Loring*
Jim Stampfel	*Absarokee*
Kathy Starkel	*Ronan*
Carma Steffes	*Plevna*
Lacey Sutherlin	*Stevensville*
Kurt Swanson	*Valier*
Lori Swanson	*Chinook*
Duane Talcott	*Hammond*
Jayme Tash	*Dillon*
Carla Tihista	*Nashua*
Mark Tombre	*Savage*
Lee Van Dyke	*Manhattan*
Patrick Verlanic	*Drummond*

OREGON

William Anderson	*Brownsville*
Roben Arnoldus	*Cove*
Bryce Balin	*Klamath Falls*
K.C. Bare	*Culver*
Steve Bickford	*Hood River*
Wade Bingaman	*Imbler*
Gorham Blaine	*Parkdale*
Daniel Boyajian	*Williams*
Ryan Boyle	*Madras*
Dan Corn	*Ontario*
Blake Crosby	*Oswego*
Tim Dahle	*The Dalles*
Paul Denfeld	*Hillsboro*
Tori Dennis	*Prineville*
Emilie Dierickx	*Forest Grove*
Scott Eder	*Silverton*
Tom Fessler	*Mt. Angel*
Scott Gibson	*Junction City*
Javier Goirigolzarri	*Roseburg*
Michelle Gray	*North Powder*
Levi Hermens	*Wallowa*
Joe Hill	*Baker City*
Shauna Hinton	*Montague, CA*
Karl Jensen	*Pilot Rock*
Kenneth Jensen	*Vale*
Roy Johnson	*Etna, CA*
Kyle Kenagy	*Oakland*
Alan Keudell	*Aumsville*
Jeremy Knapp	*Langlois*
Cameron Krebs	*Boardman*
Diane Kunkel	*Portland*
Julie Lourenzo	*Tillamook*
Jerry May	*Central Point*
Beth McClaran	*Joseph*
David Neal	*Tangent*
Ellie Norris	*Roseburg*
Eric Orem	*Heppner*
Randy Perkins	*Adams*
Nathan Rea	*Milton Freewater*
John Reerslev	*Junction City*
Shannon Rust	*Echo*
Grant Simpson	*Moro*
Alex Sokol Blosser	*Dayton*
Marc Staunton	*Merrill*
Eric White	*Nyssa*
Walter Woodhouse	*Merrill*

WASHINGTON

Brian Alegria	*Tieton*
Austin Allred	*Royal City*
Justin Andrews	*Prosser*
Loren Beale	*Pomeroy*
Ed Blok	*Lynden*
Caleb Boettcher	*Eatonville*
April Clayton	*Orondo*
Scott Crawford	*Kennewick*
Ravinder Dhaliwal	*Lynden*
Adam Dolsen	*Yakima*
Kevin Dorsing	*Royal City*
Chris Eckhart	*Deer Park*
Patrick Escure	*Quincy*
Steve Fish	*Sitka, AK*
Chuck Goldmark	*Okanagon*
Alan Groff	*Wenatchee*
Taryn Hartley	*Prosser*
Ian Jefferds	*Coupeville*
Russell Kehl	*Quincy*
Todd Kimball	*Walla Walla*
Evan Konshuk	*Spangle*
Leanne Krainick	*Enumclaw*
Mike Lowe	*Ellensburg*
Thomas Merkle	*Moses Lake*
Zach Miller	*Pasco*
Kyle Morscheck	*Clarkston*
Rosella Mosby	*Auburn*
Paul Neiffer	*Dayton*
Jerry Nelson	*Burlington*
Brian O'Leary	*Seattle*
Edward Poulsen	*Shoreline*
Robert Ricci	*Snohomish*
Brenton Roy	*Prosser*
Jason Salvo	*Duvall*
Court Stanley	*Centralia*
Jim Stone	*Lakewood*
Lori Stonecipher	*Walla Walla*
Doug Swinney	*Palouse*
Keith Tiegs	*Pasco*
John Tillman	*Elma*
Nick Weber	*Cotton*
Daniel Westacott	*Farmington*
Bill Wirth	*East Wenatchee*
Matt Zeiler	*Odessa*

As of 1.27.2022

2021 NORTHWEST FARM CREDIT SERVICES, ACA

Annual Report to Stockholders

NORTHWEST FARM CREDIT SERVICES, ACA

REPORT OF MANAGEMENT

The financial statements of Northwest Farm Credit Services, ACA and its wholly-owned subsidiaries (Northwest FCS) are prepared by management, which is responsible for their integrity and objectivity, including amounts necessarily based on judgments and estimates. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and, in the opinion of management, fairly present the financial condition of Northwest FCS. Other financial information included in the 2021 Annual Report to Stockholders is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Northwest FCS' accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurances that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, the Internal Audit staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. The financial statements are audited by PricewaterhouseCoopers LLP, independent auditors. Northwest FCS is also examined by the Farm Credit Administration.

The Chief Executive Officer, as delegated by the Northwest FCS Board of Directors, has overall responsibility for Northwest FCS' system of internal controls and financial reporting. The board has delegated significant responsibility to the Audit Committee, which is comprised entirely of directors who are independent of Northwest FCS' management. The Audit Committee meets periodically with management, independent auditors and internal auditors to ensure they are carrying out their responsibilities. The Audit Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of Northwest FCS in addition to reviewing Northwest FCS' financial reports. The independent auditors and internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the adequacy of the internal control structure for financial reporting and any other matters they believe should be brought to the attention of the committee.

The undersigned certify that they have reviewed the 2021 Annual Report to Stockholders and it has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate and complete to the best of our knowledge and belief.

Phil DiPofi	Tom Nakano	Nathan Riggers
President and CEO	EVP-Chief Administrative and Financial Officer	Chair of the Board
March 1, 2022	March 1, 2022	March 1, 2022

NORTHWEST FARM CREDIT SERVICES, ACA

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Based on the assessment performed, Northwest FCS concluded that as of December 31, 2021, the internal control over financial reporting was effective. Additionally, based on this assessment, Northwest FCS determined there were no material weaknesses in the internal control over financial reporting as of December 31, 2021. There were no material changes in the internal control over financial reporting during the year ended December 31, 2021.

Phil DiPofi	Tom Nakano
President and CEO	EVP-Chief Administrative and Financial Officer
March 1, 2022	March 1, 2022

NORTHWEST FARM CREDIT SERVICES, ACA

REPORT OF AUDIT COMMITTEE

The Audit Committee is composed of six members of the Northwest FCS Board of Directors. In 2021, the Audit Committee met eight times (three times in person and five times virtually or via conference call). The Audit Committee oversees the scope of Northwest FCS' internal audit program, the independence of the outside auditors, the adequacy of Northwest FCS' system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. In addition, the Audit Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as independent auditors for 2021. The Audit Committee's responsibilities are described more fully in the Audit Committee Charter.

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

In this context, the Audit Committee reviewed and discussed the audited financial statements, for the year ended December 31, 2021 with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statements on Auditing Standards. PwC and the internal auditors directly provided reports on significant matters to the Audit Committee.

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

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended the Northwest FCS Board of Directors include the audited financial statements in the annual report as of and for the year ended December 31, 2021.

Christy Burmeister-Smith
Chair of the Audit Committee
March 1, 2022

Bill Martin
Vicki Eggebrecht
Skip Gray
Beth Kennar
Derek Schafer

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(dollars in thousands)

December 31,	2021	2020	2019	2018	2017
CONDENSED BALANCE SHEETS					
Cash	$ 55,287	$ 20,494	$ 57,432	$ 64,170	$ 29,904
Loans	13,610,719	12,754,461	12,057,655	11,345,642	10,893,385
Less: allowance for loan losses	60,000	75,500	72,500	78,000	82,000
Net loans	13,550,719	12,678,961	11,985,155	11,267,642	10,811,385
Investment in CoBank, ACB	444,046	441,373	403,572	384,764	368,671
Other assets	777,065	582,797	327,688	270,255	242,418
Total assets	$ 14,827,117	$ 13,723,625	$ 12,773,847	$ 11,986,831	$ 11,452,378
Obligations with maturities of one year or less	$ 5,910,862	$ 5,313,479	$ 5,142,204	$ 4,600,431	$ 4,650,416
Obligations with maturities greater than one year	5,926,824	5,605,238	4,957,292	4,857,087	4,434,751
Total liabilities	11,837,686	10,918,717	10,099,496	9,457,518	9,085,167
Capital stock and participation certificates	13,480	13,392	12,830	12,672	12,691
Less: capital stock and participation certificates receivable (Note 8)	(13,480)	(13,392)	—	—	—
Accumulated other comprehensive loss, net of tax	(30,191)	(27,801)	(32,786)	(31,297)	(29,645)
Allocated retained earnings*	1,740,921	1,645,635	1,535,119	1,423,416	1,318,933
Unallocated retained earnings	1,278,701	1,187,074	1,159,188	1,124,522	1,065,232
Total members' equity	2,989,431	2,804,908	2,674,351	2,529,313	2,367,211
Total liabilities and members' equity	$ 14,827,117	$ 13,723,625	$ 12,773,847	$ 11,986,831	$ 11,452,378
CONDENSED STATEMENTS OF INCOME					
Net interest income	$ 386,600	$ 365,230	$ 339,099	$ 329,176	$ 314,878
(Credit loss reversal) provision for credit losses	(22,656)	7,105	(3,210)	(9,314)	5,388
Noninterest income	146,037	138,934	119,297	122,468	99,973
Noninterest expense	201,823	180,985	169,030	157,784	157,239
Provision for income taxes	1,395	424	1,123	1,196	1,575
Net income	$ 352,075	$ 315,650	$ 291,453	$ 301,978	$ 250,649
KEY FINANCIAL RATIOS FOR THE YEAR					
Return on average assets	2.5%	2.4%	2.4%	2.6%	2.3%
Return on average members' equity	12.1%	11.5%	11.2%	12.3%	10.9%
Net interest income as a percentage of average earning assets	2.9%	2.9%	3.0%	3.0%	3.0%
Net loan (recoveries) charge-offs as a percentage of average loans	0.0%	0.0%	0.0%	0.0%	0.0%
AT YEAR END					
Members' equity as a percentage of total assets	20.2%	20.4%	20.9%	21.1%	20.7%
Debt as a ratio to members' equity	4.0:1	3.9:1	3.8:1	3.7:1	3.8:1
Allowance for loan losses as a percentage of loans and accrued interest	0.4%	0.6%	0.6%	0.7%	0.7%
Permanent capital ratio	17.5%	17.6%	18.0%	17.8%	17.3%
Common Equity Tier 1 (CET1) Capital	17.4%	17.5%	17.9%	17.6%	17.2%
Tier 1 Capital	17.4%	17.5%	17.9%	17.6%	17.2%
Total Capital	17.9%	18.2%	18.6%	18.5%	18.1%
Tier 1 Leverage	18.5%	18.6%	19.4%	19.2%	18.8%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	19.9%	19.8%	20.5%	20.1%	19.6%
OTHER					
Loans serviced for other entities	$ 5,182,201	$ 5,122,107	$ 4,653,151	$ 4,419,300	$ 3,914,748
Patronage	$ 165,162	$ 177,248	$ 145,084	$ 138,397	$ 108,111

*Represents non-qualified written notices of allocation which are included within Unallocated retained earnings in the Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion summarizes the financial condition and results of operations of Northwest Farm Credit Services, an Agricultural Credit Association (ACA), and its wholly-owned subsidiaries (collectively referred to as Northwest FCS) as of and for the year ended December 31, 2021. The commentary should be read in conjunction with the accompanying Consolidated Financial Statements and Notes. Dollar amounts are in thousands unless otherwise stated.

Northwest FCS quarterly and annual reports to shareholders may be obtained free of charge on Northwest FCS' website, www.northwestfcs.com, or upon request at Northwest FCS, ACA, P.O. Box 2515, Spokane, Washington 99220-2515, or by telephone at (509) 340-5300 or toll free at (800) 743-2125.

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee.

Notice of Significant or Material Event

The Boards of Directors of Northwest FCS and Farm Credit West, ACA, recently made a strategic decision to enter into a non-binding Letter of Intent to pursue a merger of the two organizations. The consolidated association would be headquartered in Spokane, Washington. Upon completion of the merger, the association would serve over 23,000 customers in Alaska, Arizona, California, Idaho, Montana, Nevada, Oregon and Washington with expected total assets over $28 billion. If the outcome of due diligence is satisfactory and related approvals are received from CoBank and the Farm Credit Administration, customer-owners would vote on the merger in late 2022. If approved, the merger would be effective no earlier than January 1, 2023.

Forward-Looking Statements

Certain statements contained in this report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Actual results may differ materially from those included in the forward-looking statements that relate to plans, projections, expectations and intentions. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "estimate," "plan," "project," "may," "will," "should," "would," "could" or similar expressions. Although it is believed that information expressed or implied in such forward-looking statements is reasonable, no assurance can be given that such projections and expectations will be realized or the extent to which a particular plan, projection, or expectation may be realized. These forward-looking statements are based on current knowledge and are subject to various risks and uncertainties, including, but not limited to:

- Political (including trade policies), legal, regulatory, financial markets, and economic conditions and developments in the United States and abroad;
- Global health pandemics;
- Economic fluctuations in the agricultural, rural infrastructure and farm-related business sectors;
- Weather-related, disease and other adverse climatic or biological conditions that impact agricultural productivity and income;
- Changes in U.S. government support of the agricultural industry and the Farm Credit System (System) as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises and other financial institutions;
- Actions taken by the Federal Reserve System in implementing monetary policy;
- Actions taken by the U.S. government to manage U.S. fiscal policy, including tax reform;
- Credit, interest rate and liquidity risk inherent in lending activities;
- Transition from London Inter-bank Offered Rate (LIBOR) to an alternative index or indexes;
- Changes in assumptions for determining the allowance for credit losses and fair value measurements;
- Cybersecurity risks, including a failure or breach of operational or security systems or infrastructure, that could adversely affect business, financial performance and reputation;

- Disruptive technologies impacting the banking and financial services industries or implemented by competitors which negatively impact the ability to compete in the marketplace;
- Nonperformance by counterparties to derivative positions;
- The resolution of legal proceedings and related matters; and
- Industry outlooks for agricultural conditions and land values.

Business Overview

Farm Credit System Structure and Mission

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

Coronavirus Pandemic (COVID-19)

As the broader economy and marketplace continues to transition into the post COVID-19 pandemic environment, Northwest FCS and its customers continue to face a number of unique opportunities and challenges. While Northwest FCS cannot fully determine the longer-term extent of the impact of COVID-19 on its business and customers in future periods, it continues to monitor the situation and potential impacts.

Farm Bill

U.S. agriculture has historically received financial support from the U.S. government through direct payments, crop insurance and other benefits. The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law in December 2018 and amended and extended major programs for crop insurance and commodity support programs, strengthened livestock disaster programs, and provided dairy producers with an updated voluntary margin protection program that provides additional risk management options to dairy operations. The Farm Bill is administered by the United States Department of Agriculture (USDA) for five years through 2023. Elimination of support in the future could have a negative impact on the loan quality of certain borrowers who could be affected by such a reduction. Other political, legislative and regulatory activities may also impact the level or existence of certain government programs that support agriculture.

Structure and Focus

Northwest FCS is a customer-member cooperative that provides credit and financially related services to or for the benefit of eligible customers primarily in the states of Washington, Idaho, Oregon, Montana and Alaska. Northwest FCS makes short-term, intermediate-term and long-term loans; provides commitments to extend credit; and offers advance conditional payment accounts to farmers, ranchers, rural residents and agribusinesses. Northwest FCS also serves as an intermediary in offering federal multi-peril crop insurance programs, including the Whole-Farm Revenue Protection (WFRP) program and named peril/crop hail insurance. Additionally, Northwest FCS offers its customers services such as fee appraisals, business management education and planning services. Northwest FCS' success begins with its extensive agricultural experience and knowledge of the market and is dependent on the level of engagement of its customers.

As part of the System, Northwest FCS obtains funding for its lending and operations from CoBank, ACB, and its wholly-owned subsidiaries (CoBank), which is one of the four Farm Credit System Banks. CoBank is a cooperative of which Northwest FCS is a member. CoBank, its related associations, and AgVantis Inc. (AgVantis), a technology service corporation, are referred to as the District.

The financial condition and results of operations of CoBank, may materially affect the risk associated with stockholder investments in Northwest FCS. The CoBank quarterly and annual reports are available free of charge on CoBank's website, www.cobank.com, upon request at Northwest FCS, P.O. Box 2515, Spokane, Washington 99220-2515, by telephone at (509) 340-5300, toll free at (800) 743-2125, or upon request at any Northwest FCS office location. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

2021 Financial Highlights

The year ended December 31, 2021, was another year of strong financial performance for Northwest FCS. Highlights include:

- Net interest income of $386.6 million and net income of $352.1 million.
- Stewardship giving expenses totaled approximately $18.0 million this year, continuing our investments in universities, colleges and community colleges to support research, programs and careers in agriculture and forestry. Funding continues to be directed to numerous non-profit organizations and programs to address the increasing needs of rural communities.
- Loan portfolio volume increased 6.6 percent, with an ending total loan and accrued interest balance of $13.7 billion.
- Capital levels remained strong and well in excess of regulatory minimums. As of December 31, 2021, members' equity totaled approximately $3.0 billion, an increase of 6.6 percent.

Commodity Review and Outlook

The following highlights the general health of agricultural commodities with the greatest concentrations in Northwest FCS' loan portfolio.

Dairy: Northwest FCS' 12-month dairy outlook suggests slightly profitable returns. Profitability will depend on milk destination and producers' mailbox milk price. Milk price future contracts began increasing during the third quarter of 2021. Dairies utilizing active risk management and diligently managing breakeven costs will be able to lock in prices at or above breakeven. Costs of labor, feed and other input costs are expected to rise in line with increasing milk prices which will likely dampen profitability prospects.

Fruit and Tree Nuts: The principal commodity financed by Northwest FCS in this sector is apples. Northwest FCS' 12-month outlook expects slightly profitable returns for growers and packers. A smaller, high-quality crop along with reduced imports bode well for prices; however, reduced exports and rising costs may soften the market and diminish margins.

Forest Products: Northwest FCS' 12-month outlook sees forest product manufacturers and timberland owners as profitable. Coming off the heels of an extremely volatile but highly profitable pricing environment in 2021, lumber prices continue to show upside, starting 2022 much higher than average trend pricing. Log prices by comparison have been much steadier given a more balanced supply demand conditions. Overall, the forest products industry is set to benefit from strong housing demand in 2022.

Cattle and Livestock: The principal commodity financed by Northwest FCS in this sector is cattle and calves. Northwest FCS' 12-month outlook suggests slightly profitable returns for cow/calf producers. Cow/calf producers will face higher feed costs associated with the calves born in 2022. Gradually moderating feed costs in 2022 and stronger fed cattle prices will provide tailwinds to feeder cattle profitability into 2023.

Potatoes: Northwest FCS' profitability outlook suggests profitable returns for contracted potato producers. Open potato returns are projected to be slightly profitable. Operations with uncontracted potato acres face challenging decisions as the higher cost of production will encourage some producers to shift acreage to other commodities. Fuel and fertilizer cost increases should be offset by favorable prices and strong demand.

Grains: Northwest FCS' 12-month outlook calls for profitable returns driven by the expectation of higher prices based on current USDA projections. Higher prices for corn and soybeans are expected to continue to support higher prices for grains for the 2021-2022 season.

For more information on the industries served by Northwest FCS, visit Industry Insights in the Resources section of www.northwestfcs.com.

Financial Condition

Loan Portfolio

Loans and accrued interest by type are presented in the following table:

December 31,	*2021*		*2020*		*2019*	
	Outstanding	*Percent*	*Outstanding*	*Percent*	*Outstanding*	*Percent*
Production agriculture:						
Real estate mortgage	$ 7,003,397	51.0%	$ 6,319,702	49.2%	$ 5,737,000	47.2%
Production and intermediate-term	$ 3,331,925	24.3%	$ 3,240,058	25.2%	$ 3,266,103	26.8%
Agribusiness:						
Processing and marketing	$ 1,572,896	11.5%	$ 1,505,655	11.7%	$ 1,492,281	12.3%
Loans to cooperatives	$ 522,960	3.8%	$ 520,882	4.0%	$ 465,278	3.8%
Farm-related business	$ 315,425	2.3%	$ 250,914	2.0%	$ 246,477	2.0%
Rural infrastructure:						
Energy	$ 298,893	2.2%	$ 296,244	2.3%	$ 229,238	1.9%
Communications	$ 158,523	1.2%	$ 131,597	1.0%	$ 58,409	0.5%
Water and waste disposal	$ 88,933	0.6%	$ 79,472	0.6%	$ 64,705	0.5%
Rural residential real estate	$ 339,364	2.5%	$ 438,377	3.4%	$ 527,413	4.3%
Other:						
Leases	$ 72,263	0.5%	$ 64,043	0.5%	$ 70,186	0.6%
Other	$ 8,218	0.1%	$ 9,905	0.1%	$ 11,491	0.1%
Total	**$13,712,797**	**100.0%**	**$12,856,849**	**100.0%**	**$12,168,581**	**100.0%**

Northwest FCS makes loans and provides financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities. The loan portfolio is diversified by loan participations purchased and sold, geographic locations served, commodities financed, and loan size and structure.

Volume of participations purchased and sold are presented in the following table (participations purchased volume in the table excludes syndications and purchases of other interests in loans):

December 31,	*2021*	*2020*	*2019*
Participations purchased	$ 3,038,173	$ 2,840,869	$ 2,520,429
Participations sold	$ 5,195,353	$ 5,050,893	$ 4,541,935

Loan concentrations by state are presented in the following table:

December 31,	*2021*	*2020*	*2019*
Washington	27.8%	29.3%	31.2%
Idaho	20.4%	19.6%	20.2%
Oregon	17.4%	18.0%	18.4%
Montana	7.4%	7.4%	7.6%
Other	27.0%	25.7%	22.6%
Total	**100.0%**	**100.0%**	**100.0%**

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

December 31,	*2021*	*2020*	*2019*
Dairy	11.5%	11.2%	11.4%
Fruit and tree nuts	11.1%	10.8%	11.1%
Cattle and livestock	10.0%	9.3%	9.3%
Forest products	8.7%	9.6%	10.4%
Potatoes	6.7%	6.8%	6.8%
Ag processing	6.2%	6.6%	6.3%
Grains	6.1%	6.0%	6.3%
Agricultural services	5.4%	6.5%	6.1%
Other concentrations in aggregate	34.3%	33.2%	32.3%
Total	**100.0%**	**100.0%**	**100.0%**

Impaired loan volume is composed of nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. Nonperforming assets consist of impaired loans and other property owned. Comparative information regarding nonperforming assets in the portfolio, including accrued interest where appropriate, are presented in the following table:

December 31,	*2021*	*2020*	*2019*
Performing loans and interest	**$ 13,655,525**	**$ 12,790,735**	**$ 12,089,409**
Nonperforming assets:			
Nonaccrual loans	49,526	47,474	65,124
Restructured accrual loans	4,964	9,910	11,012
Accrual loans 90 days or more past due	2,782	8,730	3,036
Total impaired loans and interest	57,272	66,114	79,172
Other property owned, net	—	—	—
Total nonperforming assets	**$ 57,272**	**$ 66,114**	**$ 79,172**
Total loans and interest	**$ 13,712,797**	**$ 12,856,849**	**$ 12,168,581**
Nonaccrual loans to total loans and accrued interest	0.4%	0.4%	0.5%
Impaired loans to total loans and accrued interest	0.4%	0.5%	0.7%
Nonperforming assets to total loans and accrued interest	0.4%	0.5%	0.7%

Total nonperforming assets at December 31, 2021, decreased by $8.8 million or 13.4 percent compared to December 31, 2020. Accrual loans 90 days or more past due and still accruing interest decreased by $5.9 million from December 31, 2020, and were adequately secured and in the process of collection. Restructured accrual loan volume decreased by $4.9 million compared to December 31, 2020, primarily related to loan repayments. Nonaccrual loans increased by $2.1 million at December 31, 2021, compared to December 31, 2020 and consist primarily of dairy, energy, and potatoes categories.

Nonaccrual loan changes are summarized in the following table:

Year ended December 31,	*2021*	*2020*	*2019*
Beginning balance	$ 47,474	$ 65,124	$ 73,452
Transfer from accrual status	19,434	8,713	21,397
Return to accrual status	(4,654)	(5,014)	(6,415)
Charge-offs	(68)	(411)	(210)
Transfers to other property owned	—	—	(36)
Repayments, net	(12,660)	(20,938)	(23,064)
Ending balance	**$ 49,526**	**$ 47,474**	**$ 65,124**

As of December 31, 2021, 2020 and 2019, nonaccrual loans that were current as to principal and interest were 53.4 percent, 73.9 percent and 59.8 percent, respectively. Additional loan information is in Note 4 to the Consolidated Financial Statements.

Allowance for Credit Losses

The allowance for credit losses (ACL) is composed of the allowance for loan losses (ALL) and the reserve for unfunded lending commitments. The ACL is the best estimate of the amount of probable losses inherent in the loan portfolio at the balance sheet date. The ACL is determined based on a periodic evaluation of the loan portfolio and unfunded lending commitments, which generally considers types of loans, credit quality, specific industry conditions, general economic and political conditions, weather-related conditions, and changes in the character, composition and performance of the portfolio, among other factors. The ACL is calculated based on a historical loss model that takes into consideration various risk characteristics of the loan portfolio. Northwest FCS evaluates the reasonableness of this model and determines whether adjustments to the ACL are appropriate to reflect the risks inherent in the portfolio.

Individual loans are evaluated based on the borrower’s overall financial condition, resources and payment history; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The ALL attributable to these loans is established by a process that estimates the probable loss inherent in the loans. These specific loan loss reserves at December 31, 2021, 2020 and 2019, totaled $2.5 million, $0.3 million and $2.2 million, respectively. The ALL reserves, including the specific reserves, at December 31, 2021, 2020 and 2019, totaled $60.0 million, $75.5 million and $72.5 million, respectively.

Coverage of the ALL, as a percentage of certain key loan categories, is presented in the following table:

December 31,	*2021*	*2020*	*2019*
Allowance for loan losses as a percentage of:			
Total loans	0.4%	0.6%	0.6%
Nonaccrual loans	121.1%	159.0%	111.3%
Impaired loans	104.8%	114.2%	91.6%

Northwest FCS maintains a reserve for unfunded lending commitments that reflects its best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as the likelihood of disbursement and loss given default are used in determining this reserve. This reserve is reported within other liabilities in the Consolidated Balance Sheets and totaled $16.5 million, $23.5 million and $19.5 million at December 31, 2021, 2020 and 2019, respectively.

Results of Operations

Net income for the year ended December 31, 2021, was $352.1 million, compared to $315.7 million for 2020 and $291.5 million for 2019. The following table provides detail of changes in the components of net income:

Change between the years ended December 31,	*2021 and 2020*	*2020 and 2019*
Increase in net interest income	$ 21,370	$ 26,131
Decrease (increase) in provision for credit losses	29,761	(10,315)
Increase in noninterest income	7,103	19,637
Increase in noninterest expense	(20,838)	(11,955)
(Increase) decrease in provision for income taxes	(971)	699
Total increase in net income	**$ 36,425**	**$ 24,197**

Net Interest Income: Net interest income was $21.4 million higher in 2021 compared to 2020 and $26.1 million higher in 2020 compared to 2019, both primarily due to a decrease in the rates of interest bearing liabilities and an increase in the volume of interest bearing assets, partially offset by a decrease in the rates of interest bearing assets and an increase in the volume of interest bearing liabilities. Net interest income includes $4.6 million, $3.4 million and $3.7 million of net loan fee accretion for the years ended December 31, 2021, 2020 and 2019, respectively.

Influences on net interest income from changes in effective rates on, and volume of, interest earning assets and interest bearing liabilities between the years ended December 31, 2021, and 2020, and between the years ended December 31, 2020, and 2019, are presented in the following tables:

Change between years ended December 31, 2021 and 2020	*Change in income/expense*	*Change in rate*	*Change in volume*
Interest income on total loans	$ (5,356)	$ (37,953)	$ 32,597
Interest income on investment securities	(9)	121	(130)
Total interest income	**$ (5,365)**	**$ (37,832)**	**$ 32,467**
Total interest expense	26,735	36,527	(9,792)
Net interest income	**$ 21,370**	**$ (1,305)**	**$ 22,675**

Change between years ended December 31, 2020 and 2019	*Change in income/expense*	*Change in rate*	*Change in volume*
Interest income on total loans	$ (58,320)	$ (94,247)	$ 35,927
Interest income on investment securities	1,669	(4,030)	5,699
Total interest income	**$ (56,651)**	**$ (98,277)**	**$ 41,626**
Total interest expense	82,782	108,261	(25,479)
Net interest income	**$ 26,131**	**$ 9,984**	**$ 16,147**

Information regarding the average daily balances and average rates earned and paid are presented in the following table:

Year ended December 31,	*2021*	*2020*	*2019*
Net interest income	$ 386,600	$ 365,230	$ 339,099
Average balances:			
Total loans	$ 12,952,978	$ 12,197,316	$ 11,490,978
Investment securities	328,869	356,552	600
Total average interest earning assets	**$ 13,281,847**	**$ 12,553,868**	**$ 11,491,578**
Total average interest bearing liabilities	**$ 10,874,090**	**$ 10,256,394**	**$ 9,291,588**
Average yields and rates:			
Interest earning total loans yield	4.02%	4.31%	5.09%
Interest earning investment securities yield	0.51%	0.47%	1.67%
Rate paid on interest bearing liabilities	1.25%	1.59%	2.64%
Interest rate spread	2.68%	2.61%	2.45%
Net interest margin (net interest income as a percentage of average interest earning assets)	2.91%	2.91%	2.95%

Credit loss reversal/provision for credit losses: In 2021, the credit loss reversal of $22.7 million was primarily the result of changes in assumptions within the allowance for credit losses calculation related to the current market environment which impacted the estimated incurred losses within the portfolio. In 2020, the provision for credit losses of $7.1 million was primarily due to the growth in the lending portfolio. In 2019, the credit loss reversal of $3.2 million was primarily the result of improved credit quality.

Noninterest income: In 2021, noninterest income increased $7.1 million or 5.1 percent compared to 2020, primarily due to an increase in patronage income of $12.4 million, offset by a decrease in loan and other fees of $3.1 million and a decrease in other noninterest income of $1.7 million. The increase in patronage income was primarily due to CoBank increasing their patronage target for affiliated associations on direct note balances to 0.45 percent in 2021 compared to 0.36 percent in 2020, an increase in patronage from loan volume sold to other Farm Credit System entities, and $10.2 million of additional patronage from CoBank in 2021 compared to $9.7 million in 2020. The decrease in loan and other fees in 2021 was primarily due to a decrease in servicing and amendment fees compared to 2020. The decrease in other noninterest income was primarily due to Northwest FCS receiving a refund of $2.5 million from the Farm Credit System Insurance Corporation (Insurance Corporation) of excess amounts in the Farm Credit Insurance Fund (Insurance Fund) in 2020 compared to no similar refund received in 2021.

In 2020, noninterest income increased $19.6 million or 16.5 percent compared to 2019, primarily due to an increase in patronage income of $14.6 million and an increase in loan and other fees of $5.9 million, offset by a decrease in other noninterest income of $1.2 million. The increase in patronage income was primarily due to $9.7 million of additional patronage from CoBank in 2020 compared to $1.3 million in 2019 and an increase in patronage from loan volume sold to other Farm Credit System entities. Loan and other fees increased primarily due to increased servicing, amendment, and unused commitment fees compared to 2019. The decrease in other noninterest income was primarily due to a decrease in mineral income related to current market conditions. In 2020 and 2019, Northwest FCS received refunds from the Insurance Corporation of excess amounts in the Insurance Fund of $2.5 million and $2.6 million, respectively.

Noninterest expense: In 2021, noninterest expense increased $20.8 million or 11.5 percent compared to 2020, primarily related to an increase in other noninterest expenses of $8.1 million, increased insurance fund premiums of $6.5 million, and an increase in salaries and employee benefits of $3.8 million. Other noninterest expense increased primarily due to stewardship giving expenses previously discussed and an increase in travel expenses in 2021 compared to reduced travel that occurred in 2020 due to COVID-19. The increase in insurance fund premiums was the result of increased premium rates in 2021 compared to 2020. Salaries and employee benefits increased as a result of the normal merit administration, increased cost of benefits, and increased incentive compensation as a result of record earnings in 2021.

In 2020, noninterest expenses increased $12.0 million or 7.1 percent compared to 2019, primarily related to increased salaries and employee benefits of $4.5 million, increased other noninterest expenses of $4.4 million, and increased purchased services of $2.3 million. Salaries and employee benefits increased as a result of the normal merit administration, increased cost of benefits, and increased incentive compensation as a result of earnings in 2020. Other noninterest expenses increased primarily due to stewardship giving expenses, partially offset by reduced travel expenses due to COVID-19. The purchased services increase was primarily due to higher technology and consulting fees related to strategic business initiatives.

Salaries and employee benefits includes a reduction of $10.8 million, $9.8 million, and $7.5 million in deferred loan origination costs for the years ended December 31, 2021, 2020 and 2019, respectively. Deferred loan origination costs are periodically updated to reflect cost changes, primarily related to salaries and employee benefits.

Liquidity, Investment Securities and Funding Sources

The primary source of Northwest FCS liquidity and funding is a direct loan from CoBank that is reported as a note payable to CoBank, ACB in the Consolidated Balance Sheets. As described in Note 7 to the Consolidated Financial Statements, this direct loan is governed by a General Financing Agreement (GFA), is collateralized by a pledge of substantially all of Northwest FCS' assets and is also subject to:

- Borrowing limits, and financial and credit metrics that if not maintained can result in increases to the funding costs;
- Liquidity standards that require compliance with FCA regulations regarding liquidity. To meet this requirement, Northwest FCS is allocated a share of CoBank's liquid assets for calculation purposes; and
- Net interest income and market value of equity sensitivity requirements, which are discussed further in the 'Asset/Liability Management' section below.

Northwest FCS is currently in compliance with the GFA, including repayment pursuant to the terms and conditions of each debt obligation to CoBank and does not foresee issues with obtaining funding or maintaining liquidity and sensitivity requirements.

Northwest FCS plans to continue to fund lending operations primarily through its borrowing relationship with CoBank and from retained earnings. CoBank's primary source of funds is the issuance of Systemwide Debt Securities to investors through the Federal Farm Credit Banks Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting Northwest FCS' purpose of providing credit to agriculture and rural America.

Northwest FCS has two secondary sources of liquidity and funding, with the first being a Liquidity Investments Portfolio managed by Northwest FCS. The Liquidity Investments Portfolio holds investment securities primarily to maintain a liquidity reserve and to assist with interest rate risk management. In accordance with Board-approved policies, Northwest FCS purchases high credit quality investment securities to ensure the investment portfolio is readily marketable and available to serve as a source of liquidity in the event of disruption to Northwest FCS' normal funding sources. Additional investment securities information is in Note 2 and Note 3 to the Consolidated Financial Statements.

Northwest FCS' other secondary source of liquidity and funding is through an uncommitted Federal Funds line of credit with Wells Fargo Bank, N.A. The amount available through this line is $75.0 million and is intended to provide liquidity for disaster recovery or other emergency situations. At December 31, 2021, 2020 and 2019, no balance was outstanding on this line of credit.

In 2020, Northwest FCS established a deposit account with the Federal Reserve Bank of San Francisco to enhance cash management capabilities and further support liquidity. The account provides a safe and accessible location to store funds when financial markets experience stress or other liquidity events. It also provides an efficient method to wire funds to and from entities both inside and outside the Farm Credit system, as management deems appropriate.

Asset/Liability Management

In the normal course of lending activities, Northwest FCS is subject to interest rate risk. The asset/liability management objective is monitored by the Asset/Liability Committee (ALCO) relative to a funding strategy designed to manage within interest rate risk limits targeting reasonable stability in net interest income over an intermediate planning horizon and preserving a relatively stable market value of equity over the long term. Mismatches and exposure in interest rate repricing and indices of assets and liabilities can arise from product structures, customer activity, capital re-investment and liability management. While Northwest FCS actively manages interest rate risk within the policy limits approved by the Northwest FCS Board of Directors (the board) through the strategies established by the ALCO, there is no assurance that these mismatches and exposures will not adversely impact earnings and capital. The overall objective is to develop competitively priced and structured loan products meeting customers' needs and fund these products with a blend of equity and debt obligations selected to minimize, but not completely eliminate, risks to net interest income and market value of equity.

The interest rate gap analysis shown in the following table presents a comparison of the length of the rate commitments for interest earning assets and interest bearing liabilities in defined time segments at December 31, 2021. The interest rate gap analysis is a static indicator for how Northwest FCS is positioned. It compares the amount of assets and liabilities with interest rates maturing or repricing at various future time periods. Factors not considered in the gap analysis (but monitored by ALCO) include differences between interest rate indices on loans relative to the underlying funding, relative changes in the levels of interest rates over time, and changes in optionality included in some loans and funding instruments.

December 31, 2021	*One month or less*	*Over 1 month to 6 months*	*Over 6 months to 1 year*	*Over 1 year to 5 years*	*Over 5 years*	*Total*
Interest earning assets:						
Loans						
Floating rate loans	$5,072,302	$302,419	$ 9,366	$ —	$ —	$ 5,384,087
Adjustable rate loans	31,251	81,126	87,197	389,819	389,499	978,892
Fixed rate loans, prepayable	31,709	233,289	225,200	1,438,151	1,155,077	3,083,426
Fixed rate loans	29,101	220,160	261,638	1,813,083	1,790,806	4,114,788
Nonaccrual loans	36,438	2,845	3,414	6,829	—	49,526
Total Loans	$5,200,801	$839,839	$586,815	$3,647,882	$3,335,382	$ 13,610,719
Investment securities	—	—	—	320,176	102,125	422,301
Total interest earning assets	**$5,200,801**	**$839,839**	**$586,815**	**$3,968,058**	**$3,437,507**	**$ 14,033,020**
Interest bearing liabilities:						
Floating rate debt	$4,225,793	$ —	$ —	$ —	$ —	$ 4,225,793
Discount notes	124,997	99,989	—	—	—	224,986
Fixed rate debt, callable	—	—	—	708,914	1,390,458	2,099,372
Fixed rate debt	57,000	436,985	744,152	1,850,637	1,401,815	4,490,589
Effect of interest rate swaps	140,000	(2,000)	(13,000)	(125,000)	—	—
Advance conditional payments and other interest bearing liabilities	526,948	—	—	—	—	526,948
Total interest bearing liabilities	**$5,074,738**	**$534,974**	**$731,152**	**$2,434,551**	**$2,792,273**	**$ 11,567,688**
Interest rate sensitivity gap	**$ 126,063**	**$304,865**	**$(144,337)**	**$1,533,507**	**$ 645,234**	**$ 2,465,332**
Cumulative gap	**$ 126,063**	**$430,928**	**$286,591**	**$1,820,098**	**$2,465,332**	
Cumulative gap/total interest-earning assets	0.90%	3.07%	2.04%	12.97%	17.57%	

Northwest FCS' interest rate gap as of December 31, 2021, is characterized as slightly asset sensitive. An asset sensitive position means as interest rates rise earnings increase and as interest rates fall earnings decrease. Given some of the inherent weaknesses with interest rate gap analysis, simulation models are used to develop additional interest rate sensitivity measures and estimates. The assumptions used to produce anticipated results are periodically reviewed and models are tested to help ensure reasonable performance. Various simulations are produced for net interest income and the market value of equity. These simulations help to assess interest rate risk and inform adjustments as needed to the products and related funding strategies.

Northwest FCS' Asset/Liability Management board policy establishes limits for changes in net interest income and market value of equity sensitivities. These limits are measured and reviewed by the ALCO monthly and reported to the board at least quarterly. The board policy limits for net interest income and the market value of equity are a negative 15 percent change from base given parallel and instantaneous shocks of interest rates up and down 2 percent. In instances when the rate on the three-month U.S. Treasury bill is less than 4 percent, FCA guidelines prescribe the Regulatory Down Policy shock measure should be used in lieu of the down 2 percent measure, with that measure equal to one-half the three-month U.S. Treasury bill rate. This was the case as of December 31, 2021, with the Regulatory Down Policy shock measure being down 0.02 percent. In the event where the current three-month U.S. Treasury bill rate is negative, Northwest FCS will coordinate with FCA and CoBank for the Regulatory Down Policy shock amount. The GFA also uses these simulation results to assess compliance with the net interest income and market value of equity sensitivity requirements, and necessary follow-up action(s), if any.

The up and down shocks reflected in the following table are based on parallel and instantaneous interest rate movements.

December 31, 2021	*Regulatory down policy shock*	*+ 1% shock*	*+ 2% shock*	*+ 3% shock*
Change in net interest income	0.05%	0.92%	1.56%	2.12%
Change in market value of equity	0.03%	-1.75%	-3.84%	-5.81%

As of December 31, 2021, all interest rate risk-related measures were within the board policy limits, GFA requirements and management guidelines.

Use of Derivatives

To achieve risk management objectives and satisfy the financing needs of its borrowers, Northwest FCS executes derivative transactions with CoBank. Derivatives (interest rate swaps) are used to manage liquidity and the interest rate risk arising from maturity and repricing mismatches between assets and liabilities. The notional amounts of derivatives, weighted average interest rates to be received and paid, and fair values at December 31, 2021, are shown in the following table:

	Derivative financial instruments at December 31, 2021			
Derivative product	*Notional amount*	*Weighted average receive rate*	*Weighted average pay rate*	*Fair value*
Receive-fixed swaps	$ 140,000	2.44%	0.14%	$ 4,040
Total	**$ 140,000**	**2.44%**	**0.14%**	**$ 4,040**

The following section includes a summary of Northwest FCS' portfolio by strategy and further explanation of each strategy.

	Notional amounts of derivative financial instruments by strategy		
December 31,	*2021*	*2020*	*2019*
Strategy			
Liquidity management	$ —	$ 250,000	$ 475,000
Equity positioning	140,000	140,000	140,000
Total	**$ 140,000**	**$ 390,000**	**$ 615,000**

Liquidity Management

Interest rate swaps are executed to improve liquidity, primarily by effectively converting longer-term fixed-rate bonds and notes into synthetic floating-rate debt indexed to LIBOR. The fixed-rate received on the swap provides a degree of offset to the fixed-rate paid on the associated hedged debt instrument, which results in a synthetic floating-rate arrangement for the combined pairing of the swap and hedged debt instrument. This allows Northwest FCS to issue fixed rate debt with a corresponding receive-fixed, pay-floating interest rate swap to fund assets with shorter repricing terms.

Equity Positioning

Northwest FCS also uses interest rate swaps to manage interest rate risk as it relates to the investment of its equity. If the cash flows of loans and investments on the balance sheet do not create the targeted maturity for the investment of its equity, Northwest FCS enters into receive-fixed interest rate swaps to produce the desired equity investment maturity profile.

Additional derivative information is in Note 15 to the Consolidated Financial Statements.

Uncertainty Surrounding the Future of LIBOR

Northwest FCS recognizes the discontinuance of LIBOR presents significant risks and challenges that could have an impact on its business. Accordingly, Northwest FCS established a LIBOR governance and implementation program and ALCO has taken numerous actions to mitigate our risks to the LIBOR transition.

LIBOR is a widely referenced benchmark rate, which is published in five currencies and a range of tenors, and seeks to estimate the cost at which financial institutions can borrow on an unsecured basis from other financial institutions. On March 5, 2021, the Financial Conduct Authority and the administrator of LIBOR announced that LIBOR will no longer be published on a representative basis after December 31, 2021, with the exception of the most commonly used tenors of U.S. dollar (USD) LIBOR which will no longer be published on a representative basis after June 30, 2023. Additionally, federal banking agencies have issued guidance strongly encouraging banking organizations to cease using USD LIBOR as a reference rate in new contracts as soon as practicable and in any event by December 31, 2021.

In December 2020, the FCA issued an informational memorandum with similar LIBOR transition guidance as the Prudential Regulators (Federal Reserve, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency), but applicable to the Farm Credit System. In the informational memorandum, the FCA encouraged the following LIBOR transition action steps in 2021: reduce LIBOR exposures; stop the inflow of new LIBOR volume; develop and implement loan products with alternative reference rates; assess, and if necessary, revise fallback language on legacy LIBOR indexed loans and contracts; adjust operational processes, including accounting and management information systems, to handle alternative reference rates; and communicate pending or imminent changes to customers as appropriate.

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

In the United States, the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York approved SOFR as the recommended alternative to LIBOR and the Federal Reserve Bank of New York began publishing SOFR in April of 2018. In July 2021, the ARRC recommended the CME Group's forward looking SOFR term rates, which provides a key tool to market participants as the end of LIBOR approaches.

Beginning October 2021, SOFR products were made available to eligible Northwest FCS customers. LIBOR rate options were discontinued for all new and renewing Northwest FCS customer loans after December 31, 2021. Through December 31, 2021, Northwest FCS has implemented updated fallback language in nearly all its loan agreements. Changes and updates to various systems have been implemented to support SOFR indexed transactions.

Northwest FCS has exposure to various LIBOR-indexed financial instruments that mature after 2021. This exposure includes loans Northwest FCS makes to its customers, loans Northwest FCS purchases from other entities, the note payable to CoBank and derivative transactions. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the terms of the financial instruments, which could adversely affect the value of, and return on, instruments held by Northwest FCS. In addition, to the extent that Northwest FCS cannot successfully transition its LIBOR-indexed financial instruments to an alternative rate-based index that is endorsed or supported by regulators and generally accepted by the market as a replacement to LIBOR, there could be other ramifications including those that may arise as a result of the need to redeem or terminate such instruments.

Disputes and litigation with counterparties and borrowers relating to the transition are also possible. Due to the uncertainty regarding the transition from LIBOR-indexed financial instruments, including when it will happen, the manner in which an alternative reference rate will apply, and the mechanisms for transitioning its LIBOR-indexed instruments to instruments with an alternative rate, Northwest FCS cannot yet reasonably estimate the expected financial impact of the LIBOR transition.

Northwest FCS continues to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. Because Northwest FCS has engaged in transactions involving financial instruments that reference LIBOR in the past, these developments could have a material impact on Northwest FCS, Northwest FCS' borrowers and counterparties.

Members' Equity

Northwest FCS has a capitalization objective to maintain a strong capital base, which is comprised almost entirely of unallocated retained earnings, for its continued financial viability and to provide for growth necessary to competitively meet the needs of its customers. In assessing the amount of capital needed, Northwest FCS takes into account credit risk, funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital. Northwest FCS' capital position is reflected in the following ratio comparisons:

December 31,	*2021*	*2020*	*2019*
Debt to members' equity	4.0:1	3.9:1	3.8:1
Members' equity as a percent of total loans	22.0%	22.0%	22.2%
Members' equity as a percent of total assets	20.2%	20.4%	20.9%

Capital Regulations

The FCA regulations require Northwest FCS to maintain minimums for various regulatory capital ratios. Management is not aware of any reasons why the regulatory capital requirements would not be met in 2022, nor is it currently or expected to be prohibited from retiring stock or distributing earnings in 2022. For additional information related to capital and related requirements and restrictions, refer to Note 8 to the Consolidated Financial Statements.

pwc

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of Northwest Farm Credit Services, ACA and Subsidiaries

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

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

Other Information

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

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

PricewaterhouseCoopers LLP

San Francisco, California
March 1, 2022

NORTHWEST FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

December 31,	*2021*	*2020*	*2019*
ASSETS			
Cash	$ 55,287	$ 20,494	$ 57,432
Investment securities	422,301	252,417	15,322
Loans	13,610,719	12,754,461	12,057,655
Less: allowance for loan losses	60,000	75,500	72,500
Net loans	13,550,719	12,678,961	11,985,155
Accrued interest receivable	103,704	105,512	111,332
Investment in CoBank, ACB	444,046	441,373	403,572
Patronage receivable	94,986	81,979	67,760
Investment in other Farm Credit Institutions	73,983	60,015	49,997
Premises and equipment, net	48,194	41,102	38,068
Other assets	33,897	41,772	45,209
Total assets	$ 14,827,117	$ 13,723,625	$ 12,773,847
LIABILITIES			
Note payable to CoBank, ACB	$ 11,040,740	$ 10,325,105	$ 9,639,982
Advance conditional payments and other interest bearing liabilities	526,948	339,069	194,678
Accrued interest payable	24,138	26,941	36,654
Patronage payable	165,030	134,660	145,030
Other liabilities	80,830	92,942	83,152
Total liabilities	11,837,686	10,918,717	10,099,496
Commitments and Contingent Liabilities (Note 14)			
MEMBERS' EQUITY			
Capital stock and participation certificates	13,480	13,392	12,830
Less: capital stock and participation certificates receivable (Note 8)	(13,480)	(13,392)	—
Accumulated other comprehensive loss, net of tax	(30,191)	(27,801)	(32,786)
Unallocated retained earnings	3,019,622	2,832,709	2,694,307
Total members' equity	2,989,431	2,804,908	2,674,351
Total liabilities and members' equity	$ 14,827,117	$ 13,723,625	$ 12,773,847

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

NORTHWEST FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)

For the year ended December 31,	***2021***	***2020***	***2019***
NET INTEREST INCOME			
Interest income	$ 522,461	$ 527,826	$ 584,477
Interest expense	135,861	162,596	245,378
Net interest income	386,600	365,230	339,099
(Credit loss reversal) provision for credit losses	(22,656)	7,105	(3,210)
Net interest income after (credit loss reversal) provision for credit losses	409,256	358,125	342,309
NONINTEREST INCOME			
Patronage	96,235	83,814	69,233
Financially related services	25,324	25,832	25,410
Loan and other fees	13,748	16,862	11,007
Other noninterest income	10,730	12,426	13,647
Total noninterest income	146,037	138,934	119,297
NONINTEREST EXPENSE			
Salaries and employee benefits	104,911	101,147	96,658
Purchased services	30,688	29,572	27,239
Insurance fund premiums	15,112	8,617	7,680
Occupancy and equipment	11,486	10,156	10,335
Other noninterest expenses	39,626	31,493	27,118
Total noninterest expense	201,823	180,985	169,030
Income before income taxes	353,470	316,074	292,576
Provision for income taxes	1,395	424	1,123
Net income	$ 352,075	$ 315,650	$ 291,453

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

NORTHWEST FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

For the year ended December 31,		*2021*		*2020*		*2019*
Net Income	$	352,075	$	315,650	$	291,453
Amortization of cost (income) included in net periodic pension cost (income) and other actuarial adjustments, net of deferred income tax		2,472		3,873		(1,529)
Net change in unrealized (losses) gains on investment securities		(4,862)		1,112		40
Other comprehensive (loss) income, net of tax		(2,390)		4,985		(1,489)
Comprehensive Income	$	349,685	$	320,635	$	289,964

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

NORTHWEST FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(dollars in thousands)

For the year ended December 31,	***2021***	***2020***	***2019***
Balance at beginning of period	$ 2,804,908	$ 2,674,351	$ 2,529,313
Comprehensive income	349,685	320,635	289,964
Issuance of stock in exchange for customer stock receivable	1,928	1,859	1,410
Release of customer stock receivable associated with retired stock	(1,840)	(1,297)	(1,252)
Less: capital stock and participation certificates receivable (Note 8)	(88)	(13,392)	—
Patronage	(165,162)	(177,248)	(145,084)
Balance at end of period	$ 2,989,431	$ 2,804,908	$ 2,674,351

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

NORTHWEST FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands) ***Year ended December 31,***	***2021***	***2020***	***2019***
Cash flows from operating activities:			
Net income	$ 352,075	$ 315,650	$ 291,453
Adjustments to reconcile net income to net cash from operating activities:			
(Credit loss reversal) provision for credit losses	(22,656)	7,105	(3,210)
Depreciation and amortization	5,612	6,658	4,188
Net loss on early extinguishment of notes payable	19,805	14,144	4,667
Other, net	(2,722)	2,606	(2,711)
Changes in:			
Accrued interest receivable	1,808	5,820	(8,504)
Patronage receivable	(13,007)	(14,219)	(3,417)
Other assets	(2,893)	(7,234)	(6,357)
Accrued interest payable	(2,803)	(9,713)	221
Other liabilities	(2,362)	9,732	(227)
Net cash provided by operating activities	332,857	330,549	276,103
Cash flows from investing activities:			
Increase in loans, net	(856,102)	(696,911)	(711,839)
Increase in CoBank, ACB and other investments	(13,968)	(45,321)	(16,736)
Purchase of investment securities	(381,650)	(538,881)	(15,286)
Maturities of investment securities	205,000	300,000	—
Purchases of premises and equipment	(8,490)	(6,684)	(7,375)
Other investing activity, net	—	—	(85)
Net cash used in investing activities	(1,055,210)	(987,797)	(751,321)
Cash flows from financing activities:			
Increase in notes payable, net	726,066	677,681	661,800
Payments on early extinguishment of notes payable	(19,805)	(14,144)	(4,667)
Increase (decrease) in advanced conditional payments	186,474	145,014	(49,796)
Capital stock and participation certificates issued	—	—	1,410
Capital stock and participation certificates retired	—	—	(1,252)
Distribution of patronage	(134,792)	(187,618)	(138,454)
Other financing activity, net	(797)	(623)	(561)
Net cash provided by financing activities	757,146	620,310	468,480
Net increase (decrease) in cash	34,793	(36,938)	(6,738)
Cash at beginning of period	20,494	57,432	64,170
Cash at end of period	$ 55,287	$ 20,494	$ 57,432

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

NORTHWEST FARM CREDIT SERVICES, ACA

SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS INFORMATION

(dollars in thousands) ***Year ended December 31,***	***2021***	***2020***	***2019***
Supplemental schedule of non-cash investing and financing activities:			
Issuance of stock in exchange for customer stock receivable	$ 1,928	$ 1,859	$ —
Release of customer stock receivable associated with retired stock	(1,840)	(1,297)	—
Supplemental cash flow information:			
Interest paid	$ 115,103	$ 161,547	$ 230,128
Income taxes paid (net of refunds)	677	1,098	658

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

Notes to Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 – Organization and Operations

Organization

Northwest Farm Credit Services, ACA and its subsidiaries, Northwest Farm Credit Services, FLCA (the Federal Land Credit Association (FLCA)) and Northwest Farm Credit Services, PCA (the Production Credit Association (PCA)), (collectively referred to as Northwest FCS), is a customer-member cooperative that provides credit and financially related services to or for the benefit of eligible customers primarily in the states of Washington, Idaho, Oregon, Montana and Alaska.

Northwest FCS is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and rural America and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). As of December 31, 2021 the System is composed of three Farm Credit Banks (FCBs), one Agricultural Credit Bank (ACB) and 67 associations.

CoBank, ACB, and its wholly-owned subsidiaries (CoBank or Bank), its related associations, and AgVantis Inc. (AgVantis), a technology service corporation, are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District associations. As of December 31, 2021 the District consists of CoBank and 20 Agricultural Credit Associations (ACA), each having two wholly-owned subsidiaries (an FLCA and a PCA), one FLCA and AgVantis. ACA parent companies provide credit and financially related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used for:

- Insuring the timely payment of principal and interest on System-wide debt obligations,
- Insuring the retirement of protected stock at par or stated value, and
- Other specified purposes.

The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums, which may be passed on as an expense to the associations, into the Insurance Fund until the assets in the Insurance Fund equal 2 percent (the secure base amount) of the aggregate insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. The percentage of aggregate obligations can be changed by the Insurance Corporation, at its sole discretion, to a percentage it determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and/or it may also return excess funds above the secure base amount to System institutions. The basis for assessing premiums is insured debt outstanding. Nonaccrual loans are assessed a surcharge, while guaranteed loans are deductions from the premium base. CoBank passes this premium expense and the return of excess funds, as applicable, through to each association based on the association’s average adjusted note payable balance with CoBank.

Operations

The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financially related services that Northwest FCS can offer. Northwest FCS is authorized to provide, either directly or in participation with other lenders, credit, commitments to extend credit and related services to eligible customers. Eligible customers include farmers, ranchers, producers or harvesters of aquatic and forest products, rural residents and farm-related businesses.

Northwest FCS also serves as an intermediary in offering federal multi-peril crop insurance programs, including the Whole-Farm Revenue Protection (WFRP) program and named peril/

crop hail insurance. Additionally, Northwest FCS offers services to customers such as fee appraisals, business management education and planning services.

Northwest FCS, along with other System institutions, is a partial owner in AgDirect, LLP (AgDirect), a trade credit financing program that includes origination and re-financing of agricultural equipment loans through independent equipment dealers. The program is facilitated by a limited liability partnership and at December 31, 2021, Northwest FCS owned approximately 12 percent of AgDirect.

Northwest FCS joined an alliance with other System Institutions that provide financing for agribusiness companies under the trade name ProPartners Financial (ProPartners). ProPartners participates with crop input suppliers nationwide to create financing programs for their customers. Northwest FCS sold its share of the loan portfolio to AgriBank, FCB (AgriBank). As part of the agreement with AgriBank, Northwest FCS invests in AgriBank at a level agreed upon and generally based on the budgeted average daily balances of sold loan volume to AgriBank related to ProPartners.

The financial condition and results of operations of CoBank, may materially affect the risk associated with stockholder investments in Northwest FCS. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com. Upon request, stockholders of Northwest FCS will be provided with a copy of the CoBank Annual Report, which discusses the material aspects of its financial condition, changes in financial condition and results of operations.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements (the "financial statements") of Northwest FCS have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry. In consolidation, all significant intercompany accounts and transactions are eliminated and all material wholly-owned and majority-owned subsidiaries are consolidated unless GAAP requires otherwise.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses; the valuation of deferred tax assets; the determination of fair value of financial instruments and subsequent impairment analysis. Significant estimates are discussed in the footnotes, as applicable.

Significant Accounting Policies

Cash

Cash, as included in the financial statements, represents cash on hand and on deposit at financial institutions, and may at times exceed federally insured limits.

Investment Securities

In accordance with FCA regulations, Northwest FCS, with the approval of CoBank, may purchase and hold investments to manage risks. Northwest FCS must identify and evaluate how the investments contribute to managing risk. Only securities issued, or unconditionally guaranteed or insured as to the timely payment of principal and interest, by the United States Government or its agencies, may be acquired by Northwest FCS. The total amount of investments held must not exceed 10 percent of Northwest FCS' total outstanding loans.

The investments may not necessarily be held to maturity and accordingly have been classified as available-for-sale. These investments are reported at fair value and unrealized holding gains and losses on investments are reported as a separate component of members' equity (accumulated other comprehensive income (loss)). Changes in the fair value of these investments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other-than-temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If Northwest FCS intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but Northwest FCS does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in accumulated other comprehensive income (loss).

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, Northwest FCS would record an additional other-than-temporary impairment and adjust the yield of the security prospectively. The amount of total other-than-temporary impairment for an available-for-sale security that previously was impaired is determined as the difference between its carrying amount prior to the determination of other-than-temporary impairment and its fair value.

Gains and losses on the sales of investments available-for-sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. Northwest FCS does not hold investments for trading purposes.

For additional information, refer to Note 3.

Loans and Allowance for Credit Losses

Long-term real estate mortgage loans may have original maturities ranging up to 40 years, although the typical loan is 30 years or less. Short- and intermediate-term loans for agricultural production or operating purposes generally have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs, deferred loan fees or costs and purchase premiums or discounts. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loan origination fees and direct loan origination costs are capitalized, and the net fee or cost is amortized over the life of the related loan as an adjustment to yield. These deferred origination costs are periodically evaluated. Unamortized net loan origination fees included as an offset to loans in the Consolidated Balance Sheets were $28.5 million, $22.7 million and $19.0 million as of December 31, 2021, 2020 and 2019, respectively.

Northwest FCS purchases loan and lease participations from other entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic areas served. Additionally, Northwest FCS sells a portion of certain large loans to other entities to reduce risk and comply with established lending limits. Loans are sold following accounting requirements for sales treatment.

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

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties, Northwest FCS grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize Northwest FCS' economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

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

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

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

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

The credit risk rating methodology is a key component of Northwest FCS' allowance for credit losses (ACL) evaluation, and is generally incorporated into its loan underwriting standards, pricing and internal lending limits. The ACL is composed of the allowance for loan losses (ALL) and the reserve for unfunded lending commitments. The ACL is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio.

The ALL is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The ALL is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The ALL encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment, and their impact on borrower repayment capacity, will cause various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from Northwest FCS' expectations and estimates. Macro-economic factors that management considers in determining and supporting the level of ALL include, but are not limited to, the loan portfolio composition and concentrations, collateral values, commodity prices, import/export levels, government assistance programs, regional and global economic effects and weather-related influences.

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

The ACL also includes the reserve for unfunded lending commitments. The reserve for unfunded lending commitments is based on management's best estimate of losses inherent in lending commitments made to customers but not yet disbursed. The likelihood of disbursal, types of loans, credit quality, specific industry conditions, general economic and political conditions, weather-related conditions, and changes in the character, composition and performance of the portfolio, among other factors are used in determining this contingency. The reserve for unfunded lending commitments is increased through provisions for unfunded lending commitments and is decreased through reversals of provisions for unfunded lending commitments. This reserve is reported within other liabilities in the Consolidated Balance Sheets.

For additional information, refer to Note 4.

Investment in CoBank, ACB

Northwest FCS' investment in CoBank is in the form of Class A stock. For 2021, the minimum required investment is 4 percent of Northwest FCS’ prior five year trailing average direct loan volume. CoBank will make patronage distributions and stock retirements in March 2022. For 2020 and 2019, the minimum required investment was 4 percent of Northwest FCS' prior one year average direct loan volume. In addition, Northwest FCS is required to capitalize its patronage-based participation loans sold to CoBank at 8 percent of Northwest FCS’ prior 10-year average balance of such participations sold to CoBank. The investment in CoBank is composed of purchased stock and stock received as patronage. Accounting for this investment is on the cost plus allocated equities basis. Northwest FCS owned approximately 11 percent of the outstanding common stock of CoBank at December 31, 2021. For additional information, refer to Note 5.

Patronage Receivable

Northwest FCS records patronage receivables on an accrual basis, related to patronage from CoBank as well as patronage for participations sold to other Farm Credit entities. The majority of the patronage receivable balance is from CoBank. Under the current CoBank capital plan, they distribute patronage from Northwest FCS’ direct lending business in cash. For patronage applicable to participations sold to CoBank, patronage is distributed in 75 percent cash and 25 percent CoBank Class A stock. For additional information, refer to Note 5.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows: buildings are 40 years; leasehold improvements are the lesser of the remaining lease term or 10 years; and furniture and equipment are one to seven years. Land is carried at cost and is not depreciated. Gains and losses on dispositions are reflected in other noninterest expenses in the Consolidated Statements of Income. Maintenance and repairs are charged to occupancy and equipment expense and significant improvements are capitalized. For additional information, refer to Note 6.

Leases

Northwest FCS determines if an arrangement is a lease at inception. Operating lease right-of-use (ROU) assets are included in other assets and operating lease liabilities are included in other liabilities in the Consolidated Balance Sheets. Finance lease ROU assets are included in premises and equipment, net, and finance lease liabilities are included in advance conditional payments and other interest-bearing liabilities in the Consolidated Balance Sheets.

ROU assets represent Northwest FCS’ right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, Northwest FCS generally uses the incremental borrowing rate based on the estimated rate of interest for a collateralized borrowing over a similar term of the lease payments at commencement date. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Northwest FCS’ lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Investment in Rural Business Investment Companies

Northwest FCS and other System institutions are among the limited partners invested in three Rural Business Investment Companies (RBICs). The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. The RBICs are included in other assets in the Consolidated Balance Sheets. Accounting for these investments are on the cost method and are assessed for impairment on a quarterly basis. If impairment exists, losses would be included in other noninterest expenses in the Consolidated Statements of Income in the year of impairment.

Advanced Conditional Payments

Northwest FCS is authorized under the Farm Credit Act to accept advance payments from borrowers, which are classified within advance conditional payments and other interest-bearing liabilities in the Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by Northwest FCS on advance conditional payments.

Patronage Payable

Northwest FCS records estimated patronage distributions on an accrual basis. Cash patronage is allocated among customer-members based on their eligible average daily loan balance and is distributed in the first quarter for the previous calendar year's activity.

Employee Benefit Plans

Substantially all employees of Northwest FCS participate in the Farm Credit Foundations Defined Contribution/401(k) Retirement Plan (Defined Contribution Plan) or the Defined Benefit Pension Plan (Pension Plan). Enrollment in the Pension Plan was curtailed in 1994. Existing employees who elected to transfer out of the Pension Plan and all new employees hired after December 31, 1994, participate in the Defined Contribution Plan. The Pension Plan uses the Projected Unit Credit actuarial method for funding purposes and for financial reporting purposes.

The Defined Contribution Plan has two components. In this plan, Northwest FCS provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also defer a portion of their salaries in accordance with Section 401(k) of the Internal Revenue Code (IRC) to which Northwest FCS matches a certain percentage of employee contributions. Defined contribution costs are expensed in the same period that participants earn employer contributions and employer matching costs are expensed as funded.

Certain management or highly compensated employees who participated in the Pension Plan also participated in a nonqualified Northwest FCS Defined Benefit Restoration Plan (Restoration Plan). The Restoration Plan was closed in January 2020. For additional information, refer to Note 10.

Income Taxes

As previously described, Northwest Farm Credit Services, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through a wholly-owned FLCA subsidiary that is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly-owned PCA subsidiary. Noninterest expenses are allocated to each subsidiary based on estimated relative service. Transactions between the subsidiaries and the parent company have been eliminated upon consolidation. The ACA, along with the PCA subsidiary, are subject to federal income taxes and state income taxes in Idaho, Oregon, Montana, Alaska and California. Both entities currently operate as cooperatives that qualify for tax treatment under Subchapter T of the IRC. Accordingly, under specified conditions, they can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Northwest FCS accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal and state laws. For additional information, refer to Note 9.

Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption such temporary differences are retained by Northwest FCS and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent it is more likely than not (over 50 percent probability) they will not be realized, based on management's estimate. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of Northwest FCS' expected qualified patronage refunds that reduce taxable earnings.

Deferred income taxes have not been provided by Northwest FCS on stock patronage distributions received from the Bank prior to January 1, 1993, the adoption date of the FASB guidance on income taxes. Management's intent is to permanently invest these and other undistributed earnings in the Bank, or if converted to cash, to pass through any distribution related to pre-1993 earnings to Northwest FCS' stockholders through qualified patronage allocations.

Northwest FCS has not provided deferred income taxes on amounts allocated to Northwest FCS that relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Northwest FCS' stockholders through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings. The Bank currently has no plans to distribute unallocated Bank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid by Northwest FCS.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) is a measure of all changes in the equity of Northwest FCS as a result of recognized transactions and other economic events of the period other than capital transactions with the stockholders. Other comprehensive income (loss) refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of members' equity and comprehensive income (loss) but are excluded from net income. Accumulated other comprehensive income (loss) refers to the balance of these transactions. Other comprehensive income (loss) is composed of adjustments related to Northwest FCS' investment securities, Pension Plan and Restoration Plan. For additional information, refer to Note 8.

Fair Value Measurements

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

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

Level 2 – Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include: (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (3) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (4) inputs derived principally from or corroborated by observable market data by correlation or other means. This category includes derivative contracts and investment securities.

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

The fair value disclosures are presented in Note 13.

Derivative Instruments and Hedging Activity

In the normal course of business, Northwest FCS enters into derivative financial instruments that are principally used to manage liquidity and interest rate risk. Derivatives are recorded in the Consolidated Balance Sheets as other assets and other liabilities at fair value.

For fair value hedge transactions that hedge changes in the fair value of assets or liabilities, changes in the fair value of the derivative are recorded in earnings and will generally be offset by changes in the hedged item's fair value. For derivatives not designated for hedge accounting, the related change in fair value is recorded in current period earnings.

Northwest FCS formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking hedge transactions. This process includes linking all derivatives that are designated as fair value hedges to specific assets or liabilities in the Consolidated Balance Sheets. Northwest FCS also formally assesses (at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value of hedged items and whether those derivatives may be expected to remain highly effective in future periods. Northwest FCS typically uses regression analyses to assess the effectiveness of hedges. Hedge accounting is discontinued prospectively if: (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value of a hedged item; (2) the derivative expires or is sold, terminated or exercised; or (3) management determines that the fair value or cash flow hedge designation is no longer appropriate.

If it is determined that a derivative no longer qualifies as an effective fair value hedge, or if management removes the hedge designation, Northwest FCS continues to carry the derivative in the balance sheet at fair value, with changes in fair value recognized in current period earnings as part of interest expense.

For additional information, refer to Note 15.

Off-Balance Sheet Credit Exposures

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

Recently Issued or Adopted Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate. With respect to hedge accounting, the update allows amendment of formal designation and documentation of hedging relationships in certain circumstances which are the result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective for all entities as of March 12, 2020, through December 31, 2022. Beginning October 2021, Secured Overnight Financing Rate (SOFR) products were made available to eligible Northwest FCS customers. Additionally, LIBOR rate options were discontinued for all new and renewing Northwest FCS customer loans after December 31, 2021. Northwest FCS has adopted and is applying practical expedients through the transition and expects minimal impact to its consolidated financial condition and results of operations.

In January 2021, the FASB issued an update to Reference Rate Reform whereby certain derivative instruments may be modified to change the rate used for margining, discounting or contract price alignment. An entity may elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments do not apply to contract modifications made or new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022. Northwest FCS is evaluating the impact of adoption and expects minimal impact to its consolidated financial condition and results of operations.

In June 2016, the FASB issued guidance, Measurement of Credit Losses on Financial Instruments. The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance, as updated and amended in November 2019, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. Northwest FCS continues to evaluate the impact this guidance will have on its financial statements upon adoption, which will be partially dependent on the composition of its portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. Implementation efforts are underway and include the development and testing of Northwest FCS' systems, data requirements, guidance interpretation and related accounting policy decisions and consideration of relevant internal processes and controls.

Note 3 – Investment Securities

The following is a summary of investments held for maintaining a liquidity reserve and managing interest rate risk and are classified as available-for-sale:

December 31, 2021	*Amortized cost*	*Gross unrealized gains*	*Gross unrealized losses*	*Fair value*
U.S. Treasury debt securities	$ 426,012	$ 591	$ (4,302)	$ 422,301
Total	**$ 426,012**	**$ 591**	**$ (4,302)**	**$ 422,301**

December 31, 2020	*Amortized cost*	*Gross unrealized gains*	*Gross unrealized losses*	*Fair value*
U.S. Treasury debt securities	$ 251,265	$ 1,152	$ —	$ 252,417
Total	**$ 251,265**	**$ 1,152**	**$ —**	**$ 252,417**

December 31, 2019	*Amortized cost*	*Gross unrealized gains*	*Gross unrealized losses*	*Fair value*
U.S. Treasury debt securities	$ 15,282	$ 40	$ —	$ 15,322
Total	**$ 15,282**	**$ 40**	**$ —**	**$ 15,322**

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by investment category at December 31, 2021 is as follows:

	Contractual Maturity		
December 31, 2021	*One to five years*	*Five to ten years*	*Total*
U.S. Treasury debt securities			
Amortized cost	$ 323,659	$ 102,353	**$ 426,012**
Fair value	$ 320,176	$ 102,125	**$ 422,301**
Weighted average yield	0.43%	1.33%	**0.65%**

See Note 13 for disclosures about estimated fair values of financial instruments, including investments.

The following table shows investment securities by gross unrealized losses and fair value, aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position at December 31, 2021. The continuous loss position is based on the date the unrealized loss was first identified.

	Less than 12 months	
December 31, 2021	*Fair value*	*Unrealized losses*
U.S. Treasury debt securities	$ 376,904	$ (4,302)
Total	**$ 376,904**	**$ (4,302)**

There were no investments in a loss position at December 31, 2020 and 2019.

As more fully discussed in Note 2, the guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary including: (i) whether or not an entity intends to sell the security, (ii) whether it is more likely than not that an entity would be required to sell the security before recovering its costs, or (iii) whether or not an entity expects to recover the security's entire amortized cost basis (even if it does not intend to sell).

Northwest FCS performs an evaluation quarterly on a security-by-security basis considering all available information. If Northwest FCS intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When Northwest FCS does not intend to sell securities in an unrealized loss position, other-than-temporary impairment is considered using various factors, including the length of time and the extent to which the fair value is less than cost, adverse conditions specifically related to the industry, geographic area and the condition of the underlying collateral, payment structure of the security, ratings by rating agencies, the creditworthiness of bond insurers and volatility of the fair value changes. Northwest FCS uses estimated cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist. In estimating cash flows, it considers factors such as expectations of relevant market and economic data.

As of December 31, 2021, Northwest FCS expects to collect all principal and interest on its investment securities. Northwest FCS does not intend to sell the securities in unrealized loss positions, nor is it likely that Northwest FCS will be required to sell such securities, for regulatory, liquidity or other purposes, before an anticipated recovery of its cost basis occurs.

49Note 4 – Loans and Allowance for Credit Losses

A summary of loans follows:

December 31,	*2021*	*2020*	*2019*
Real estate mortgage	$ 6,926,476	$ 6,243,965	$ 5,659,839
Production and intermediate-term	3,316,291	3,222,801	3,243,531
Agribusiness	2,404,311	2,270,571	2,195,455
Rural infrastructure	545,149	506,453	351,661
Rural residential real estate	338,374	437,093	525,790
Other	80,118	73,578	81,379
Total loans	**$ 13,610,719**	**$ 12,754,461**	**$ 12,057,655**

Northwest FCS may purchase or sell loan participation interests with other entities to diversify risk, manage loan volume and comply with FCA regulations. The following tables present information regarding participations purchased and sold. Participations purchased volume in the tables exclude syndications and purchases of other interests in loans:

	Farm Credit institutions		*Non-Farm Credit institutions*		*Total*	
December 31, 2021	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*
Real estate mortgage	$ 628,320	$ 694,485	$ —	$ —	$ 628,320	$ 694,485
Production and intermediate-term	688,383	3,480,621	10	—	688,393	3,480,621
Agribusiness	1,101,912	1,015,247	2,462	5,000	1,104,374	1,020,247
Rural infrastructure	545,149	—	—	—	545,149	—
Other	71,937	—	—	—	71,937	—
Total	**$ 3,035,701**	**$ 5,190,353**	**$ 2,472**	**$ 5,000**	**$ 3,038,173**	**$ 5,195,353**

	Farm Credit institutions		*Non-Farm Credit institutions*		*Total*	
December 31, 2020	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*
Real estate mortgage	$ 583,250	$ 639,089	$ 12	$ —	$ 583,262	$ 639,089
Production and intermediate-term	673,812	3,564,031	124	—	673,936	3,564,031
Agribusiness	1,010,516	840,273	2,997	7,500	1,013,513	847,773
Rural infrastructure	506,453	—	—	—	506,453	—
Other	63,705	—	—	—	63,705	—
Total	**$ 2,837,736**	**$ 5,043,393**	**$ 3,133**	**$ 7,500**	**$ 2,840,869**	**$ 5,050,893**

	Farm Credit institutions		*Non-Farm Credit institutions*		*Total*	
December 31, 2019	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*
Real estate mortgage	$ 498,613	$ 608,998	$ 29	$ 3	$ 498,642	$ 609,001
Production and intermediate-term	607,058	3,144,724	506	—	607,564	3,144,724
Agribusiness	989,627	777,729	3,000	10,481	992,627	788,210
Rural infrastructure	351,661	—	—	—	351,661	—
Other	69,935	—	—	—	69,935	—
Total	**$ 2,516,894**	**$ 4,531,451**	**$ 3,535**	**$ 10,484**	**$ 2,520,429**	**$ 4,541,935**

One credit quality indicator used by Northwest FCS is the FCA Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

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

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

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

December 31, 2021	*Acceptable*	*OAEM*	*Substandard/ doubtful*	*Total*
Real estate mortgage	96.7 %	1.8 %	1.5 %	100.0 %
Production and intermediate-term	94.0 %	2.7 %	3.3 %	100.0 %
Agribusiness	97.4 %	2.4 %	0.2 %	100.0 %
Rural infrastructure	98.5 %	0.0 %	1.5 %	100.0 %
Rural residential real estate	96.8 %	0.9 %	2.3 %	100.0 %
Other	95.8 %	0.5 %	3.7 %	100.0 %
Total	**96.3 %**	**2.0 %**	**1.7 %**	**100.0 %**

December 31, 2020	*Acceptable*	*OAEM*	*Substandard/ doubtful*	*Total*
Real estate mortgage	95.6 %	2.4 %	2.0 %	100.0 %
Production and intermediate-term	93.6 %	2.9 %	3.5 %	100.0 %
Agribusiness	93.9 %	5.7 %	0.4 %	100.0 %
Rural infrastructure	100.0 %	0.0 %	0.0 %	100.0 %
Rural residential real estate	95.2 %	1.6 %	3.2 %	100.0 %
Other	92.8 %	1.9 %	5.3 %	100.0 %
Total	**94.9 %**	**3.0 %**	**2.1 %**	**100.0 %**

December 31, 2019	Acceptable	OAEM	Substandard/ doubtful	Total
Real estate mortgage	93.9 %	3.1 %	3.0 %	100.0 %
Production and intermediate-term	91.4 %	3.1 %	5.5 %	100.0 %
Agribusiness	96.2 %	2.3 %	1.5 %	100.0 %
Rural infrastructure	95.4 %	0.0 %	4.6 %	100.0 %
Rural residential real estate	96.4 %	1.1 %	2.5 %	100.0 %
Other	92.3 %	1.9 %	5.8 %	100.0 %
Total	**93.8 %**	**2.8 %**	**3.4 %**	**100.0 %**

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

December 31,	2021	2020	2019
Nonaccrual loans:			
Current as to principal and interest	$ 26,427	$ 35,086	$ 38,938
Past due	23,099	12,388	26,186
Total nonaccrual loans	**$ 49,526**	**$ 47,474**	**$ 65,124**
Impaired accrual loans:			
Restructured accrual loans	$ 4,964	$ 9,910	$ 11,012
Accrual loans 90 days or more past due	2,782	8,730	3,036
Total impaired accrual loans	**$ 7,746**	**$ 18,640**	**$ 14,048**
Total impaired loans	**$ 57,272**	**$ 66,114**	**$ 79,172**

Commitments to lend additional funds to borrowers whose loans were classified as impaired were $0 at December 31, 2021 and 2020 and $4.4 million at December 31, 2019.

Nonperforming assets consist of impaired loans and other property owned. The following table presents these nonperforming assets, including related accrued interest where applicable:

December 31,	2021	2020	2019
Nonaccrual loans:			
Real estate mortgage	$ 20,787	$ 23,362	$ 25,303
Production and intermediate-term	18,837	19,994	23,124
Agribusiness	333	2,006	11,030
Rural infrastructure	7,999	—	—
Rural residential real estate	1,482	2,024	2,094
Other	88	88	3,573
Total nonaccrual loans	**$ 49,526**	**$ 47,474**	**$ 65,124**
Restructured accrual loans:			
Real estate mortgage	$ 1,133	$ 1,297	$ 1,575
Production and intermediate-term	2,992	7,605	8,247
Rural residential real estate	839	1,008	1,190
Total accruing restructured loans	**$ 4,964**	**$ 9,910**	**$ 11,012**
Accrual loans 90 days or more past due:			
Real estate mortgage	$ —	$ 6,017	$ —
Production and intermediate-term	2,782	2,075	3,036
Rural residential real estate	—	41	—
Other	—	597	—
Total accrual loans 90 days or more past due	**$ 2,782**	**$ 8,730**	**$ 3,036**
Total impaired loans	**$ 57,272**	**$ 66,114**	**$ 79,172**
Other property owned	—	—	—
Total nonperforming assets	**$ 57,272**	**$ 66,114**	**$ 79,172**

Additional impaired loan information, including related accrued interest where applicable, is as follows:

December 31, 2021	Recorded investment*	Unpaid principal balance**	Related allowance	Average impaired loans	Interest income recognized on impaired loans
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 398	$ 405	$ 2	$ 2,197	$ —
Production and intermediate-term	3,039	3,000	537	2,531	—
Agribusiness	160	160	8	130	—
Rural infrastructure	7,999	7,999	2,000	4,695	—
Rural residential real estate	—	—	—	213	—
Other	—	—	—	8	—
Total impaired loans with a related allowance	**$ 11,596**	**$ 11,564**	**$ 2,547**	**$ 9,774**	**$ —**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 21,522	$ 22,541	$ —	$ 24,199	$ 1,163
Production and intermediate-term	21,572	25,747	—	24,200	1,069
Agribusiness	173	179	—	1,068	186
Rural infrastructure	—	—	—	667	—
Rural residential real estate	2,321	2,404	—	2,605	241
Other	88	87	—	475	36
Total impaired loans with no related allowance	**$ 45,676**	**$ 50,958**	**$ —**	**$ 53,214**	**$ 2,695**
Total impaired loans:					
Real estate mortgage	$ 21,920	$ 22,946	$ 2	$ 26,396	$ 1,163
Production and intermediate-term	24,611	28,747	537	26,731	1,069
Agribusiness	333	339	8	1,198	186
Rural infrastructure	7,999	7,999	2,000	5,362	—
Rural residential real estate	2,321	2,404	—	2,818	241
Other	88	87	—	483	36
Total impaired loans	**$ 57,272**	**$ 62,522**	**$ 2,547**	**$ 62,988**	**$ 2,695**

**The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges and acquisition costs and may also reflect a previous direct write-down of the investment. The recorded investment may be less than the unpaid principal balance as payments on non-cash basis nonaccrual loans reduce the recorded investment.*

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

December 31, 2020	Recorded investment*	Unpaid principal balance**	Related allowance	Average impaired loans	Interest income recognized on impaired loans
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ —	$ —	$ —	$ —	$ —
Production and intermediate-term	284	285	259	975	—
Agribusiness	49	52	34	4,758	—
Rural infrastructure	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Other	—	—	—	—	—
Total impaired loans with a related allowance	**$ 333**	**$ 337**	**$ 293**	**$ 5,733**	**$ —**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 30,676	$ 31,651	$ —	$ 28,112	$ 1,372
Production and intermediate-term	29,390	33,345	—	31,330	4,416
Agribusiness	1,957	2,094	—	2,769	1,286
Rural infrastructure	—	—	—	—	—
Rural residential real estate	3,073	3,222	—	3,646	253
Other	685	674	—	2,216	242
Total impaired loans with no related allowance	**$ 65,781**	**$ 70,986**	**$ —**	**$ 68,073**	**$ 7,569**
Total impaired loans:					
Real estate mortgage	30,676	31,651	—	28,112	1,372
Production and intermediate-term	29,674	33,630	259	32,305	4,416
Agribusiness	2,006	2,146	34	7,527	1,286
Rural infrastructure	—	—	—	—	—
Rural residential real estate	3,073	3,222	—	3,646	253
Other	685	674	—	2,216	242
Total impaired loans	**$ 66,114**	**$ 71,323**	**$ 293**	**$ 73,806**	**$ 7,569**

**The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges and acquisition costs and may also reflect a previous direct write-down of the investment. The recorded investment may be less than the unpaid principal balance as payments on non-cash basis nonaccrual loans reduce the recorded investment.*

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

December 31, 2019	Recorded investment*	Unpaid principal balance**	Related allowance	Average impaired loans	Interest income recognized on impaired loans
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ —	$ —	$ —	$ —	$ —
Production and intermediate-term	889	853	782	4,042	—
Agribusiness	6,843	7,440	1,460	7,246	—
Rural infrastructure	—	—	—	—	—
Rural residential real estate	—	—	—	262	—
Other	—	—	—	—	—
Total impaired loans with a related allowance	**$ 7,732**	**$ 8,293**	**$ 2,242**	**$ 11,550**	**$ —**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 26,878	$ 27,939	$ —	$ 30,533	$ 1,340
Production and intermediate-term	33,518	37,531	—	27,911	1,164
Agribusiness	4,187	6,078	—	13,258	26
Rural infrastructure	—	—	—	—	—
Rural residential real estate	3,284	3,437	—	4,401	328
Other	3,573	3,584	—	3,679	241
Total impaired loans with no related allowance	**$ 71,440**	**$ 78,569**	**$ —**	**$ 79,782**	**$ 3,099**
Total impaired loans:					
Real estate mortgage	26,878	27,939	—	30,533	1,340
Production and intermediate-term	34,407	38,384	782	31,953	1,164
Agribusiness	11,030	13,518	1,460	20,504	26
Rural infrastructure	—	—	—	—	—
Rural residential real estate	3,284	3,437	—	4,663	328
Other	3,573	3,584	—	3,679	241
Total impaired loans	**$ 79,172**	**$ 86,862**	**$ 2,242**	**$ 91,332**	**$ 3,099**

**The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges and acquisition costs and may also reflect a previous direct write-down of the investment. The recorded investment may be less than the unpaid principal balance as payments on non-cash basis nonaccrual loans reduce the recorded investment.*

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

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

Year ended December 31,	*2021*	*2020*	*2019*
Interest income recognized on:			
Nonaccrual loans	$ 2,079	$ 6,740	$ 2,065
Restructured accrual loans	413	602	707
Accrual loans 90 days or more past due	203	227	327
Interest income recognized on impaired loans	**$ 2,695**	**$ 7,569**	**$ 3,099**

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original loan terms were as follows:

Year ended December 31,	*2021*	*2020*	*2019*
Interest income which would have been recognized under the original loan terms	$ 3,208	$ 4,100	$ 6,080
Less: interest income recognized	(2,492)	(7,342)	(2,772)
Foregone (recognized) interest income	**$ 716**	**$ (3,242)**	**$ 3,308**

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

December 31, 2021	*Current loans*	*30-89 days past due*	*90+ days past due*	*Total past due*	*Recorded investment in loans outstanding*	*Recorded investment >90 days and accruing interest**
Real estate mortgage	$ 6,953,326	$ 44,080	$ 5,991	$ 50,071	$ 7,003,397	$ —
Production and intermediate-term	3,300,701	21,649	9,575	31,224	3,331,925	2,782
Agribusiness	2,407,490	3,791	—	3,791	2,411,281	—
Rural infrastructure	538,350	—	7,999	7,999	546,349	—
Rural residential real estate	338,884	480	—	480	339,364	—
Other	80,393	88	—	88	80,481	—
Total	**$ 13,619,144**	**$ 70,088**	**$ 23,565**	**$ 93,653**	**$ 13,712,797**	**$ 2,782**

** The recorded investment in the 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.*

December 31, 2020	Current loans	30-89 days past due	90+ days past due	Total past due	Recorded investment in loans outstanding	Recorded investment >90 days and accruing interest*
Real estate mortgage	$ 6,294,447	$ 12,879	$ 12,376	$ 25,255	$ 6,319,702	$ 6,017
Production and intermediate-term	3,199,313	35,728	5,017	40,745	3,240,058	2,075
Agribusiness	2,275,917	1,496	38	1,534	2,277,451	—
Rural infrastructure	507,313	—	—	—	507,313	—
Rural residential real estate	435,598	2,738	41	2,779	438,377	41
Other	73,314	37	597	634	73,948	597
Total	**$ 12,785,902**	**$ 52,878**	**$ 18,069**	**$ 70,947**	**$ 12,856,849**	**$ 8,730**

** The recorded investment in the 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.*

December 31, 2019	Current loans	30-89 days past due	90+ days past due	Total past due	Recorded investment in loans outstanding	Recorded investment >90 days and accruing interest*
Real estate mortgage	$ 5,722,312	$ 11,368	$ 3,320	$ 14,688	$ 5,737,000	$ —
Production and intermediate-term	3,226,051	32,211	7,841	40,052	3,266,103	3,036
Agribusiness	2,203,173	55	808	863	2,204,036	—
Rural infrastructure	352,352	—	—	—	352,352	—
Rural residential real estate	524,095	3,004	314	3,318	527,413	—
Other	78,723	2,954	—	2,954	81,677	—
Total	**$ 12,106,706**	**$ 49,592**	**$ 12,283**	**$ 61,875**	**$ 12,168,581**	**$ 3,036**

** The recorded investment in the 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.*

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

The following table presents additional information regarding TDRs:

Year ended December 31,	2021		2020		2019	
	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Total debt restructurings:						
Real estate mortgage	$ —	$ —	$ —	$ —	$ 11,926	$ 11,926
Production and intermediate-term	742	743	239	239	10,725	10,725
Agribusiness	—	—	—	—	545	545
Total	**$ 742**	**$ 743**	**$ 239**	**$ 239**	**$ 23,196**	**$ 23,196**

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

The following table presents information regarding TDRs that occurred within the previous 12 months of that year end and for which there was a payment default during the period:

Year ended December 31,	2021	2020	2019
Troubled debt restructurings that subsequently defaulted:			
Real estate mortgage	$ —	$ 412	$ —
Production and intermediate-term	—	—	492
Agribusiness	—	—	—
Total	**$ —**	**$ 412**	**$ 492**

The following table provides information on outstanding TDRs. These loans are included as impaired loans in the impaired loans tables.

December 31,	2021		2020		2019	
	Loans modified as TDRs	TDRs in nonaccrual status	Loans modified as TDRs	TDRs in nonaccrual status	Loans modified as TDRs	TDRs in nonaccrual status
Total debt restructurings:						
Real estate mortgage	$ 12,364	$ 11,230	$ 13,558	$ 12,261	$ 14,473	$ 12,898
Production and intermediate-term	17,454	14,462	23,579	15,974	25,634	17,387
Agribusiness	—	—	—	—	6,619	6,619
Rural residential real estate	839	—	1,008	—	1,190	—
Total	**$ 30,657**	**$ 25,692**	**$ 38,145**	**$ 28,235**	**$ 47,916**	**$ 36,904**

Summaries of the changes in the allowance for loan losses and the ending balance of loans and accrued interest outstanding are as follows:

	Real estate mortgage	Production and intermediate-term	Agribusiness	Rural infrastructure	Rural residential real estate	Other	Total
Allowance for loan losses:							
Balance at December 31, 2020	$ 20,934	$ 29,865	$ 17,404	$ 2,992	$ 2,038	$ 2,267	$ 75,500
Charge-offs	(2)	(62)	(2)	(1)	—	—	(67)
Recoveries	4	210	—	7	2	—	223
Provision for loan losses (loan loss reversal)	(2,370)	(7,948)	(5,415)	1,109	(707)	(325)	(15,656)
Balance at December 31, 2021	**$ 18,566**	**$ 22,065**	**$ 11,987**	**$ 4,107**	**$ 1,333**	**$ 1,942**	**$ 60,000**
Ended balance: Allowance individually evaluated for impairment	$ 2	$ 537	$ 8	$ 2,000	$ —	$ —	$ 2,547
Ended balance: Allowance collectively evaluated for impairment*	18,564	21,528	11,979	2,107	1,333	1,942	57,453
Balance at December 31, 2021	**$ 18,566**	**$ 22,065**	**$ 11,987**	**$ 4,107**	**$ 1,333**	**$ 1,942**	**$ 60,000**
Recorded investments in loans outstanding:							
Ended balance: Loans individually evaluated for impairment	$ 21,920	$ 21,829	$ 333	$ 7,999	$ 2,321	$ 88	$ 54,490
Ended balance: Loans collectively evaluated for impairment*	6,981,477	3,310,096	2,410,948	538,350	337,043	80,393	13,658,307
Balance at December 31, 2021	**$ 7,003,397**	**$ 3,331,925**	**$ 2,411,281**	**$ 546,349**	**$ 339,364**	**$ 80,481**	**$ 13,712,797**

**Balances include amounts related to accrual loans 90 days or more past due.*

	Real estate mortgage	Production and intermediate-term	Agribusiness	Rural infrastructure	Rural residential real estate	Other	Total
Allowance for loan losses:							
Balance at December 31, 2019	$ 18,832	$ 29,024	$ 18,402	$ 2,587	$ 2,097	$ 1,558	$ 72,500
Charge-offs	(11)	(398)	—	—	(2)	—	(411)
Recoveries	27	276	—	—	3	—	306
Provision for loan losses (loan loss reversal)	2,086	963	(998)	405	(60)	709	3,105
Balance at December 31, 2020	**$ 20,934**	**$ 29,865**	**$ 17,404**	**$ 2,992**	**$ 2,038**	**$ 2,267**	**$ 75,500**
Ended balance: Allowance individually evaluated for impairment	$ —	$ 259	$ 34	$ —	$ —	$ —	$ 293
Ended balance: Allowance collectively evaluated for impairment*	20,934	29,606	17,370	2,992	2,038	2,267	75,207
Balance at December 31, 2020	**$ 20,934**	**$ 29,865**	**$ 17,404**	**$ 2,992**	**$ 2,038**	**$ 2,267**	**$ 75,500**
Recorded investments in loans outstanding:							
Ended balance: Loans individually evaluated for impairment	$ 24,659	$ 27,599	$ 2,006	$ —	$ 3,032	$ 88	$ 57,384
Ended balance: Loans collectively evaluated for impairment*	6,295,043	3,212,459	2,275,445	507,313	435,345	73,860	12,799,465
Balance at December 31, 2020	**$ 6,319,702**	**$ 3,240,058**	**$ 2,277,451**	**$ 507,313**	**$ 438,377**	**$ 73,948**	**$ 12,856,849**

**Balances include amounts related to accrual loans 90 days or more past due.*

		Real estate mortgage		Production and intermediate-term		Agribusiness		Rural infrastructure		Rural residential real estate		Other		Total
Allowance for loan losses:														
Balance at December 31, 2018	$	20,955	$	30,871	$	20,715	$	1,751	$	2,693	$	1,015	$	78,000
Charge-offs		(20)		(176)		(13)		—		(1)		—		(210)
Recoveries		73		321		8		—		18		—		420
(Loan loss reversal) provision for loan losses		(2,176)		(1,992)		(2,308)		836		(613)		543		(5,710)
Balance at December 31, 2019	**$**	**18,832**	**$**	**29,024**	**$**	**18,402**	**$**	**2,587**	**$**	**2,097**	**$**	**1,558**	**$**	**72,500**
Ended balance: Allowance individually evaluated for impairment	$	—	$	782	$	1,460	$	—	$	—	$	—	$	2,242
Ended balance: Allowance collectively* evaluated for impairment		18,832		28,242		16,942		2,587		2,097		1,558		70,258
Balance at December 31, 2019	**$**	**18,832**	**$**	**29,024**	**$**	**18,402**	**$**	**2,587**	**$**	**2,097**	**$**	**1,558**	**$**	**72,500**
Recorded investments in loans outstanding:														
Ended balance: Loans individually evaluated for impairment	$	26,878	$	31,371	$	11,030	$	—	$	3,284	$	3,573	$	76,136
Ended balance: Loans collectively evaluated for impairment*		5,710,122		3,234,732		2,193,006		352,352		524,129		78,104		12,092,445
Balance at December 31, 2019	**$**	**5,737,000**	**$**	**3,266,103**	**$**	**2,204,036**	**$**	**352,352**	**$**	**527,413**	**$**	**81,677**	**$**	**12,168,581**

**Balances include amounts related to accrual loans 90 days or more past due.*

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

		2021		2020		2019
Balance at January 1	$	23,500	$	19,500	$	17,000
(Reversal) provision for unfunded lending commitments	$	(7,000)	$	4,000	$	2,500
Total	**$**	**16,500**	**$**	**23,500**	**$**	**19,500**

Note 5 – Investment in CoBank, ACB

At December 31, 2021, Northwest FCS' investment in CoBank is in the form of Class A stock with a par value of $100 per share. Northwest FCS is required to own stock in CoBank to capitalize both its direct loan balance and participation loans sold to CoBank. For 2021 the CoBank capital plan related to the direct loan balance has a targeted equity level at 4 percent of Northwest FCS' prior five year average direct loan volume and includes a targeted patronage distribution of 0.45 percent of 2021 average loan volume that is paid in cash in 2022. Under the current CoBank capital plan applicable to participation loans sold to CoBank, the targeted equity level is 8 percent of the 10-year historical average loan volume and includes a targeted patronage distribution of 0.95 percent of the current year average loan volume that is paid 75 percent in cash and 25 percent in CoBank Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change. Additionally, CoBank's board of directors may approve additional distributions of patronage, subject to certain regulatory requirements.

As of December 31, 2021, 2020 and 2019, Northwest FCS owned approximately 11 percent of the issued stock of CoBank. The following table provides key financial metrics for CoBank:

December 31,		2021		2020		2019
CoBank total assets	$	170,305,924	$	158,586,404	$	145,004,063
CoBank total members' equity	$	12,234,361	$	11,909,605	$	10,566,893
CoBank net income	$	1,314,158	$	1,263,001	$	1,091,228

CoBank also approved an amendment that reduces affiliated association capital requirements for direct note loan balances. The affiliated association loan base for capital requirement purposes in 2021 was calculated using a five-year trailing average (rather than one-year) and beginning in 2022 a ten-year trailing average.

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

Note 6 – Premises and Equipment

Premises and equipment consist of the following:

December 31,		*2021*		*2020*		*2019*
Land	$	6,976	$	6,976	$	6,194
Buildings and leasehold improvements		53,536		43,799		38,429
Furniture and equipment		18,510		18,265		18,266
Less: accumulated depreciation		(30,828)		(27,938)		(24,821)
Total premises and equipment, net	**$**	**48,194**	**$**	**41,102**	**$**	**38,068**
Depreciation expense	**$**	**3,484**	**$**	**3,536**	**$**	**3,955**

Note 7 – Note Payable to CoBank, ACB

Northwest FCS' indebtedness to CoBank represents borrowings by Northwest FCS to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of Northwest FCS' assets and is governed by a General Financing Agreement (GFA). According to the GFA, the aggregate outstanding amount of principal and accrued interest shall not at any time exceed the commitment amount. Each debt obligation has its own term and rate structure. The weighted average interest rate for all debt was 1.08 percent, 1.26 percent and 2.34 percent, at December 31, 2021, 2020 and 2019, respectively. The GFA is subject to renewal periodically and requires the association to comply with certain covenants. Northwest FCS was in compliance with the terms and conditions of the GFA as of December 31, 2021. Management expects to renew the GFA in advance of the maturity date on January 1, 2023.

Through the note payable to CoBank, Northwest FCS was liable for the following:

December 31,		*2021*		*2020*		*2019*
Fixed rate debt	$	6,589,961	$	5,349,207	$	4,896,463
Floating rate debt		2,500,100		2,340,200		2,940,500
Daily revolving line of credit		1,725,693		1,436,619		1,698,544
Discount notes		224,986		1,199,079		104,475
Total	**$**	**11,040,740**	**$**	**10,325,105**	**$**	**9,639,982**

Fixed rate debt typically has maturities ranging from one to 30 years and at December 31, 2021, included callable debt of $2.1 billion with a range of call dates between January 2022 and October 2025. Floating rate debt generally has maturities ranging from one year to five years. Discount notes have maturities ranging from one day to 365 days. The daily revolving line of credit is renewed annually and is priced at the 30-day discount note rate.

The maturities of debt within the note payable to CoBank as of December 31, 2021, are shown below:

Year of maturity		*Amount*	*Weighted average interest*
2022	$	5,113,916	0.42 %
2023		1,445,535	0.80 %
2024		738,003	1.04 %
2025		413,845	1.56 %
2026		469,347	1.65 %
Subsequent years		2,860,094	2.25 %
Total	**$**	**11,040,740**	**1.08 %**

Under the Farm Credit Act, Northwest FCS is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. CoBank, consistent with FCA regulations, has established limitations on Northwest FCS' ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2021, Northwest FCS' note payable is within the specified limitations.

Northwest FCS has two secondary sources of liquidity and funding, with the first being a Liquidity Investments Portfolio managed by Northwest FCS. The Liquidity Investments Portfolio holds investment securities primarily to maintain a liquidity reserve and to assist with interest rate risk management. In accordance with Board-approved policies, Northwest FCS purchases high credit quality investment securities to ensure the investment portfolio is readily marketable and available to serve as a source of liquidity in the event of disruption to Northwest FCS' normal funding sources. For additional information on investment securities, refer to Note 2 and Note 3.

Northwest FCS' other secondary source of liquidity and funding is through an uncommitted Federal Funds line of credit with Wells Fargo Bank, N.A. The amount available through this line is $75 million and is intended to provide liquidity for disaster recovery or other emergency situations. This line of credit has been approved by CoBank and in the event of disaster recovery or other emergency situation, Northwest FCS would not need to notify CoBank prior to use of the line of credit. At December 31, 2021, 2020 and 2019, no balance was outstanding on this line of credit.

Note 8 – Members' Equity

A description of Northwest FCS' capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

Capital Stock and Participation Certificates

In accordance with the Farm Credit Act and Northwest FCS' capitalization bylaws, each borrower is required to acquire capital stock or participation certificates in Northwest FCS as a condition of borrowing. Borrowers acquire ownership of capital stock or participation certificates at the time the loan is made. Borrowers are not currently required to make a cash investment to acquire capital stock or participation certificates; however, their obligation to pay for the capital stock or participation certificates is maintained as an interest free obligation with Northwest FCS. The capital stock and participation certificates are at-risk investments as described in the Northwest FCS capitalization bylaws. Northwest FCS retains a first lien on common stock or participation certificates owned by its borrowers. Stock is retired in accordance with Northwest FCS bylaws and only if Northwest FCS is in compliance with its capital adequacy requirements. Borrowers are responsible for payment of the cash investment upon demand by Northwest FCS. Effective January 1, 2020, due to a change in the regulatory interpretation surrounding capital stock and participation certificates receivable, these have been included within members' equity in the Consolidated Balance Sheets under a new contra account titled 'Less: capital stock and participation certificates receivable'. This change had no impact on the capital stock or participation certificates owned by Northwest FCS' borrowers, as borrowers retain all rights afforded to them by the Farm Credit Act.

Pursuant to provisions of the Farm Credit Act, the System's minimum initial borrower investment requirement is one thousand dollars or 2 percent of the related loan balance on a per customer basis, whichever is less. The bylaws of Northwest FCS provide its board of directors with the authority to modify the capitalization requirements for new loans subject to a maximum of 4 percent of the related loan balance.

Retirement of equities noted above will be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates. The Northwest FCS' Board of Directors (the board) considers the current and future status of permanent capital requirements before authorizing any retirement of at-risk equities. Pursuant to FCA regulations, should Northwest FCS fail to satisfy its minimum permanent capital requirements, retirements of at-risk equities subsequent to such noncompliance would be prohibited, except for retirements in the event of default or loan restructuring.

Regulatory Capitalization Requirements and Restrictions

The FCA sets minimum regulatory capital requirements for banks and associations. Northwest FCS exceeded the regulatory minimums and capital conservation buffer amounts, where applicable, for all ratios. The following sets forth the regulatory capital ratio requirements and ratios:

As of December 31,	*2021*	*2020*	*2019*	*Regulatory minimums*	*Regulatory minimums with buffer*
Risk-adjusted:					
Common equity tier 1 ratio	17.4%	17.5%	17.9%	4.5%	7.0%
Tier 1 capital ratio	17.4%	17.5%	17.9%	6.0%	8.5%
Total capital ratio	17.9%	18.2%	18.6%	8.0%	10.5%
Permanent capital ratio	17.5%	17.6%	18.0%	7.0%	0.0%
Non-risk-adjusted:					
Tier 1 leverage ratio*	18.5%	18.6%	19.4%	4.0%	5.0%
UREE leverage ratio	19.9%	19.8%	20.5%	1.5%	0.0%

**Must include the regulatory minimum requirement of at least 1.5 percent of UREE.*

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. Also, failure to meet total requirements could initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on Northwest FCS' financial statements.

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

Description of Equities

Northwest FCS is authorized to issue an unlimited number of shares of Class A common stock and up to 500 million units of Class A participation certificates (PCs) with a par value of five dollars per share. Class A common stock is at-risk, has voting rights and may be retired at the discretion of the board and, if retired, shall be retired at lower of par or book value. At December 31, 2021, there were 2,534,014 shares outstanding with a total par value of $12.7 million. Class A PCs are at-risk, do not have voting rights and may be retired at the discretion of the board and, if retired, shall be retired at lower of par or book value. At December 31, 2021, there were 161,920 units outstanding with a total par value of $0.8 million.

Northwest FCS is authorized to issue 100 million shares of Class D nonvoting stock to CoBank with a par value of $5. Class D nonvoting stock is not transferable and is required to be issued for cash, with Northwest FCS having no authority to require additional capital contributions. Retirement and earnings distributions are subject to statutory and regulatory restrictions. At December 31, 2021, there were no Class D nonvoting shares outstanding.

Voting common stock is converted to nonvoting common stock two years after the owner of the stock ceases to be a borrower or immediately if the former borrower becomes ineligible to borrow from Northwest FCS. Nonvoting common stockholders are eligible to participate in other services offered by Northwest FCS. Each owner or the joint owners of voting common stock is entitled to a single vote regardless of the number of shares held, while nonvoting common stock and PCs provide no voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold such stock.

Losses that result in impairment of capital stock and PCs would be allocated to such equities on a prorated basis. Upon liquidation of Northwest FCS, at-risk capital stock and PCs would be used as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Equities protected under the Farm Credit Act would continue to be retired at par or face value.

Patronage

Northwest FCS' bylaws provide for the payment of patronage distributions. All patronage distributions to eligible stockholders shall be on a proportionate patronage basis as may be approved by the board, consistent with the requirements of Subchapter T of the IRC. For the years ending December 31, 2021, 2020 and 2019, the board approved cash patronage distributions of $165.2 million, $177.2 million and $145.1 million, respectively. Patronage distributions are recorded on an accrual basis, based on estimated amounts. The difference between the estimated accrual and the actual patronage distribution is reflected in retained earnings in the year paid. In December 2021, the board approved a resolution to distribute a portion of 2022 earnings in the form of patronage to its stockholders. The patronage will be accrued and declared in 2022 and paid in 2023.

All earnings not distributed as qualified patronage allocations or appropriated for some other purpose are retained as unallocated retained earnings. At December 31, 2021, all accumulated earnings are retained as unallocated retained earnings. In accordance with Internal Revenue Service (IRS) requirements, each stockholder is sent a nonqualified written notice of allocation. Allocated but not distributed patronage refunds are included as unallocated retained earnings. The board considers these unallocated retained earnings to be permanently invested in Northwest FCS. As such, there is no current plan to retire, revolve or redeem these amounts, except in the unlikely event of liquidation. No express or implied right to have such capital retired or revolved at any time is granted.

Accumulated Other Comprehensive (Loss) Income

Northwest FCS reports accumulated other comprehensive (loss) income as a component of members' equity. The following tables present activity in the accumulated other comprehensive (loss) income, net of tax by component:

	Pension and other benefit plans, net of tax	Unrealized (losses) gains on investment securities	Total accumulated other comprehensive (loss) income, net of tax
Balance at December 31, 2020	$ (28,953)	$ 1,152	$ (27,801)
Other comprehensive income (loss) before reclassifications	887	(4,862)	(3,975)
Amounts reclassified from accumulated other comprehensive loss	1,585	—	1,585
Net current period other comprehensive income (loss)	2,472	(4,862)	(2,390)
Balance at December 31, 2021	**$ (26,481)**	**$ (3,710)**	**$ (30,191)**
Balance at December 31, 2019	$ (32,826)	$ 40	$ (32,786)
Other comprehensive income before reclassifications	2,005	1,112	3,117
Amounts reclassified from accumulated other comprehensive loss	1,868	—	1,868
Net current period other comprehensive income	3,873	1,112	4,985
Balance at December 31, 2020	**$ (28,953)**	**$ 1,152**	**$ (27,801)**
			$ —
Balance at December 31, 2018	$ (31,297)	$ —	$ (31,297)
Other comprehensive (loss) income before reclassifications	(3,381)	40	(3,341)
Amounts reclassified from accumulated other comprehensive loss	1,852	—	1,852
Net current period other comprehensive (loss) income	(1,529)	40	(1,489)
Balance at December 31, 2019	**$ (32,826)**	**$ 40**	**$ (32,786)**

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

	Location of (losses) gains recognized in Consolidated Statements of Income	Amount reclassified from accumulated other comprehensive loss		
Year ended December 31,		*2021*	*2020*	*2019*
Pension and other benefit plans:				
Amortization of net actuarial loss	Salaries and employee benefits	$ (1,605)	$ (1,891)	$ (1,876)
Deferred tax	Provision for income taxes	20	23	24
Total reclassifications		**$ (1,585)**	**$ (1,868)**	**$ (1,852)**

Note 9 – Income Taxes

The provision for income taxes follows:

Year ended December 31,	*2021*	*2020*	*2019*
Current:			
Federal	$ 834	$ 370	$ 327
State	142	60	64
Total current provision for income taxes	**$ 976**	**$ 430**	**$ 391**
Deferred:			
Federal	$ 3,144	$ 1,915	$ 134
State	531	323	14
Total deferred provision for income taxes	**$ 3,675**	**$ 2,238**	**$ 148**
(Decrease) increase in deferred tax asset valuation allowance	(3,256)	(2,244)	584
Provision for income taxes	**$ 1,395**	**$ 424**	**$ 1,123**

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

Year ended December 31,	*2021*	*2020*	*2019*
Federal tax at statutory rate	$ 74,229	$ 66,376	$ 61,441
State tax, net	531	303	61
Effect of nontaxable activities	(58,144)	(51,735)	(44,461)
Patronage distribution	(14,158)	(14,704)	(16,672)
(Decrease) increase in deferred tax asset valuation allowance	(3,256)	(2,244)	584
Other	2,193	2,428	170
Provision for income taxes	**$ 1,395**	**$ 424**	**$ 1,123**

Deferred tax assets and liabilities were composed of the following:

December 31,		*2021*		*2020*		*2019*
Allowance for credit losses	$	7,243	$	10,522	$	9,985
Employee benefits, net		5,491		5,670		5,973
Interest on nonaccrual loans		947		804		924
Deferred loan fees and costs, net		398		453		400
Gross deferred tax assets	**$**	**14,079**	**$**	**17,449**	**$**	**17,282**
Patronage		(11,029)		(10,437)		(7,538)
Gross deferred tax liabilities	**$**	**(11,029)**	**$**	**(10,437)**	**$**	**(7,538)**
Valuation allowance		(2,792)		(6,308)		(8,999)
Net deferred tax asset	**$**	**258**	**$**	**704**	**$**	**745**

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

Northwest FCS recorded a valuation allowance in 2021, 2020 and 2019 as reflected in the tables above. Northwest FCS will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

Northwest FCS recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The total amount of unrecognized tax benefits that, if recognized, would have no effect on the effective tax rate. Northwest FCS does not have any positions for which it is reasonably possible that the total amounts of unrecognized tax positions will significantly increase or decrease within the next 12 months.

Tax years that remain open for federal and state income tax jurisdictions are generally 2018 and forward.

Note 10 – Employee Benefit Plans

Defined Benefit Plans

Certain employees of Northwest FCS participate in a Pension Plan, a defined benefit retirement plan. This defined benefit retirement plan is closed to new entrants. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. Northwest FCS contributes amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amounts ultimately to be contributed and recognized as expense, as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater or less than anticipated. Benefits are paid from plan assets based on a pre-defined formula that considers salary and credited service, subject to certain limitations. Several benefit payment options are available, as defined in the Pension Plan document.

For a limited number of highly-compensated participants in the Pension Plan mentioned above, Northwest FCS also had a Restoration Plan to restore benefits to those Pension Plan participants whose compensation or benefits exceeds the maximum allowed for a qualified pension plan per IRS regulations or wages excluded from compensation in the Pension Plan due to deferrals in a Nonqualified Deferred Compensation Plan. The Restoration Plan was closed in January 2020.

Northwest FCS recognizes the funded status of its pension and restoration plans, measured as the differences between the fair value of the plan assets and the projected benefit obligation, on the Consolidated Balance Sheets within the Other assets and Other liabilities line item, depending on the funded status of the plans. As of December 31, 2021, the funded status related to the pension plan was $1.9 million. As of December 31, 2020 and 2019, the unfunded status related to the pension plan and restoration plan was $3.0 million and $10.2 million, respectively.

Other Post-Employment Benefit Plans

Employees not eligible to participate in the Pension Plan participate in the Defined Contribution Plan, which is in accordance with Section 401 of the IRC. The Defined Contribution Plan requires the employer to contribute 3 percent of eligible employee compensation for eligible employees. For eligible employees hired prior to January 1, 2007, up to an additional 5 percent of compensation in excess of the employee social security wage base is available.

All Northwest FCS employees may elect to defer a portion of their salaries in accordance with IRS rules. For employees participating in the Pension Plan, Northwest FCS matches employee contributions up to a maximum of 100 percent of the employees' first 2 percent of eligible earnings and 50 percent on the next 4 percent of eligible earnings. For employees participating in the Defined Contribution Plan, Northwest FCS matches employee contributions up to a maximum of 100 percent on the employees' first 6 percent of eligible earnings.

Note 11 – Related Party Transactions

In the ordinary course of business, Northwest FCS enters into loan transactions with directors, their immediate families, their affiliated organizations and affiliated organizations of senior officers. Such loans are made on the same terms, including interest rates, amortization schedules and collateral requirements, as those prevailing at the time for comparable transactions with unrelated borrowers. Senior officers and certain immediate family and affiliated organizations are precluded from obtaining new loans from Northwest FCS.

Loan information to related parties was as follows:

	2021	*2020*	*2019*
Balance at January 1,	$ 37,961	$ 35,049	$ 36,047
New and advances on loans	343,263	172,494	33,557
Repayments and other	(316,545)	(169,582)	(34,555)
Balance at December 31,	**$ 64,679**	**$ 37,961**	**$ 35,049**

The Repayments and other above reflects changes in related parties for the respective periods. In the opinion of management, none of these loans outstanding at December 31, 2021, involved more than a normal risk of collectability.

In the ordinary course of business, Northwest FCS also enters into certain other transactions with directors and their affiliated entities. These transactions for products and services are available to all customers and are made on the same terms prevailing at the time for comparable transactions with unrelated customers.

Northwest FCS also recognized $67.8 million, $56.2 million and $47.5 million of patronage income from CoBank for the years ended December 31, 2021, 2020 and 2019, respectively. Patronage distributed from CoBank was in cash and stock. The amounts accrued for 2021 will be paid by CoBank in 2022. As of December 31, 2021, Northwest FCS' investment in CoBank was $444.0 million, which was included in assets in the Consolidated Balance Sheets.

In the normal course of business, Northwest FCS purchases loan participations from CoBank and also sells loan participations to CoBank. At December 31, 2021, Northwest FCS had sold participation interests to CoBank totaling $1.7 billion and had purchased loan participation interests from CoBank totaling $1.3 billion.

As of December 31, 2021, Northwest FCS' investment in AgDirect was $44.3 million, which was included in investment in other Farm Credit Institutions in the Consolidated Balance Sheets. Accounting for this investment is on a cost basis. Income recorded related to AgDirect for the years ended December 31, 2021 and 2020 was $4.4 million, and $4.2 million for the year ended December 31, 2019, which were included within other noninterest income in the Consolidated Statements of Income.

As of December 31, 2021, Northwest FCS' investment in AgriBank was $22.4 million. This investment supports ProPartners input financing and is included in investment in other Farm Credit Institutions in the Consolidated Balance Sheets. Accounting for this investment is on a cost basis. Income recorded related to AgriBank for the years ended December 31, 2021, 2020 and 2019 was $3.5 million, $3.4 million and $2.9 million, respectively, which was included within other noninterest income in the Consolidated Statements of Income. Northwest FCS will continue to invest in AgriBank at a level agreed upon and generally based on the budgeted average daily balances of sold loan volume related to ProPartners.

System institutions jointly own several service organizations. These organizations were created to provide a variety of services for the System. Northwest FCS has ownership interests in the following service organizations:

- Northwest FCS, along with other System institutions, is a partial owner in Farm Credit Financial Partners, Inc. (FPI), a dedicated service corporation that provides information technology solutions for various Farm Credit entities. At December 31, 2021, Northwest FCS owned approximately 20 percent of FPI and the investment in FPI was $3.0 million. Accounting for this investment is on the equity method. Loss recorded related to FPI for the years ended December 31, 2021, 2020 and 2019, was $33.1 thousand, $35.3 thousand and $36.7 thousand respectively, which were included within other noninterest income in the Consolidated Statements of Income. The total cost of services purchased from FPI for the years ended December 31, 2021, 2020 and 2019, was $15.0 million, $15.3 million and 15.2 million respectively, which were included within purchased services in the Consolidated Statements of Income.

- Farm Credit System Association Captive Insurance Company (Captive), which provides corporate insurance coverage to member organizations. As of December 31, 2021, Northwest FCS' investment in the Captive was $3.3 million, which was included in investment in other Farm Credit Institutions in the Consolidated Balance Sheets. Income recorded related to the Captive for the years ended December 31, 2021, 2020 and 2019, was $0.4 million, $0.6 million and $0.2 million, respectively, which were included within patronage income in the Consolidated Statements of Income.

- Farm Credit Foundations (Foundations), which provides benefits and payroll services to Northwest FCS as well as certain other System entities. As of December 31, 2021, Northwest FCS' investment in Foundations was $79.7 thousand, which was included in investment in other Farm Credit Institutions in the Consolidated Balance Sheets. The total cost of services purchased from Foundations for the years ended December 31, 2021, 2020 and 2019, was $0.8 million, $0.7 million and $0.7 million, respectively, which were included within purchased services in the Consolidated Statements of Income.

As of December 31, 2021, Northwest FCS had equity ownership in the following Unincorporated Business Entities, which were all formed for the purpose of acquiring and managing unusual or complex collateral associated with loans. These Unincorporated Business Entities have not had any activity since creation.

	Ownership %
Assembly, LLC	100.0 %
Assembly I, LLC	100.0 %
Avail, LLC	100.0 %

Note 12 – Regulatory Enforcement Matters

No FCA regulatory enforcement actions currently exist with respect to Northwest FCS.

Note 13 – Fair Value Measurements

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

Assets and liabilities measured at fair value on a recurring basis for each of the fair value hierarchy values are summarized in the following tables:

	Fair value measurement using			
December 31, 2021	*Level 1*	*Level 2*	*Level 3*	*Total fair value*
Assets:				
Investment securities	$ —	$ 422,301	$ —	$ 422,301
Derivative assets	—	4,040	—	4,040
RBICs	—	—	5,877	5,877
Total assets	**$ —**	**$ 426,341**	**$ 5,877**	**$ 432,218**
Liabilities				
Derivative liabilities	$ —	$ —	$ —	$ —
Total liabilities	**$ —**	**$ —**	**$ —**	**$ —**

	Fair value measurement using			
December 31, 2020	*Level 1*	*Level 2*	*Level 3*	*Total fair value*
Assets:				
Investment securities	$ —	$ 252,417	$ —	$ 252,417
Derivative assets	—	11,740	—	11,740
RBICs	—	—	3,813	3,813
Total assets	**$ —**	**$ 264,157**	**$ 3,813**	**$ 267,970**
Liabilities				
Derivative liabilities	$ —	$ —	$ —	$ —
Total liabilities	**$ —**	**$ —**	**$ —**	**$ —**

	Fair value measurement using			
December 31, 2019	*Level 1*	*Level 2*	*Level 3*	*Total fair value*
Assets:				
Investment securities	$ —	$ 15,322	$ —	$ 15,322
Derivative assets	—	6,924	—	6,924
RBICs	—	—	1,275	1,275
Total assets	**$ —**	**$ 22,246**	**$ 1,275**	**$ 23,521**
Liabilities				
Derivative liabilities	$ —	$ 22	$ —	$ 22
Total liabilities	**$ —**	**$ 22**	**$ —**	**$ 22**

There were no significant transfers between Level 1, Level 2 and Level 3 during the year.

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized in the following table:

	Fair value measurement using			
	Level 1	*Level 2*	*Level 3*	*Total fair value*
Assets:				
Nonaccrual loans				
December 31, 2021	$ —	$ —	$ 9,374	$ 9,374
December 31, 2020	$ —	$ —	$ 425	$ 425
December 31, 2019	$ —	$ —	$ 10,717	$ 10,717

Valuation Techniques

As more fully discussed in Note 2, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represents a brief summary of the valuation techniques used for Northwest FCS' assets and liabilities.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. This would include U.S. Treasury, U.S. agency and certain mortgage-backed-securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. The estimated fair values of investment securities also appear in Note 3.

Derivative Assets and Liabilities

Exchange-traded derivatives valued using quoted prices would be classified within the fair value Level 1 hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within the fair value Level 2 hierarchy. Such derivatives include interest rate swaps.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, including the LIBOR curves and volatility assumptions about future interest rate movements.

For additional information on derivative instruments, refer to Note 15.

RBICs

The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. These investments are not publicly traded and book value approximates their fair value. As a result, RBICs are classified within fair value Level 3 hierarchy and are included in other assets in the Consolidated Balance Sheets.

Nonaccrual Loans

For nonaccrual loans, it is assumed that collection will result from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral. When the net realizable value of collateral exceeds the legal obligation for a particular loan, the legal obligation was used for evaluating fair values of the respective loans. The carrying value of accrued interest receivable was assumed to approximate its fair value. As a result, nonaccrual loans are classified within fair value Level 3 hierarchy and are included in loans in the Consolidated Balance Sheets.

Note 14 – Commitments and Contingencies

Northwest FCS has various commitments outstanding and contingent liabilities.

Northwest FCS may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its customers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2021, there were $4.3 billion of commitments to extend credit and there were $8.1 million of commercial letters of credit.

Northwest FCS also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. Standby letters of credit are recorded at fair value in the Consolidated Balance Sheets. At December 31, 2021, $77.8 million of standby letters of credit were outstanding. The outstanding standby letters of credit have expiration dates ranging from 2022 to 2026.

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

Northwest FCS along with other System institutions are limited partners invested in three RBICs. Northwest FCS' total unfunded commitments at December 31, 2021, was $8.6 million, with varying commitment end dates through May 2026. Certain commitments may have an option to extend under specific circumstances. Northwest FCS is expected to invest in the remaining unfunded commitments.

In the normal course of business, we may be subject to a variety of legal matters, which may result in contingencies. In addition, actions are pending against Northwest FCS in which claims for monetary damages are asserted. Based on current information, management and legal counsel are of the opinion that the ultimate liability, if any resulting therefrom, would not be material in relation to the financial condition and results of operation of Northwest FCS.

Note 15 – Derivative Instruments and Hedging Activities

Risk Management Objectives and Strategies

Northwest FCS maintains an overall risk management strategy that incorporates the use of derivative financial instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The goal is to manage interest rate sensitivity and risk by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities. As a result of interest rate fluctuations, fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by gains and losses on the derivative instruments that are used to hedge these assets and liabilities. Northwest FCS considers the strategic use of derivatives to be a prudent method of managing risk, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

By using derivative instruments, Northwest FCS exposes itself to credit risk and market risk. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes Northwest FCS, thus creating a credit risk for Northwest FCS. When the fair value of the derivative contract is negative, Northwest FCS owes the counterparty and, therefore assumes no credit risk. Northwest FCS' derivative activities are monitored by its Asset/Liability Committee (ALCO) as part of its oversight of the asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed within parameters established by the Northwest FCS' Board of Directors. The resulting hedging strategies are then incorporated into Northwest FCS' overall risk-management strategies.

Uses of Derivatives

To achieve risk management objectives and satisfy the financing needs of its borrowers, Northwest FCS executes derivative transactions with CoBank. Derivatives (interest rate swaps) are used to manage liquidity and the interest rate risk arising from maturity and repricing mismatches between assets and liabilities. Under interest rate swap arrangements, Northwest FCS agrees to exchange with CoBank, at specified intervals, interest payment streams calculated on a specified notional amount, with at least one interest payment stream based on a specified floating-rate index. Northwest FCS uses receive-fixed, pay-floating interest rate swaps with payment obligations tied to specific indices.

The notional amounts of derivatives and related activity of derivatives are shown in the following tables:

		Activity in the notional amounts of receive- fixed swap derivative financial instruments
December 31, 2020	$	390,000
Additions		—
Maturities		(250,000)
December 31, 2021	**$**	**140,000**

		Activity in the notional amounts of receive- fixed swap derivative financial instruments
December 31, 2019	$	615,000
Additions		—
Maturities		(225,000)
December 31, 2020	**$**	**390,000**

		Activity in the notional amounts of receive- fixed swap derivative financial instruments
December 31, 2018	$	556,000
Additions		59,000
Maturities		—
December 31, 2019	**$**	**615,000**

Accounting for Derivative Instruments and Hedging Activities

Northwest FCS records derivatives as assets or liabilities at their fair value in the Consolidated Balance Sheets. Northwest FCS records changes in the fair value of a derivative in current period earnings. For fair value hedge transactions that hedge changes in the fair value of assets or liabilities, changes in the fair value of the derivative will generally be offset in the Consolidated Statements of Income by changes in the hedged item's fair value attributable to the risk being hedged.

Fair Value Hedges

The majority of the notional amount of the fair value hedging activity relates to entering into receive-fixed, pay-floating swaps to align its equity positioning with its overall risk management strategy. For the remaining fair value hedges, Northwest FCS enters into receive-fixed, pay-floating interest rate swaps primarily to synthetically convert non-callable fixed-rate debt to floating-rate debt for liquidity management purposes. Northwest FCS includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The following amounts were recorded on the balance sheet related to fair value hedges:

	Carrying amount of the hedged item		
December 31,	*2021*	*2020*	*2019*
Note payable to CoBank, ACB	$ 144,066	$ 401,769	$ 621,949

	Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged item		
December 31,	*2021*	*2020*	*2019*
Note payable to CoBank, ACB	$ 4,066	$ 11,769	$ 6,949

Summary of Derivative Instruments and Hedging Activities

A summary of the impact of derivative financial instruments in the Consolidated Balance Sheets is shown in the following tables:

	Fair value of derivative financial instruments	
December 31, 2021	*Derivative assets (1)*	*Derivative liabilities (2)*
Derivatives designated as hedging instruments:		
Receive-fixed swaps	$ 4,040	$ —
Total derivatives designated as hedging instruments	**$ 4,040**	**$ —**

	Fair value of derivative financial instruments	
December 31, 2020	*Derivative assets (1)*	*Derivative liabilities (2)*
Derivatives designated as hedging instruments:		
Receive-fixed swaps	$ 11,740	$ —
Total derivatives designated as hedging instruments	**$ 11,740**	**$ —**

	Fair value of derivative financial instruments	
December 31, 2019	*Derivative assets (1)*	*Derivative liabilities (2)*
Derivatives designated as hedging instruments:		
Receive-fixed swaps	$ 6,924	$ 22
Total derivatives designated as hedging instruments	**$ 6,924**	**$ 22**

(1) Derivative assets are included in other assets in the Consolidated Balance Sheets.
(2) Derivative liabilities are included in other liabilities in the Consolidated Balance Sheets.

A summary of the impact of derivative financial instruments in the Consolidated Statements of Income and Consolidated Statements of Comprehensive Income is shown in the following tables:

	Effect of fair value hedge accounting on the Consolidated Statement of Income	
Year ended December 31, 2021	*Interest income*	*Interest expense*
Total amount of line items presented in Consolidated Statement of Income	$ 522,461	$ (135,861)
Gain (loss) on fair value hedge relationships:		
Receive fixed swaps:		
Recognized on derivatives	$ —	$ (7,700)
Recognized on hedged items	—	7,703
Net income recognized on fair value hedges	**$ —**	**$ 3**

	Effect of fair value hedge accounting on the Consolidated Statement of Income	
Year ended December 31, 2020	*Interest income*	*Interest expense*
Total amount of line items presented in Consolidated Statement of Income	$ 527,826	$ (162,596)
Gain (loss) on fair value hedge relationships:		
Receive fixed swaps:		
Recognized on derivatives	$ —	$ 4,838
Recognized on hedged items	—	(4,820)
Net income recognized on fair value hedges	**$ —**	**$ 18**

	Effect of fair value hedge accounting on the Consolidated Statement of Income	
Year ended December 31, 2019	*Interest income*	*Interest expense*
Total amount of line items presented in Consolidated Statement of Income	$ 584,477	$ (245,378)
(Loss) gain on fair value hedge relationships:		
Receive fixed swaps:		
Recognized on derivatives	$ —	$ 11,660
Recognized on hedged items	—	(11,681)
Net expense recognized on fair value hedges	**$ —**	**$ (21)**

Counterparty Credit Risk

The use of derivatives for risk management introduces counterparty credit risk. Generally, when the fair value of a derivative contract is positive, Northwest FCS is exposed to credit risk.

Northwest FCS has an International Swaps and Derivatives Association, Inc. agreement with CoBank, which meets the definition of a Qualifying Master Netting Agreement per FCA Regulations and requires the net settlement of covered contracts. Collateral is not exchanged between Northwest FCS and CoBank. Notwithstanding netting provisions, derivative assets and liabilities are not offset in the accompanying Consolidated Balance Sheets.

For additional information on derivative instruments, refer to Note 13.

Note 16 – Quarterly Financial Information (Unaudited)

Quarterly results of operations were as follows:

Quarters ending in 2021	*First*	*Second*	*Third*	*Fourth*	*Total*
Net interest income	$ 92,901	$ 95,938	$ 102,462	$ 95,299	$ 386,600
Provision for credit losses (credit loss reversal)	539	(22,529)	873	(1,539)	(22,656)
Noninterest income	29,240	33,719	32,116	50,962	146,037
Noninterest expenses and provision for income taxes	(42,079)	(43,072)	(46,902)	(71,165)	(203,218)
Net income	**$ 79,523**	**$ 109,114**	**$ 86,803**	**$ 76,635**	**$ 352,075**

Quarters ending in 2020	*First*	*Second*	*Third*	*Fourth*	*Total*
Net interest income	$ 92,155	$ 90,059	$ 87,596	$ 95,420	$ 365,230
Provision for credit losses (credit loss reversal)	7,936	8,492	(3,780)	(5,543)	7,105
Noninterest income	31,597	28,594	29,043	49,700	138,934
Noninterest expenses and provision for income taxes	(40,697)	(38,806)	(41,143)	(60,763)	(181,409)
Net income	**$ 75,119**	**$ 71,355**	**$ 79,276**	**$ 89,900**	**$ 315,650**

Quarters ending in 2019	*First*	*Second*	*Third*	*Fourth*	*Total*
Net interest income	$ 81,653	$ 82,183	$ 85,997	$ 89,266	$ 339,099
Provision for credit losses (credit loss reversal)	3,455	(61)	(1,601)	(5,003)	(3,210)
Noninterest income	27,835	25,644	27,394	38,424	119,297
Noninterest expenses and provision for income taxes	(39,955)	(40,694)	(41,606)	(47,898)	(170,153)
Net income	**$ 66,078**	**$ 67,194**	**$ 73,386**	**$ 84,795**	**$ 291,453**

Northwest FCS' 2021 Quarterly Reports to Stockholders are available free of charge by contacting Northwest Farm Credit Services, ACA, P.O. Box 2515, Spokane Washington 99220-2515 or contacting by telephone at (509) 340-5300 or toll free at (800) 743-2125. Northwest FCS' 2021 Quarterly Reports to Stockholders are also available free of charge at any office location or at www.northwestfcs.com. The 2022 Quarterly Reports to Stockholders will be available on approximately May 10, 2022, August 9, 2022 and November 9, 2022. The Northwest FCS 2022 Annual Report will be available on approximately March 16, 2023.

Note 17 – Subsequent Events

On February 2, 2022, the Board of Directors of Northwest FCS entered into a non-binding Letter of Intent to pursue a merger with Farm Credit West, ACA. The merger is dependent upon customary conditions of the respective parties and required approvals from CoBank, the Farm Credit Administration, and the customer-owners. If approved, the merger is expected to be effective no earlier than January 1, 2023.

Northwest FCS has evaluated subsequent events through March 1, 2022, the date the financial statements were available to be issued, and has determined that there are no other events requiring disclosure.

NORTHWEST FARM CREDIT SERVICES, ACA

DISCLOSURE INFORMATION REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS (UNAUDITED)

Description of Business

General information regarding the business is incorporated herein by reference to Note 1 of the Consolidated Financial Statements included in this annual report.

The description of significant developments, if any, is incorporated herein by reference to Management's Discussion and Analysis of Financial Condition and Results of Operations included in this annual report.

Description of Property

Northwest FCS is headquartered in Spokane, Washington. Northwest FCS owns and leases various facilities across the territory it serves, which are described in this annual report.

Legal Proceedings

Information regarding legal proceedings is incorporated herein by reference to Note 14 of the Consolidated Financial Statements included in this annual report.

Description of Capital Structure

Information regarding capital structure is incorporated herein by reference to Note 8 of the Consolidated Financial Statements included in this annual report.

Description of Liabilities

Information regarding liabilities is incorporated herein by reference to Note 7, Note 9, Note 10, Note 14 and Note 15 of the Consolidated Financial Statements included in this annual report.

Selected Financial Data

The Five Year Summary of Selected Financial Data included in this annual report is incorporated herein by reference.

Management's Discussion and Analysis

Management's Discussion and Analysis included in this annual report is incorporated herein by reference.

Board of Directors

Corporate Governance

From January 1, 2021 to October 25, 2021, the Northwest FCS' Board of Directors (the board) was composed of 14 director positions. Each director elected by the voting membership represents one of the 11 geographic regions that constitute Northwest FCS' operating territory. Three directors were appointed by the board. Two of these board-appointed directors were outside directors, who cannot be customers, stockholders, employees or agents of any Farm Credit institution. One of the two outside directors is designated as a "financial expert" as defined by FCA Regulation. This director brings independence and financial, accounting and audit expertise to the board and chairs the board's Audit Committee. The other outside director position is used to bring independence, an outside perspective and other areas of expertise to enhance board oversight capabilities. The third board-appointed director position is a stockholder and is intended to ensure representation of market segments not currently represented by the stockholder-elected director positions or to bring additional desired skills or background to the board. In October 2021, the board approved a Bylaws amendment providing for an additional appointed director position and subsequently appointed Beth Kennar to the board as an outside director. From October 26, 2021 to December 31, 2021, there were four appointed directors on the board. On December 31, 2021, outside director Julie Shiflett stepped off the Northwest FCS' Board of Directors and assumed a position on the CoBank Board of Directors effective January 1, 2022.

Director learning and development is comprehensive and includes new director orientation, fundamental learning, an annual self-assessment, and ongoing development and connection activities within and outside the Farm Credit System. Focus areas include directors' roles and responsibilities; financial performance, reporting and oversight, and financial and lending institution best practices.

The board is independent of management. The President and Chief Executive Officer (CEO) and Chief Auditor report to the board and no management or employees may serve as directors. The board generally has five regularly scheduled meetings each year and one of those regularly scheduled meetings is conducted as a comprehensive strategic planning session. Additionally, interim conference calls occur as needed between meetings. The board operates with a structure of four committees: Governance, Audit, Human Resources and Risk. These committees are structured to provide focus and expertise in key areas of board oversight and to enhance the overall efficiency of scheduled board meetings. All policies and major initiatives are reviewed by one of these committees, with any actions recommended to the full board for approval. Each committee approves a charter outlining the purpose of the committee, its duties, responsibilities and authorities. Generally, these responsibilities are advisory in nature, with the full board acting on committee recommendations. These charters are reviewed and approved by the full board at least annually. This committee structure is organized to reflect Northwest FCS' key enterprise risks and to enhance the overall effectiveness of the board's oversight of these areas. These committees generally meet as part of regularly scheduled board meetings and also conduct conference calls as needed. The board may, by resolution adopted by a majority of the full board, provide for one or more additional committees.

With the exception of the Human Resources Committee, committee members, as well as the Chairs and Vice Chairs, are identified by the board Chair in consultation with the board Vice Chair and CEO as part of the board's annual reorganization process. In the case of the Human Resource Committee, the CEO does not participate in identifying its members or its Chair and Vice Chair. The Human Resources Committee members, Chair and Vice Chair are identified by the board Chair in consultation with the Vice Chair and at least one outside director. Following are full descriptions of the committees:

Governance Committee

This committee provides oversight of the strategic business plan and annual business planning process, stewardship, patronage program, facilities management, various financially related services and strategic initiatives. The committee oversees director onboarding, board learning and development, director elections and board-appointed director positions, and overall board conduct and performance, including the Standards of Conduct program. The committee evaluates material issues impacting Northwest FCS and monitors System, national and regional legislative activities and oversees the Local Advisor program. The director who is appointed to the board of the Farm Credit Council also sits on this committee. The Governance Committee has the authority to review, prioritize and recommend agenda items for board meetings and is responsible for all board policies not assigned to other committees.

Audit Committee

This committee is made up of at least four board members, including at least one outside director. All members of the committee should be knowledgeable in at least one of the following: public and corporate finance, financial reporting and disclosure or accounting procedures. The director designated as the "financial expert" serves as the chair of this committee. The board has determined that outside director Christy Burmeister-Smith has the qualifications and experience necessary to serve as the "financial expert," as defined by FCA regulation, and she has been designated as such. Outside director Julie Shiflett also qualified as a "financial expert" and served as the designated alternate to serve in Christy Burmeister-Smith's absence. Effective January 1, 2022, stockholder-elected director Vicki Eggebrecht, who also qualifies as a "financial expert," was appointed to serve as the alternate to Burmeister-Smith when Ms. Shiflett stepped off the board on December 31, 2021.

The Audit Committee has unrestricted access to representatives of the Internal Audit department, independent auditors, all employees, outside counsel and any records as desired. The Internal Audit department reports directly to this committee.

This committee assists the board in fulfilling its oversight responsibility related to accounting policies, internal controls, financial reporting practices and regulatory requirements. This committee has a charter detailing its purpose and key objectives, authority, composition, meeting requirements and responsibilities. The charter, among other things, gives the committee the authority to hire and compensate the independent auditor, approve all audit and permitted non-audit services, review the audited financial statements and all public financial disclosures, meet privately with internal and external independent auditors and review any complaints regarding accounting irregularities and fraud. The Audit Committee's charter is posted on Northwest FCS' website at www.northwestfcs.com.

Human Resources Committee

This committee is made up of at least three board members and includes the board Chair and at least one outside director and additional board members selected by the board Chair in consultation with the board Vice Chair and an outside director. The board Chair also designates the Chair and Vice Chair of this committee. Neither the CEO nor any member of management can be involved in the selection of committee members, nor can they participate in any deliberations of the committee on matters relating to their own compensation or employment.

The committee is responsible for reviewing and recommending for full board approval the performance goals for the CEO and the evaluation of the CEO's performance against those goals. It also recommends to the board all actions necessary to administer the CEO's compensation, benefits and perquisites under the terms of the CEO's compensation plan. This committee is also responsible for recommending to the board the terms of the senior officers' compensation plan and participation of senior officers in that plan. The board has delegated to the CEO the responsibility to administer the compensation of those senior officers within board approved guidelines. However, the CEO must review the compensation levels for each senior officer with the Human Resources Committee before they become effective. The committee is also responsible for director compensation and for oversight of Northwest FCS' employee compensation and benefit plans, all board policies applicable to those plans, and other human resource matters not specifically assigned to other committees.

Risk Committee

This committee provides oversight for the majority of the enterprise risk management practices of the association, including risk definitions, risk metrics, risk appetite statements and risk monitoring for asset liability management, compliance, counterparty, credit default, data management, financial management, information security, and portfolio strategy. The committee reviews the quarterly allowance for credit losses. The committee reviews and recommends to the full board for approval underwriting standards and portfolio and lending limit policies that guide all of Northwest FCS' lending and credit related activities. In addition to monitoring the overall credit characteristics of the industries Northwest FCS serves and the existing portfolio, the committee also reviews and approves, or recommends to the full board for approval, certain credit related actions that exceed management's delegated authority. This committee also oversees key risk areas associated with Northwest FCS' financial plan, budget, operations, technology, funding, interest rate, liquidity and capital management as well as those risks associated with its alliance partners and counterparties.

Northwest FCS' Directors

The following represents information regarding the directors of Northwest FCS, including their principal occupations, employment experience and business interests where they serve as a board director or as a senior officer. All directors are elected or appointed to serve five-year terms and are limited to serving three full terms. Unless otherwise noted, the principal occupation, employment and business experience of the directors over at least the past five years is related to their farming, ranching or aquatics operations described below.

Christy Burmeister-Smith – Bellingham, Washington

Board-Appointed Outside Director

Appointed in 2010; term expires 2025. Serves as the designated "financial expert" on the Northwest FCS board. Member of Audit (Chair) and Human Resources Committees.

Principal Occupation/Experience: Past Vice President-Controller and Principal Accounting Officer, Avista Corporation, a provider of utility services (retired September 30, 2015).

Other Affiliations: None.

Nels DeBruycker – Choteau, Montana

Elected in 2018; term expires 2023. Member of Risk (Chair) and Human Resources Committees.

Principal Occupation/Experience: Owner-Operator, NLD, Inc., a family ranch raising cow-calf operation, Quarter Horses, irrigated & dryland hay, small grains, wheat and barley; 2nd Vice President and Shareholder, Promised Land Farm, Inc., a producer of cereal grains and pulse crops.

Other Affiliations: None.

Susan Doverspike – Burns, Oregon

Elected in 2015; term expires 2025. Member of Governance and Risk (Vice Chair) Committees.

Principal Occupation/Experience: Owner-Operator/Secretary, Hotchkiss Company, Inc. and Owner-Operator/Manager, Doverspike Land, LLC, cow/calf/yearling operations that produce beef and grow native meadow grass hay and alfalfa.

Other Affiliations: Member/Manager, Well Field, LLC, pasture grazing ; Best Lane, LLC, solar electrical generation. Director, Harney Soil & Water Conservation District, soil and water conservation.

Vicki Eggebrecht – Malta, Montana

Elected in 2021; term expires 2026. Effective January 1, 2022 appointed to serve as the alternate to the designated "Financial Expert" on the board and is a member of the Audit and Governance Committees.

Principal Occupation/Experience: Owner, Eggebrecht Farming Company, wheat, peas, lentils, chickpeas and custom farming: Certified Public Accountant at CHMS.
Other Affiliations: Manager BVE Rentals,LLC, rental property; Member BVE Investment Holdings, LLC, investments.

Duane (Skip) Gray – Albany, Oregon
Elected in 2015; term expires 2025. Member of Audit and Governance (Vice Chair) Committees.
Principal Occupation/Experience: President, Gray Farms, Inc., diversified crop farm; Member/Manager, Lakeside Ag-Ventures, LLC, vegetable seed, grass seed sales and custom applications; Member/Manager of Parent Entity, Cascade Foods, LLC, hazelnut processing and marketing.
Other Affiliations: Member/Manager, Earthsource Investments, LLC, real estate investment; Treasurer, Specialty Seed Growers of Western Oregon, research based non-profit for the specialty seed industry; Board Member, The Farm Credit Council, a Farm Credit System trade association handling legislative and regulatory matters.

David Hedlin – Mt. Vernon, Washington
Elected in 2006; term expired 2021. Member of Risk and Governance Committees through March 2021.
Principal Occupation/Experience: Owner/Partner/Operator, R C Koudal Land Co. and Hedlin Farms, vegetable seed, pickling cucumbers, pumpkins and wheat farming.
Other Affiliations: Owner/Partner/Operator, Elizabeth Koudal, LLC, farming.

John Helle - Dillon, Montana
Board Vice Chair
Elected in 2012; term expires 2022. Member of Governance and Risk Committees.
Principal Occupation/Experience: Partner, Helle Livestock, a commercial and purebred sheep operation; Partner, Rebish and Helle, land management company; Part owner, Village Vista, LLC, land management; Part owner, Duckworth, Inc., a vertically integrated apparel company taking wool from sheep to shelf; Part owner, HR Wool, LLC, textile/wool production.
Other Affiliations: None.

Greg Hirai – Wendell, Idaho
Elected in 2014; term expires 2024. Member of Human Resources and Risk Committees.
Principal Occupation/Experience: Owner/Partner/Operator, Hirai Farms, LLC, producer of wheat, potatoes, corn, alfalfa and forage triticale; Owner, Hirai Farms Storages, LLC, a potato storage company.
Other Affiliations: Board Member, North Side Canal Company, LTD, providing water management.

Beth Kennar – Spokane, Washington
Board-Appointed in October 2021; term expires in 2026. Member of Audit and Human Resources (Chair effective January 1, 2022) Committees.
Principal Occupation/Experience: Partner/Member, Summit Law Group, law firm.
Other Affiliations: None

Bill Martin – Rufus, Oregon
Elected in 2020; term expires 2025. Member of Audit (Vice Chair) and Human Resources Committees.
Principal Occupation/Experience: President, Martin Farms, Inc., dryland wheat farm, including mint, garlic, organic herbs, hemp, hay and cow calf operation; General Partner, Martin Brothers Land, dryland wheat farm.
Other Affiliations: Director, Mid-Columbia Producers, a farmer-owned cooperative.

Dave Nisbet – Bay Center, Washington
Board-Appointed Stockholder Director
Appointed in 2007; term expires 2022. Member of Governance and Risk Committees.
Principal Occupation/Experience: Owner, Nisbet Oyster Co., Inc.; President and CEO, Goose Point Oysters, Inc., and Hawaiian Shellfish, LLC, shellfish processing plant, hatchery and grower of Pacific oysters; Member, Nisbet, LLC, commercial fishing and shellfish.
Other Affiliations: None.

Nate Riggers – Nezperce, Idaho
Board Chair
Elected in 2014; term expires 2024. Member of Human Resources Committee.
Principal Occupation/Experience: Partner/Operator, Riggers-Clearwater Farms, J.V., farming operation producing small grains; Partner, Riggers Land, LLC, owns farmland and farm facilities; President, Riggers Brothers, Inc., NCR Farm, Inc., and SNS, Inc., all partners in

Riggers-Clearwater Farms J.V.; Member, Clearwater Farms Land, LLC, farming; Partner, Cold Stream Malt & Grain Co., processing of malt barley & sales of finished craft malt.
Other Affiliations: None.

Derek Schafer – Ritzville, Washington
Elected in 2017; term expires 2022. Member of Audit and Governance (Chair) Committees.
Principal Occupation/Experience: Vice President, Schafer Ranch, LTD; Treasurer, Fields & Furrows, Inc.; President, The Family Plow Inc.; President, 509 Farms, Inc., farms producing wheat; President, Homestead Family Grain, Co., a grain and seed dealer; Manager, Grainland Acres, LLC, farming operations.
Other Affiliations: Treasurer, Adams County Wheat Growers, grower group.

Karen Schott – Broadview, Montana
Elected in 2006; term expired 2021. Member of Audit and Human Resources (Vice Chair) Committees through March 2021.
Principal Occupation/Experience: Owner/Secretary, Bar Four F Ranch, Inc., raising winter wheat, spring wheat and peas; manages a lease pasture operation.
Other Affiliations: None.

Julie Shiflett – Spokane, Washington
Board-Appointed Outside Director
Appointed in 2008; stepped off December 31, 2021. Served as the alternate to the designated "financial expert" on the board. Member of the Audit and Human Resources (Chair) Committees.
Principal Occupation/Experience: Founding Partner, Northwest CFO, assists emerging and mid-market companies to increase cash flow, profitability, sales, and company value. Past EVP, CFO and Treasurer of RLH Corporation, hospitality services (January 2019 to March 2020).
Other Affiliations: Director, American Chemet Corporation, a powder based chemicals manufacturer; Director, Smoky Mountain Metals, and Royal Metal Powders, subsidiaries of American Chemet Corporation; Director and Audit Committee Chair, Morrison-Maierle; Director, Keller Associates, engineering firms, and Director (effective January 1, 2022), CoBank, a cooperative bank serving agribusiness, rural infrastructure providers and Farm Credit Associations through the United States.

Shawn Walters – Newdale, Idaho
Board Appointed in 2010 to fill remaining term of a vacated director position. Elected in 2011; term expires 2026. Member of Human Resources (Vice Chair) and Risk Committees.
Principal Occupation/Experience: Co-Owner, Walters Produce, Inc., fresh pack potato operation; Owner, Shawn Walters Farms, Inc.; Co-Venturer, Walters & Walters, J.V.; Partner, Idaho Grain Producers; Partner, Aristocrat Farms; Member, Walters Osgood Farms, LLC; Member, Walters Mountain View Farms, LLC, farming operations; Managing Member, Walters Farms, LLC; Managing Member, Walters Family Limited Partnership Osgood; and Walters Family Limited Partnership Newdale; Member, Aristocrat Investments, LLC, land ownership; Managing Member, Precision Soil Cleanse, LLC, custom fumigant application.
Other Affiliations: Director, Enterprise Canal, delivering natural flow and reservoir storage water to landowners; Director, Growmark, a marketing cooperative; Member, Mountain View Holdings, LLC: and Main Street Investments, LLC, real estate loans and rental properties.

Andy Werkhoven – Monroe, Washington
Elected in 2021; term expires 2026. Member of Risk and Governance Committees.
Principal Occupation/Experience: Owner and Vice President, Werkhoven Dairy, Inc., dairy; Member, Werkhoven Brothers, LLC, real estate holding.
Other Affiliations: None

Compensation of Directors
The Human Resources Committee oversees director compensation. The committee conducts periodic director compensation studies to identify current compensation paid to directors of other Farm Credit associations and similar entities. Based upon these studies, the committee recommends for approval adjustments to director compensation including any pay differentials to the Chair or other key board positions.

Director compensation in May 2021 was approved at a rate of $62.5 thousand per year. The Chairs of both the Audit and Human Resources Committees are paid $72.5 thousand, representing an additional $10.0 thousand, and the board Chair is paid $82.5 thousand representing an additional $20.0 thousand, reflecting the unique responsibilities and significant additional time demands of these three positions. Each director receives a monthly retainer of $5.2 thousand, the Chairs of the Audit and Human Resources Committees receive a monthly retainer of $6.0 thousand, and the Chair of the board receives a monthly retainer of $6.9 thousand. No additional per diem is paid for attendance at

Northwest FCS' meetings or functions. If a director is not able to attend a regular monthly board meeting, then the director receives only the monthly retainer if attendance at or performance of other official business during that month is determined to warrant that payment. In addition, Northwest FCS purchases Accidental Death and Disability and Business Travel Accident coverage for each director.

Directors and senior officers are reimbursed for reasonable travel expenses and related expenses while conducting association business. In addition, each director is allowed reimbursement for expenses related to his or her spouse or guest attending the Annual Stockholder and Local Advisors Meeting, strategic planning session, the December board meeting and one national meeting each year. In all other cases, spouse or guest expenses are reimbursed only if attendance at a meeting is preapproved by the board. The aggregate amount of expenses reimbursed to directors in 2021 was $74.2 thousand compared to $21.4 thousand in 2020, and $94.8 thousand in 2019. The fluctuation in expenses reimbursed was due to variances in the amount of travel as a result of the coronavirus pandemic. The Director Compensation policy is available and will be disclosed to stockholders upon request.

Information for each director for the year ended December 31, 2021, is as follows:

	Board meeting days	*Other official duty days*	*Compensation paid during 2021*
Christy Burmeister-Smith	15	12	$ 70,190
Nels DeBruycker	13	5	60,695
Susan Doverspike	15	3	60,695
Vicki Eggebrecht	12	2	45,030
Duane (Skip) Gray	15	3	60,695
Dave Hedlin	3	0	15,665
John Helle	15	2	60,695
Greg Hirai	15	8	66,770
Beth Kennar*	2	2	16,470
Bill Martin	15	5	60,695
Dave Nisbet	15	0	60,695
Nate Riggers	15	8	72,350
Derek Schafer	15	8	60,695
Karen Schott	3	1	15,665
Julie Shiflett	15	7	70,190
Shawn Walters	15	1	60,695
Andy Werkhoven	12	0	45,030
Total			**$ 902,920**

**Compensation includes $5,210 of remuneration paid to Ms. Kennar for attending a board meeting spanning a two-day period in anticipation of her formal appointment as an outside director.*

Senior Officers

Listed below are the CEO and five individuals collectively referred to as the Senior Officers of Northwest FCS at December 31, 2021. All of the Senior Officers reported to the CEO and were on the Management Executive Committee (MEC). Below is information on the experience of the Northwest FCS Senior Officers, as well as any business interest for which they serve on the board of directors or act as a senior officer and the primary business in which it is engaged.

Phil DiPofi, President and CEO

Mr. DiPofi has served as President and CEO since January 1, 2011. Prior to that, he held various senior officer positions with CoBank. He serves as a member of the Whitworth Institute of Leadership advisory board. The Institute of Leadership is designed to prepare and empower high-potential individuals to make innovative and sustainable impact in their positions of leadership.

Tom Nakano, Executive Vice President-Chief Administrative and Financial Officer
Mr. Nakano has served as Executive Vice President-Chief Administrative and Financial Officer since January 1, 2014. Prior to that, he held various positions with Northwest FCS since being hired in 1993. Mr. Nakano serves on the board of directors of Financial Partners, Inc. (FPI), which provides information technology solutions for various Farm Credit entities, including Northwest FCS. He is also the Chair of FPI's Audit Committee. Mr. Nakano serves as a board member of the Oregon State University Foundation, which is the primary fund raising organization for the university.

Bill Perry, Executive Vice President-Chief Lending Officer
Mr. Perry has served as Executive Vice President-Chief Lending Officer since January 1, 2021. He served as Executive Vice President-Lending and Insurance from 2019 through December 2020. Prior to that, he served as Montana President from 2015 through 2018 and held various positions with Northwest FCS since being hired in 2004. Mr. Perry serves as Treasurer for the alumni board of directors of the Alpha Gamma Rho Fraternity at Montana State University, which is committed to helping young men develop professional and social skills to become exceptional leaders in agriculture. He serves as Secretary on the board of directors for the YMCA of the Inland Northwest. The YMCA of the Inland Northwest is part of the largest not-for-profit community service organization in America, working to meet the health and social service needs of men, women and children. Mr. Perry also serves as Secretary and Treasurer on the board of directors of Perry Ranch, Inc., a cattle ranch located in central Montana.

John Phelan, Executive Vice President-Chief Risk and Credit Officer
Mr. Phelan has served as Executive Vice President-Chief Risk and Credit Officer since March 1, 2019. He served as Executive Vice President-Chief Risk Officer from 2011 through February 2019. Prior to that, he held various positions with Northwest FCS since being hired in 1992. Mr. Phelan is a member of the Farm Credit Foundations Trust Committee. This committee oversees the fiduciary and plan administrative functions of the benefit plans offered to a number of Farm Credit employers, including Northwest FCS.

Linda Hendricksen, Executive Vice President-Chief Marketing and Learning Officer
Ms. Hendricksen has served as Executive Vice President-Chief Marketing and Learning Officer since January 1, 2021. She served as Senior Vice President-Marketing and Public Affairs from 2014 through December 2020. Prior to that, she held various positions with Northwest FCS since being hired in 1982. Ms. Hendricksen serves on the YWCA of Spokane board of directors, whose mission is to eliminate racism, empower women, stand up for social justice, help families and strengthen the Spokane community. She also serves on the board of directors for Friends of the Centennial Trail. Their focus is to assist and encourage the development and maintenance of the Spokane River Centennial Trail, adjacent parklands and connecting trails.

Tom McKeirnan, Executive Vice President-General Counsel
Mr. McKeirnan has served as Executive Vice President-General Counsel since January 1, 2021. He served as Senior Legal Advisor from June 2020 through December 2020. Prior to that, he was Executive Vice President, General Counsel with Red Lion Hotels Corporation from July 2003 to June 2020. He also previously practiced law at regional firms for eight years after graduating from the University of Washington School of Law in 1995. He serves on the board of directors of Gonzaga Preparatory School Foundation, which manages the Foundation assets in support of the students and programs at Gonzaga Preparatory School.

The additional MEC members that do not meet the regulatory definition of Senior Officers are as follows:

- David Barbieri, Senior Vice President-Chief Information Officer
- Candy Casteal, Head of Specialized Lending
- Brent Fetsch, Oregon President
- Doug Robison, Idaho President
- Josh Siler, Washington President
- Megan Shroyer, Montana President

Compensation of CEO and Other Senior Officers

Summary

The compensation program for the CEO and other Senior Officers of Northwest FCS, as defined by FCA regulations, is designed to reward management for performance that builds long-term value for stockholders, fulfills Northwest FCS' purpose, ensures safety and soundness of the organization and enhances the value of the cooperative. This is accomplished by tying a significant portion of compensation for the leadership team to balanced scorecards of performance measures that are consistent with the strategy and purpose of Northwest FCS.

To demonstrate commitment to align compensation with strong governance practices that are in the interests of stockholders, the goal of the Human Resources Committee (committee) is to ensure:

- A strong linkage between pay and performance of the organization,
- Multiple-year measurements to reward for sustained performance,
- Competitive compensation through market data review,
- Overall compensation program design, including incentive plans, does not encourage excessive risk taking, and
- Best governance practices are followed.

Compensation Philosophy and Objectives

The compensation program is intended to:

- Support a strong and enduring cooperative enterprise,
- Successfully execute Northwest FCS' purpose,
- Reinforce a high-performance culture through pay for performance,
- Attract and retain talented staff needed to achieve Northwest FCS' purpose, and
- Provide competitive total compensation opportunities that balance current rewards with long-term opportunities and provide security contingent upon performance.

Linking Pay and Performance

The framework for compensation is designed to pay for performance. To achieve competitive compensation levels, management must achieve strong results across multiple measures of performance. As described in the program design below, a large percentage of Senior Officer compensation is "at risk" if Northwest FCS results are below plan, and as a result, compensation paid would be less than competitive levels. The at-risk component of compensation is provided through short-term and long-term incentives while the "fixed" portion is salary and benefits, as explained below.

Program Design

The compensation program for the CEO and other Senior Officers has four components:

Component	Purpose
Salary	Pay a competitive salary to reward for experience, skills and performance. Provide a competitive basis for other rewards based on salary.
Short-Term Incentive Plan (STIP)	Reward for accomplishing annual Northwest FCS goals that over time result in long-term success. Reward for profitability, return on equity, loan quality, expense control and achieving strategic business objectives. Reward for individual employee contributions.
Long-Term Incentive Plan (LTIP)	Reward for sustained performance, safety and soundness of Northwest FCS. Reward for achieving multiple-year Northwest FCS goals for profitability, return on equity, loan quality, capital adequacy and achieving strategic business objectives. Retain top performers based on performance.
Benefits	Provide financial security through a competitive benefits program and limited perquisites, which are considered "indirect" compensation.
Total	Each component and the total compensation package are managed to be competitive and ensure a linkage to performance.

Performance Assessment

A framework of multiple performance metrics, goals and individual performance assessments reinforces Northwest FCS' pay for performance philosophy. This framework balances annual and multiple-year performance measures. The STIP is based upon multiple measures of organizational performance, including an individual performance factor. The LTIP is based on various performance measures over three years of organizational results.

The following table summarizes the scorecards for each plan:

Component	Metric	Period
STIP	• Net Income after Tax • Return on Equity • Adverse Assets/Total Regulatory Capital • Efficiency Ratio • Strategic Business Objectives	Annual
LTIP	• Net Income after Tax • Return on Equity • Adverse Assets/Total Regulatory Capital • Common Equity Tier 1 • Strategic Business Objectives	Multiple-Year

At the beginning of each performance period, the committee approves the weighting, financial targets and goals for each category, including minimum levels of performance required in order for an award to be earned in each category and maximum levels of performance on which an incentive will be paid. The approved weights, financial targets and goals are aligned with the organization's business plan financial metrics to ensure Senior Officer incentives match business plan objectives. In addition, a minimum Return on Assets threshold must be achieved before any incentives are earned. The committee has discretion to adjust awards or performance assessments as needed to ensure rewards align with the pay for performance philosophy.

In addition to the measures and goals listed above, adjustments to base salary and STIP awards are impacted by the individual performance of the participant. Participants that voluntarily terminate employment or do not maintain satisfactory performance may forfeit short-term and long-term awards. As a part of Northwest FCS' performance management process, all employees are provided performance reviews, and in the case of the CEO, the performance review process is coordinated by the committee with input and approval by the board.

For plans starting in 2021, all Senior Officers participate in the STIP and the LTIP. STIP and LTIP awards are paid in the year following the performance period based on achievement of targets and goals and after audited financial statements are issued. The 2017-2019 LTIP awards were paid in 2020, and the 2018-2020 LTIP awards were paid in 2021. The 2019-2021 LTIP awards will be paid in 2022 as disclosed in the Summary Compensation Table.

The measures used in incentive compensation are believed to be key drivers of Northwest FCS' long-term success and are directly correlated to the pay received by Senior Officers. Components of compensation increased or decreased in 2021 based on the level of achievement of these goals, which are tied to Northwest FCS' purpose and strategy.

To calculate incentive awards, Northwest FCS aggregates the performance under each plan and calculates a separate Corporate Performance Factor for the STIP and LTIP. Actual awards under the STIP and LTIP for the CEO and other Senior Officers were determined as follows:

STIP Award Calculation	=	Salary	x	STIP Award Target	x	STIP Corporate Performance Factor	x	Individual Performance Factor
LTIP Award Calculation	=	Salary	x	LTIP Award Target	x	LTIP Corporate Performance Factor		

The salary for the STIP award calculation is as of the last day of the performance period and the salary for the LTIP award calculation is as of the beginning of the three year performance period. Actual STIP and LTIP awards earned for the CEO and other Senior Officers are presented in the Summary Compensation Table.

The board has the authority to require reimbursement (clawback) of all or a portion of any payment made to the CEO or MEC for both the STIP and LTIP where the payment was based upon achievement of financial results that subsequently required substantial restatement during the three-year period following payment of the incentive, and the board, in its sole discretion, determines that the CEO or MEC engaged in intentional misconduct or gross negligence that was at least partly responsible for the restatement.

Senior officers and certain other individuals over a specified salary amount have an option to defer payments of their salary as well as payments under both the STIP and LTIP in accordance with applicable laws and regulations into the Nonqualified Deferred Compensation Plan. This plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the defined contribution plan if it were not for certain IRS limitations. Contributions are presented in the Summary Compensation Table.

Encouraging Appropriate Risk Taking

The compensation program is structured to provide a balance of components that are based upon multiple financial and nonfinancial measures of performance. It is designed to encourage the appropriate level of risk-taking, consistent with maintaining safety and soundness, and measurements aligned with the business plan, strategy and purpose.

A primary focus of the committee is to ensure compensation programs have adequate risk mitigating features. The committee, together with its compensation consultant, conducts annual risk assessments of the compensation program, which include process, tone and culture. The compensation program is also reviewed by Northwest FCS' internal audit function, as well as discussed as part of Northwest FCS' enterprise risk management efforts. Moreover, the compensation program and risks are routinely discussed at the board-level, both with and without the CEO present.

The committee has taken the following measures to ensure the compensation program does not encourage inappropriate risk taking:

- Implemented caps on incentive plans.
- Balanced incentive compensation through a STIP and LTIP.
- Designed incentive plans to provide rewards based upon multiple financial and nonfinancial measures and goals.
- Incorporated individual performance into the STIP based upon the performance management system.
- Engaged an independent consultant to conduct a risk review of the compensation and benefit programs.
- Approved performance targets and ranges for STIP and LTIP metrics that align with the business plan, strategy and purpose.
- Retained discretion to adjust awards as needed.

Based on these various steps, Northwest FCS does not believe the compensation program creates risks that are reasonably likely to have a material adverse effect on the organization.

Human Resources Committee Governance Process and Decisions

The committee is composed of members of the board and recommends CEO compensation decisions to the board. In carrying out its responsibilities, the committee regularly reports to and consults with the board and, when appropriate, discusses compensation matters with the CEO. The committee reviews pay and performance matters throughout the year with the assistance of management and an independent consultant. The committee’s process includes:

- Selecting and approving performance measures for the STIP and LTIP balanced scorecards,
- Reviewing corporate performance against approved goals and determining final achievement,
- Assessing CEO performance and reviewing MEC performance assessments conducted by the CEO,
- Determining and approving each component of CEO compensation for the next year using market comparisons and performance assessments,
- Reviewing MEC compensation packages and levels,
- Approving actual awards under incentive programs for the CEO based upon performance assessments,
- Approving overall compensation plans and any design changes to compensation programs for the compensation period,
- Reviewing and approving programs that provide benefits or potential benefits to management such as employment agreements, severance benefits and other benefit programs, and
- Assessing the risk of programs on an annual basis to ensure the operation of the programs does not create a material adverse risk to the organization.

In conducting its responsibilities as determined by the board, the committee has reviewed and concluded that:

- Long-term compensation and retirement benefit obligations are appropriate for the participants in the plans given their roles and responsibilities,
- Incentive programs are not unreasonable or disproportionate to the services provided by the CEO, other Senior Officers and other employees of Northwest FCS, and
- Levels and design of the CEO and other Senior Officer's total compensation align with Northwest FCS' strategy.

CEO Compensation

The committee reviews and approves the CEO's total compensation based on the CEO's performance, Northwest FCS' performance and market considerations prepared by an independent consultant. Market considerations include compensation for CEOs of comparable financial institutions, including other Farm Credit System entities. The CEO participates in the STIP and LTIP programs in addition to receiving salary and benefits.

The "Short-term incentive compensation" shown in the Summary Compensation Table reflects the STIP earned by the CEO in each year, which is paid in the following year. The CEO's STIP potential, for each respective plan year, was a target of 50 percent to 60 percent of salary to be awarded for meeting the pre-established goals described above, with the opportunity to earn from 0 percent up to twice the target for exceeding those goals depending on Northwest FCS' and the CEO's performance.

The "Long-term incentive compensation" shown in the Summary Compensation Table for 2019 represents the 2017-2019 LTIP award, 2020 represents the 2018-2020 LTIP award, and 2021 represents the 2019-2021 LTIP. The CEO's LTIP award potential, for each respective plan, was a target of 70 percent of salary to be awarded for meeting the pre-established goals described above, with the opportunity to earn from 0 percent up to twice the target for exceeding the goals depending on the respective plan and Northwest FCS' performance.

Northwest FCS makes an annual contribution to the CEO's Nonqualified Deferred Compensation Plan in an amount equal to the lesser of $200,000 or 15 percent of the total of his base salary and STIP. It is reported under "Deferred and perquisites" in the Summary Compensation Table. The amounts earned related to this award were $200,000 for the years ended December 31, 2021, 2020 and 2019.

As of December 31, 2021, the CEO is employed pursuant to an employment agreement that will terminate in March 2024. The employment agreement provides specified compensation and related benefits in the event his employment is terminated, except for cause. In the event of termination by Northwest FCS prior to the CEO reaching age 62 and without cause, the employment agreement provides for payment of his salary through the date of termination, a prorated LTIP incentive payout and a payment of three times his base compensation. In the event of termination by Northwest FCS without cause on or after age 62, or in the event the CEO terminates for "Good Reason," the employment agreement provides for payment of his salary through the date of the employment agreement termination, a prorated LTIP incentive payout and a specified payment. The term "Good Reason" generally includes any reduction in compensation or a breach of the agreement by Northwest FCS. If there has not been a change of control, the term "Good Reason" generally includes the removal of the CEO from office or the reduction or reassignment of his duties without his consent. To receive payments and other benefits under the agreement, the CEO must sign a release agreement to give up any claims, actions or lawsuits against Northwest FCS that relate to his employment and termination of employment from Northwest FCS. The agreement also provides for certain payments upon death or disability.

The CEO is also employed subject to a Restrictive Covenant Agreement (RCA), which requires non-solicitation of employees or customers by the CEO for 24 months following termination of employment.

Other Senior Officer Compensation

In addition to receiving base salary and benefits generally provided to management personnel, the Senior Officers participate in the STIP and the MEC participates in the LTIP for the years they are employed. The STIP and LTIP provide Senior Officers the opportunity to earn awards as a percent of their base salaries for meeting pre-established performance goals. The committee reviews the total compensation of the MEC based on their individual performance assessments provided by the CEO, Northwest FCS' performance, and market considerations prepared by an independent consultant using the same comparable financial institutions used for the CEO's compensation.

STIP targets for plans reflected in the Summary Compensation Table ranged from 20 percent to 35 percent of salary, with the potential to earn from 0 percent up to twice the target for exceeding those goals depending on Northwest FCS' and the individual's performance. LTIP targets for plans reflected in the Summary Compensation Table ranged from 15 percent to 50 percent of salary, with the potential to earn from 0 percent up to twice the target for exceeding those goals depending on the respective plan and Northwest FCS' performance.

As of December 31, 2021, the MEC is provided specified severance and other benefits in the event their employment is terminated, except for termination for cause. In the event of termination, except for cause, the MEC is entitled to a lump sum severance payment equal to one times base compensation. To receive the severance payment, the MEC must sign a release agreement to give up any claims, actions or lawsuits against Northwest FCS that relate to their employment and termination of employment from Northwest FCS.

The Senior Officers are also employed subject to an RCA, which requires non-solicitation of employees or customers by the Senior Officers for 24 months following termination of employment.

Summary Compensation Table

The compensation shown in the following table is the actual compensation earned by the CEO and other Senior Officers during the years ended December 31, 2021, 2020 and 2019.

	Annual						
President and CEO	*Year*	*Salary*	*Short-term incentive compensation* [(1)]	*Long-term incentive compensation*[(2)]	*Deferred and perquisites*[(3)]	*Other*[(4)]	***Total***
Phil DiPofi	2021	$ 783,333	771,655	705,180	350,934	14,145	**$2,625,247**
Phil DiPofi	2020	$ 772,500	747,875	815,725	337,442	12,876	**$2,686,418**
Phil DiPofi	2019	$ 755,000	617,880	798,525	278,157	22,029	**$2,471,591**

	Annual						
Aggregate number of Senior Officers and Highly Compensated Employees (excluding the CEO)[(5)]	*Year*	*Salary*	Short-term incentive compensation[(1)]	*Long-term incentive compensation*[(2)]	*Deferred and perquisites*[(3)]	*Other*[(4)]	***Total***
6	2021	$1,919,977	961,445	765,645	169,230	186,951	**$4,003,248**
5	2020	$1,539,355	827,655	797,410	162,637	127,720	**$3,454,777**
7	2019	$1,604,042	687,360	961,835	221,640	1,998,681	**$5,473,558**

(1) Represents the STIP previously described for 2021, 2020 and 2019, which is paid in the first quarter of the year after the reported year to persons who continue to be employed by Northwest FCS or unless otherwise provided for.

(2) Represents the LTIP described previously for the 2019-2021 plan (presented within 2021), 2018-2020 plan (presented within 2020) and 2017-2019 plan (presented within 2019). Pro-rata LTIP amounts earned by departed Senior Officers are also included within this category in the year of departure.

(3) Various deferred or perquisite amounts include, but are not limited to, the CEO Nonqualified Deferred Compensation Plan discussed previously, other nonqualified contributions made by Northwest FCS, long-term disability, life insurance benefits, vacation payout and vehicle allowances.

(4) Represents employer contributions under the Defined Contribution Plan, separation payments, tax reimbursements and other compensation of minimal value. The December 31, 2019 total includes a change in pension value, defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year. This change in value does not represent cash payments made, but rather is an estimate of the change in Northwest FCS' future obligations under the pension plans.

(5) The 2021 count and compensation amounts include a highly compensated employee per the regulatory definition. This employee was included in the STIP and LTIP plans disclosed in the Summary Compensation Table. The 2020 and 2019 count and compensation amounts include an employee who met the regulatory definition of a Senior Officer but was not on the MEC. The 2019 count and compensation amounts include Senior Officers for the period in which they served as Senior Officers. Four served as Senior Officers for the entire year, and three served as Senior Officers for a portion of the year due to retirement, departure or becoming a Senior Officer.

Total compensation paid during the last year to any Senior Officer, or to any other employee included in the aggregate, is available and will be disclosed to stockholders upon request. Senior Officers are reimbursed for travel expenses and related expenses while conducting business for Northwest FCS, and the travel policy is available and will be disclosed to stockholders upon request.

As of December 31, 2021, there were no Senior Officers in the Defined Benefit Pension Plan or Defined Benefit Pension Restoration Plan.

Transactions with Senior Officers and Directors

Information regarding related party transactions is incorporated herein by reference from Note 11 to the Consolidated Financial Statements included in this annual report.

Involvement in Certain Legal Proceedings

There were no events during the past five years that are material to evaluating the ability or integrity of any person who served as a director or Senior Officer on January 1, 2022, or at any time during 2021.

Relationship with Independent Public Auditors

There were no changes in independent public auditors since the prior annual report to stockholders. There were no material disagreements with the independent public accountants on any matter of accounting principles or financial statement disclosures during this period.

Fees incurred by Northwest FCS for services rendered by its independent public auditors, PricewaterhouseCoopers LLP, were as follows:

(dollars in thousands)

Year ended December 31,	*2021*	*2020*	*2019*
Annual audit services	$389	$298	$362
Tax services	—	8	8
Non-audit services*	3	—	—
Total	**$392**	**$306**	**$370**

**All non-audit services were approved by the Audit Committee - non-audit services include an accounting research tool subscription and disclosure checklist license*

Consolidated Financial Statements

The Consolidated Financial Statements, together with the Independent Auditor's Report dated March 1, 2022 and the Report of Management appearing in this annual report, are incorporated herein by reference.

Relationship with CoBank, ACB

Northwest FCS' relationship with CoBank, ACB is discussed in the Notes to Consolidated Financial Statements referenced below:

- Northwest FCS' statutory obligation to borrow from CoBank, ACB is discussed in Note 7 of the Consolidated Financial Statements.
- CoBank, ACB's ability to access the capital of Northwest FCS is discussed in Note 5 of the Consolidated Financial Statements.
- The major terms of any capital preservation, loss sharing or financial assistance agreements between Northwest FCS and CoBank, ACB are discussed in Note 2 and Note 8 of the Consolidated Financial Statements.
- A discussion of how the financial condition and results of operations of CoBank, ACB may materially affect a stockholder investment in Northwest FCS and Northwest FCS' investment in CoBank, ACB is discussed in Note 1 and Note 5 of the Consolidated Financial Statements.
- CoBank, ACB is required to distribute its annual report to shareholders of Northwest FCS if a "significant event," as defined by FCA regulation occurs.

Privacy Protection Afforded Under FCA Regulations

Customer financial privacy and the security of other non-public information are important. Therefore, Northwest FCS holds customer financial and other non-public information in strict confidence. Federal regulations allow disclosure of such information by Northwest FCS only in certain situations.

NORTHWEST FARM CREDIT SERVICES, ACA

DESCRIPTION AND STATUS REPORT ON THE YOUNG, BEGINNING AND SMALL FARMERS' PROGRAM

Program Definitions

Northwest FCS has a specific program in place to serve the credit and related needs of young, beginning and small farmers and ranchers (YBS) in its territory. The definitions of young, beginning and small farmers and ranchers are:

- Young – A farmer, rancher, producer or harvester of aquatic products who is age 35 or younger, as of the loan transaction date.
- Beginning – Any farmer, rancher, producer or harvester of aquatic products who has 10 years or less farming or ranching experience, as of the loan transaction date.
- Small – Any farmer, rancher, producer or harvester of aquatic products who generates less than $250,000 in annual gross sales of agricultural or aquatic products as of the loan transaction date.

Mission and Objectives

Mission Statement

To advance young, beginning, and small farmers' success through deliberate strategies in lending and professional development.

Objectives of the Program

- To promote agriculture by encouraging and developing YBS customers to enter into or remain in agriculture by supporting their efforts to do so.
- To recognize the challenges facing YBS customers attempting to obtain credit and establish a viable enterprise, and to establish Northwest FCS as a leader in providing the products and services necessary for them to succeed.
- To develop business relationships with next generation producers who:
    - Exhibit the management skills necessary to build a solid financial position,
    - Contribute to the agricultural community, and
    - Will become profitable customers for the association.
- To provide adequate board oversight to ensure the needs of this market are met on a constructive, safe and sound basis.
- To intentionally connect with underrepresented agricultural producers in the YBS community by providing outreach in financial and management education, lending products, and stewardship support.

Services Provided

Several credit and related services are offered through the board approved YBS Program directly and in coordination with other organizations that allow Northwest FCS to effectively serve the needs within these producer segments. Highlights of the YBS Program include:

- The AgVision® program enhances Northwest FCS' ability to serve the young, beginning and small producers who are actively involved in farming and those who may not meet traditional credit standards. AgVision customers account for $1.0 billion of loan volume. Through this program, special consideration is given in loan underwriting ratios, interest rate reductions, and origination and appraisal fee waivers. About $3.3 million in fee waivers have been provided to AgVision customers since 2001, with nearly $0.5 million in fees waived in 2021.
- Reimbursements to customers for educational expenses, technology purchases, recordkeeping and tax planning and preparation services since the 2001 inception of the AgVision program totaled $1.1 million. Reimbursements totaled $0.1 million in 2021.
- An advisory group that includes young, beginning and small farmers and ranchers who provide Northwest FCS with customer feedback, functions as a liaison to association management and advances the YBS program impact within the agricultural community.
- The RateWise™ program rewards YBS producers for continuing their management education with interest rate reductions on new loans.
- Northwest FCS' interest only, JumpStart™ loan program is designed to help entrepreneurs begin promising new ventures in agriculture.

- Customer education programs are tailored to YBS producers focusing on areas such as farm economics, financial literacy, profitability, cash flow, personal finance and succession planning.
- The Northwest FCS Business Management Center helps customers assess, understand and improve management practices through group and individual interactions via orientations, workshops and consulting. Numerous YBS customers have taken part in these various programs.
- Northwest FCS offers crop insurance to help YBS producers mitigate risk.
- A portion of the YBS producers' loan portfolio is supported by government guarantees, including guarantees by the Farm Service Agency (FSA) and the U.S. Department of Agriculture's (USDA) Business and Industry Guaranteed Loan Program.

Government Guaranteed Loans to YBS Farmers and Ranchers

(dollars in thousands)

December 31, 2021	*Number of loans*		*Volume*
Young	235	$	65,385
Beginning	283	$	87,693
Small	201	$	41,697

Regional Demographics

The service area of Northwest FCS primarily includes the states of Washington, Montana, Oregon, Idaho and Alaska. The following table compares demographic information from the USDA's 2017 Census of Agriculture to the 2012 census for YBS producers in Northwest FCS' area. This census is conducted every five years.

Census of Agriculture - Young, Beginning and Small Producers 2017 vs. 2012

The 2017 Census of Agriculture results show a 1.9 percent increase in small producers from 2012 to 2017. The young and beginning producer data cannot be compared between the 2017 and 2012 census due to a change in the census process. The 2012 census data for young and beginning producers included data for up to three producers for each organization whereas the 2017 census data included up to five producers, thus expanding the number of producers included in these categories in 2017.

	Young		*Beginning*		*Small*	
Geography	*2017*	*2012*	*2017*	*2012*	*2017*	*2012*
Washington	3,565	1,707	10,842	8,355	32,016	33,228
Oregon	4,265	1,419	11,844	6,506	34,807	32,548
Idaho	3,134	1,547	8,123	4,799	22,044	21,555
Montana	3,129	1,387	7,316	4,713	23,115	23,612
Alaska	112	37	444	211	897	719
Total	**14,205**	**6,097**	**38,569**	**24,584**	**112,879**	**111,662**

YBS Volume in the Northwest FCS Portfolio

The following table reflects the percentage of YBS producers' loans in the Northwest FCS loan portfolio as of December 31, 2021. Methods by which the Census demographics and the Northwest FCS' data are presented differ as the Census data is based on number of producers, while Northwest FCS' data is based on number of loans. Additionally, the FCA definition of a young farmer is an individual who is 35 years or younger, while the USDA uses an individual 34 years old or less; FCA beginning farmers have 10 years or less farming or ranching experience while the Census of Agriculture considers nine years or less farming or ranching experience. The USDA small producers' definition aligns closely with the FCA definition and overall the USDA study is the most useful tool to accurately measure association YBS goals and results.

Young, Beginning and Small Farmers and Ranchers – Number and Volume of Loans Outstanding (including available commitment)

(dollars in thousands)

December 31, 2021	*Number of loans*	*Percent of total*	*Loans and commitments outstanding*	*Percent of total*
Total loans and commitments outstanding at year end	22,682		$ 18,018,107	
Young farmers and ranchers	4,109	18.12%	$ 1,836,964	10.20%
Beginning farmers and ranchers	6,248	27.55%	$ 2,736,662	15.19%
Small farmers and ranchers	6,366	28.07%	$ 1,457,691	8.09%

The table above includes loan participation interests from states outside Northwest FCS' chartered territory.

Goals and Results

Quantitative goals are established each year for YBS producers' loan volume and numbers based on demographic data. The 2021 goals and actual results were as follows:

2021 Young, Beginning and Small Service Goals & Results

(dollars in thousands)

	Goals by number of loans	*Actual by number of loans*	*Goals by loan volume*	*Actual by loan volume*
Young	4,431	4,109	$ 2,006,698	$ 1,836,964
Beginning	6,670	6,248	$ 2,678,535	$ 2,736,662
Small	6,831	6,366	$ 1,364,461	$ 1,457,691

OFFICE LOCATIONS

Northwest FCS Headquarters

2001 S Flint Road
Spokane, Washington 99224*
(509) 340-5300

**** Northwest FCS Owned***

Idaho

73 Fort Hall Avenue, Suite A
American Falls, Idaho 83211
(208) 226-1340

370 N Meridian Street, Suite A
Blackfoot, Idaho 83221
(208) 782-3800

1408 Pomerelle Avenue, Suite B
Burley, Idaho 83318
(208) 678-6650

417 Main Street
Cottonwood, Idaho 83522
(208) 962-2280

1215 Pier View Drive
Idaho Falls, Idaho 83402*
(208) 552-2300

2631 Nez Perce Drive, Suite 201
Lewiston, Idaho 83501
(208) 799-4800

16034 Equine Drive
Nampa, Idaho 83687
(208) 468-1600

102 N State Street, Suite 2
Preston, Idaho 83263
(208) 852-2145

1036 Erikson Drive
Rexburg, Idaho 83440
(208) 656-2100

406 Park View Loop
Twin Falls, Idaho 83301*
(208) 732-1000

Montana

3490 Gabel Road, Suite 300
Billings, Montana 59102
(406) 651-1670

2530 Honor Lane
Bozeman, Montana 59718*
(406) 556-7300

519 S Main Street
Conrad, Montana 59425
(406) 278-4600

134 E Reeder Street
Dillon, Montana 59725
(406) 683-1200

54147 US Highway 2, Suite A
Glasgow, Montana 59230
(406) 228-3900

700 River Drive S
Great Falls, Montana 59405
(406) 268-2200

1705 US Highway 2 NW, Suite A
Havre, Montana 59501
(406) 265-7878

120 Wunderlin Street, Suite 6
Lewistown, Montana 59457
(406) 538-7737

502 S Haynes Avenue
Miles City, Montana 59301
(406) 233-3100

3021 Palmer Street, Suite B
Missoula, Montana 59808
(406) 532-4900

123 N Central Avenue
Sidney, Montana 59270
(406) 433-3920

Oregon

3370 10th Street, Suite B
Baker City, Oregon 97814
(541) 524-2920

650 E Pine Street, Suite 106A
Central Point, Oregon 97502
(541) 665-6100

2345 NE Overlook Drive, Suite 100
Hillsboro, Oregon 97006
(503) 844-7920

94482 Highway 99 E
Junction City, Oregon 97448
(541) 685-6140

300 Klamath Avenue, Suite 200
Klamath Falls, Oregon 97601
(541) 850-7500

308 SE 10th Street
Ontario, Oregon 97914
(541) 823-2660

12 SW Nye Avenue
Pendleton, Oregon 97801
(541) 278-3300

3113 S Highway 97, Suite 100
Redmond, Oregon 97756
(541) 504-3500

2222 NW Kline Street
Roseburg, Oregon 97471
(541) 464-6700

650 Hawthorne Avenue SE, Suite 210
Salem, Oregon 97301
(503) 373-3000

3591 Klindt Drive, Suite 110
The Dalles, Oregon 97058
(541) 298-3400

Washington

265 E George Hopper Road
Burlington, Washington 98233
(360) 707-2353

629 S Market Boulevard
Chehalis, Washington 98532
(360) 767-1100

301 S Main Street, Suite A
Colfax, Washington 99111
(509) 397-2840

1501 E Yonezawa Boulevard
Moses Lake, Washington 98837
(509) 764-2700

9915 Saint Thomas Drive
Pasco, Washington 99301*
(509) 542-3720

201 W Broadway Avenue, Suite B
Ritzville, Washington 99169
(509) 659-1105

2157 N Northlake Way, Suite 120
Seattle, Washington 98103
(206) 691-2000

2001 S Flint Road, Suite 101
Spokane, Washington 99224*
(509) 340-5600

2735 Allen Road
Sunnyside, Washington 98944
(509) 836-3080

1 W Pine Street
Walla Walla, Washington 99362
(509) 525-2400

2580 Chester Kimm Road
Wenatchee, Washington 98801
(509) 665-2160

1360 N 16th Avenue
Yakima, Washington 98902
(509) 225-3200

This page left intentionally blank.

This page left intentionally blank.

This page left intentionally blank.

PURPOSE Driven

To improve the lives of customers and employees, the communities where we work and raise our families, and the Northwest agriculture, food and fiber industries that perform a vital role in the United States and around the world.

Northwest
FARM CREDIT SERVICES

PO Box 2515
Spokane, Washington 99220-2515

New address?
Please notify your Northwest FCS branch.

Visit us at: **northwestfcs.com**

The 2021 Annual Report is also posted online.
For additional printed copies contact Northwest FCS at 1.800.743.2125