

Rooted in purpose.

2021



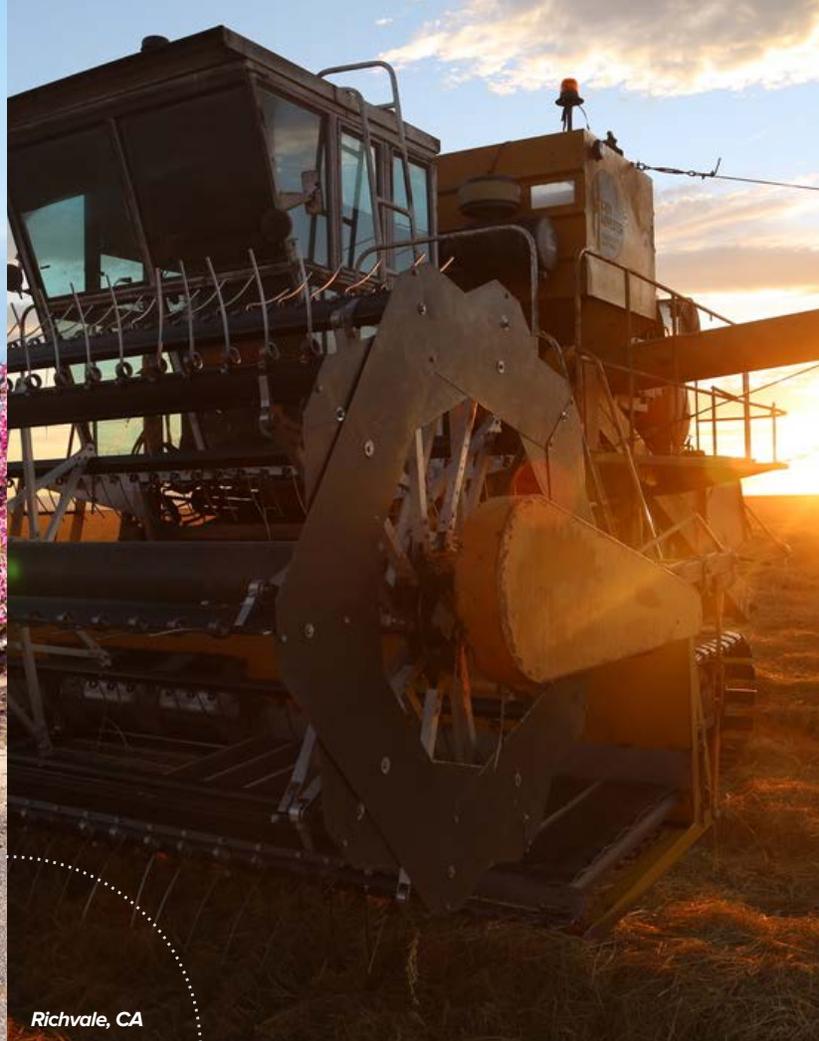

GOLDEN STATE
FARM CREDIT

ANNUAL REPORT

Customer Owned | Customer Focused



Reedley, CA



Richvale, CA



Hanford, CA



Reedley, CA

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LETTER TO STOCKHOLDERS

Dear Stockholders,

As we reflect on 2021, we are delighted to report that the Association ended the year financially strong and our success is a direct result of the strength and stability of our customer-owners. Our mission at Golden State Farm Credit is to continue building strong relationships with each of you and we have an eager and knowledgeable team that will continue to provide exceptional financial services to ensure your business is sustainable for the long term.

In order to continue serving the needs of our customers, the Association added new members to the management team in 2021. Mike Rico was selected to serve in the newly formed position of SVP, Chief Lending Officer. Mike's 20 years of experience in agricultural lending and finance make him an ideal candidate to serve in this role. His experience managing the South Valley credit team positioned him to better understand the importance of customer service. In addition, Justin Nunes was appointed as the new SVP, Chief Credit Officer after the retirement of Walter Lohse. He brings a strong background in credit and credit policies. In his new role, Justin will work closely with the management team to develop and manage policies and procedures to fit all of our customers' needs. And, lastly, Zach Clark was hired to serve as the Association's SVP, Chief Financial Officer. Zach's background as a CPA and experience working with agriculture clients brings a fresh, new perspective to the role. These three individuals join Rob Faris, President and CEO and Dave Lehrman, EVP, Chief Operating Officer, to form the executive leadership team that will continue to focus on ensuring a strong and stable Association that supports our customer-owners for generations to come.

The Board of Directors and management team are pleased to present the Golden State Farm Credit 2021 Annual Report. We know that the past year brought additional challenges to your business as the country continued to navigate the pandemic. In 2021, the Association had another successful year as reflected by our earnings, capital strength and patronage. The financial performance includes \$44.9 million of net income and strong asset quality, with 97.5% of loan volume classified as Acceptable. Additionally, the Board of Directors declared a record \$20.9 million cash patronage dividend, which is an increase of \$2.7 million over the 2020 patronage dividend. We are thankful for your loyalty to Golden State Farm Credit and honored to distribute a total combined patronage dividend to our customer-owners equal to 100 basis points (bps) or 1%.

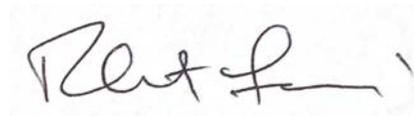
We are Customer Owned – Customer Focused. Our achievements are because of your commitment and dedication to agriculture and the communities where you live. The Association's focus will always be to offer competitive interest rates, reliable credit, strong financial programs and remarkable customer service that will help your business be profitable. Much like each of you, the Association continues to find ways to be more efficient and adapt to the challenges of California agriculture. We understand how volatile farming and working in agriculture can be, and we know that you work diligently to overcome those challenges because your passion for feeding the world is part of your DNA.

We are grateful to our customer-owners, Board of Directors and staff for working collaboratively this past year to accomplish the Association's goals. Our team will strive to be a trusted and reliable financial partner that you can count on. As we move into 2022, the Association is well positioned to serve our customers, no matter the situation and find the best way to provide opportunities for the next generation of farmers.

“We are thankful for your loyalty to Golden State Farm Credit and honored to distribute a total combined patronage dividend to customer-owners equal to 100 basis points (bps) or 1%.”



MICHAEL FRY
Chairman of the Board



ROBERT FARIS
President and Chief Executive Officer

BOARD OF DIRECTORS



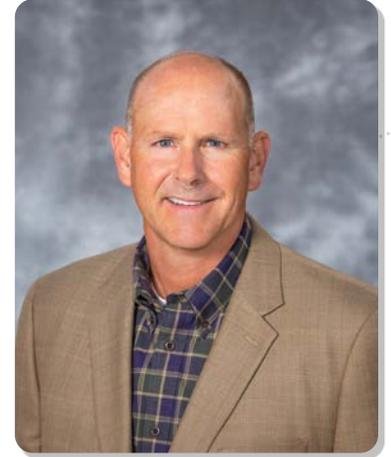
MICHAEL FRY
Chairman of the Board



GREGORY W. LONG
Vice Chairman of the Board



MIKE ANDERSEN
Director



JIM BATES
Director



STEPHEN BROWN
Director



MICHAEL R. CHAMBERS
Director



CASEY JONES
Director



PETE KNIGHT
Director



GEORGE R. NICOLAUS
Director



VERNON PETERSON
Director



TERRI WEST
Appointed Director



VACANT BOARD POSITION
Appointed Director

THE MIGHTY HONKER GOAT PROGRAM

Ryan Holzapfel and Zachary Gonzalez



HEART OF A
GRAND
CHAMPION

Ryan Holzapfel, a 17-year-old senior at Willows High School, is no stranger to working on the farm. He is usually up with the sun on his family's ranch. Holzapfel raises pigs for Willows High School's FFA program and this is his second year as a mentor for The Mighty Honker Goat Program.

The school spirit among these students is unmatched.

The Mighty Honker Goat Program pairs FFA general education students with those who have special needs. The goal is to mentor and teach developmentally disabled students how to properly feed, exercise, clean, care and groom goats for show and auction. Even better, the program allows students to learn responsibility, teamwork, and social skills, and gives them the opportunity to form deep and meaningful friendships.

After graduation, Holzapfel plans to study Agriculture at Butte College while he continues to work for his dad on the ranch. He clearly has a knack for business, humbly recognizing that his experience with The Mighty Honker Goat Program adds strength to his resume. "What I love most about The Mighty Honker Goat Program is that it gives us time to build connections with the kids," said Holzapfel, "It's especially meaningful at the fair, because people really want to purchase these goats. And the students get a chance to experience the fair and FFA in their own special way, they even write their own buyer's letters."

This year, Ryan is paired with a fellow classmate, Zach Gonzalez, a freshman, who will be turning 15 years-old in April. Gonzalez is autistic and spends half of his day in mainstream classes and half in special education. His mother, Michelle Diaz, says he's accustomed to being around animals at home, they have a cat and he raised rabbits for 4-H. This is Gonzalez's first time working with a large animal. "Once he gets his feet wet, he really enjoys it, he likes to figure out the ins and outs of raising a goat."

Gonzalez says, pointing to the snowcapped mountain range in the distance, "I named my goat Snowflake because just like on the mountains, you see snow, and then brown dirt like she has on her face."

Newly into the program, his bond with his animal has already started.

"These students have worked tremendously hard with their mentors to learn how to raise, feed, show and fit a market goat while also understanding the importance of hard work, dedication, and what it means to have perseverance," said Marissa Hunter, the 2021-2022 Mighty Honker Goat Program Senior Student Advisor. "Since 2017, we have had the incredible opportunity to have had 26 students in our program and this would not be possible without our amazing community support and donations the past six years. The money from your generous donation covers everything the student may need to come to the Glenn County Fair."

A 2010 graduate from Willows High and former FFA student, Staci Alves, now teaches Agriculture at Willows High School. For Alves, the heart of the Mighty Honker Goat Program is the connection between her students, the goats, and their special needs partners. "You'll usually see me bawling my eyes out at the fair," said Alves, who is quick to note the program's motto, 'Always stay humble and kind.'

Golden State Farm Credit's generous \$5,000 donation to the program includes \$1,500 per student for kids like Gonzalez who would otherwise not have the opportunity to participate. With this money, the school can purchase whites and FFA jackets. The money also helps pay for feed, food bins, medicine and all show supplies for the animal and the student themselves.

"This program is so meaningful that when I tell people about it and why we participate, they would gladly write a personal check," said Kris Costa, Golden State Farm Credit.

"Contributing to programs like this that have a personal impact on students is the heart of what we are trying to do with our community outreach. Golden State Farm Credit is proud to support Willows High School. Our support goes deeper than just purchasing fair animals, which we will continue to do; it creates a memory that will stay with them for many years."

Alves, while taking the students and the goats on a walk around the barn near the Willows airport, reflected on the program. "Once the students are paired up and this gets going, they're all giving hugs in the hallway, which is super cool to see," she says proudly, the emotional connection is also felt by teachers.

The Mighty Honker Goat Program is one of only 3 programs of its kind in the state of California. "There aren't more programs like this because it's hard! It's a lot of work, but the reward is how much it pays off for our students."



Staci Alves and Marissa Hunter

\$20,000 AWARDED THROUGH THE 'SHARING SUCCESS' PROGRAM

SUPPORTING AGRICULTURE & OUR RURAL COMMUNITIES

In 2021, Golden State Farm Credit partnered with CoBank on the Sharing Success Program to award \$20,000 to local nonprofits. Contributions to any 501(c)(3) charity are eligible for match under the Sharing Success program. GSFC participates in a matching share to award \$10,000 from CoBank and \$10,000 from GSFC to four nonprofits.

IN ADDITION TO THE WILLOWS MIGHTY HONKER GOAT PROGRAM, DONATIONS WERE MADE TO THE FOLLOWING ORGANIZATIONS.



L to R: Tyler Donnelley, Butte Ag Foundation President Doug Benz and Butte Ag Foundation Board Member Richard Price, Alec Bailey, Regina Byrd, Wyatt Hanes, Kayla Zilch

Butte Ag Foundation

Every November the Butte Ag Foundation invites local agricultural-based organizations to participate in The Big Harvest Community Fundraising Drive. With financial support from generous seed sponsors, the Butte Ag Foundation has cultivated a pool of matching funds for this community-wide agricultural fundraising drive. The Big Harvest not only provides a fundraising avenue for the agriculture community, but also teaches local organizations how to fundraise, especially youth organizations. Seed Sponsors such as Golden State Farm Credit and CoBank generously make up the matching fund.

www.TheBigHarvest.org



A group of Central Valley Teen Challenge students pray together before they serve at a local community food give-away.

Central Valley Teen Challenge

Central Valley Teen Challenge provides a one-year, Christian faith-based, residential care program to those struggling with life-controlling problems. This adult residential program for men and women ages 18 and older is offered in the Central Valley at no charge to the individual. www.teenchallenge.org/centers/cvtc



Kingsburg Community Assistance Programs & Services

KCAPS is a non-denominational Christian Ministry. The organization strives to create food security through a food bank, offers clothing and other items through thrift stores and provides utility and rental assistance programs for underserved individuals who qualify for financial help.

In mid-December KCAPS sponsors Christmas With Dignity Toy Stores in the communities of Kingsburg, London, and Traver, CA. www.kcaps.net

Mike Rico, GSFC and Aida Rushing

MAKING AN IMPACT IN THE COMMUNITIES WE SERVE

NEARLY \$300,000
DONATED TO WORTHY
NONPROFITS THROUGHOUT
OUR SERVICE AREA



A highlight from the year was a \$10,000 contribution to the CA Youth Ag Expo. A showmanship event of the best of the best, this event highlights students who are the future of Agriculture in California. The CYAE awards more than \$150,000 to California 4-H and FFA exhibitors. A video about the expo and Golden State's donation can be found here:



A total of \$290,000 was donated in 2021 to nonprofit and community organizations. The strategy and focus behind the donations were to meet the needs of food insecure individuals, help with poverty and mental health and support farming organizations and children, especially those involved in agriculture. County farm bureaus, fairs, junior livestock auctions and young, beginning and small farmers are just a few of the notable recipients of these funds.

"Our business is about deepening relationships; there is no amount of advertising that could make the impact that these funds have made for our local partners, especially after a pandemic with so many needing a helping hand,"
Rob Faris, President and CEO.

Caring at Christmas

350 kids, 125 families, 10 seniors

Organizations supported:

- Salvation Army Angel Tree Network** – Butte County
- Valley Catholic Social Services** – Shasta/Tehama Counties
- Glenn County Health & Human Services** – Glenn County
- KCAPS** – Christmas with Dignity Christmas gifts – Fresno County
- Refuge Armona** – Kings County

Fire Relief for Plumas County

Many of Golden State Farm Credit customers have been impacted by the devastating wildfires that swept through California in 2021. In another partnership effort with CoBank, Golden State Farm Credit gave \$6,000 to the Indian Valley students who lost their fair animals in the Dixie Fire. As a good neighbor stepping up in a time of need, GSFC worked with CoBank and a private donor who both matched the gift making. The full contribution to the Plumas-Sierra Livestock Auction a total of \$18,000.

GSFC also worked with SAYLOVE (non-profit in Yuba-Sutter) to provide backpacks for students in Plumas County who were affected by the Dixie Fire.

www.saylove.org

Dear Golden State Team,
Thank you so much for your generous gifts for Refuge this year. Because of your support over 100 families and over 250 children were blessed beyond measure. We are so grateful!
♥ The Refuge Armona Team



Thank you Golden State Farm Credit for the generous donation and Kris Costa for connecting the dots!!! It's relationships and community supporters like these who make such positive impacts!



SUPPORTING LOCAL FOOD BANKS

September Hunger Action Month

Every September, people all over America stand together to support a nationwide network of food banks to fight hunger. It's a month to spread the word and take action on the hunger crisis and dedicate ourselves to a solution.

In coordination with September Hunger Action Month, Golden State Farm Credit supported two local food banks that provide families in need in the communities we serve. GSFC donated \$5,000 to Central California Food Bank, serving the South Valley, and \$5,000 to the Butte County Action Agency (North State Food Bank), serving the North Region. The GSFC team and Board Members also participated in a day of service at each food bank in September.

Help During the Holidays

For the Christmas holiday, Golden State Farm Credit in collaboration with CoBank, was able to provide an additional donation of \$10,000 to these community food banks. CoBank's Food Bank Program (separate from their Sharing Success Program) provides a \$5,000 matching program, allowing GSFC to contribute an additional \$5,000 specifically to help feed families in need in our communities.



Back Row: Dylan Peckham, Susan Der Manuel, Chris Stambach, Tanner Swanson, Matt Misko, Gary Davis, Leo Schulz, Jim Bates
Front Row: Kris Costa, Diana Thao, John Lehrman, Erika Roeloffs and Michael Melkonian



Jackie Martynski, Miriam Dennis, Kris Costa, George Nicolaus, Manny Mejia, Tom Dearmore (NSFB), Holly Fortin, Emme Faris, Geni Zwald and Sheryl Faris



Tanner Swanson and Erika Roeloffs of GSFC



PATRONAGE

2021 PATRONAGE
\$20,900,000

1%

2021 \$20,900,000

2020 \$18,185,000

2019 \$15,700,000

2018 \$12,650,000

2017 \$11,400,000

2016 \$10,100,000

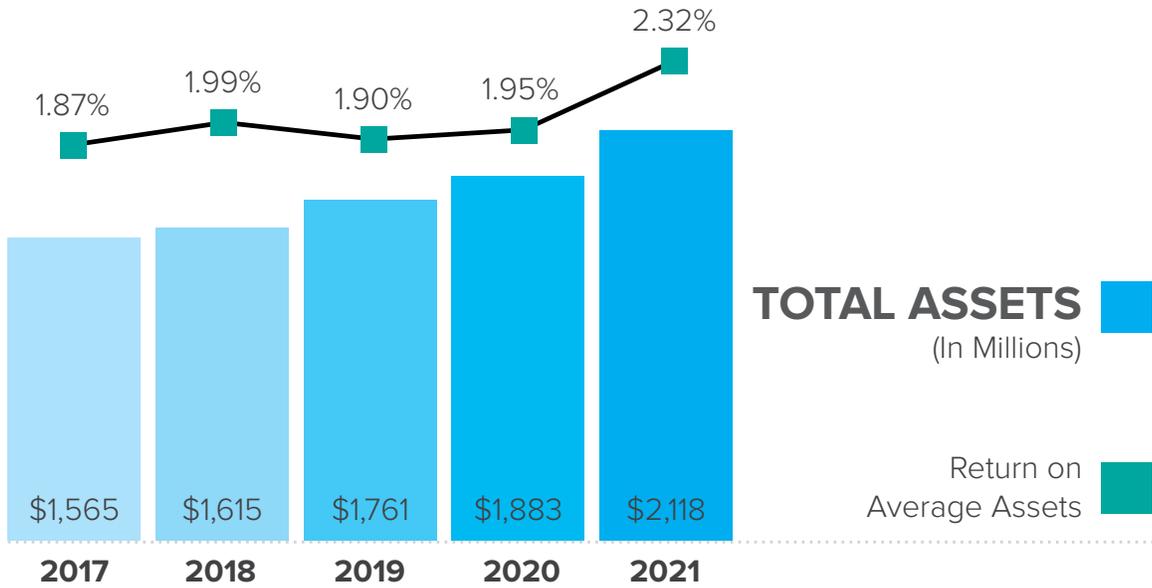


**PAID MEMBERS
\$88.9M SINCE 2016**



Thank you Sun Valley Packing and Sohnrey Family for allowing us to photograph your blooming orchards.

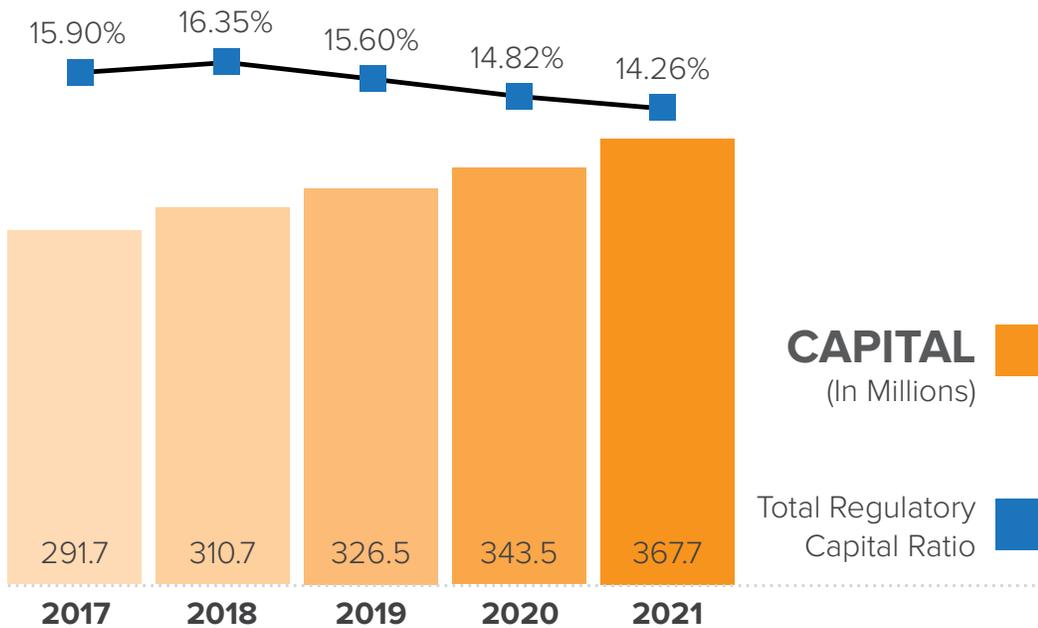
FINANCIAL HIGHLIGHTS



NET INCOME

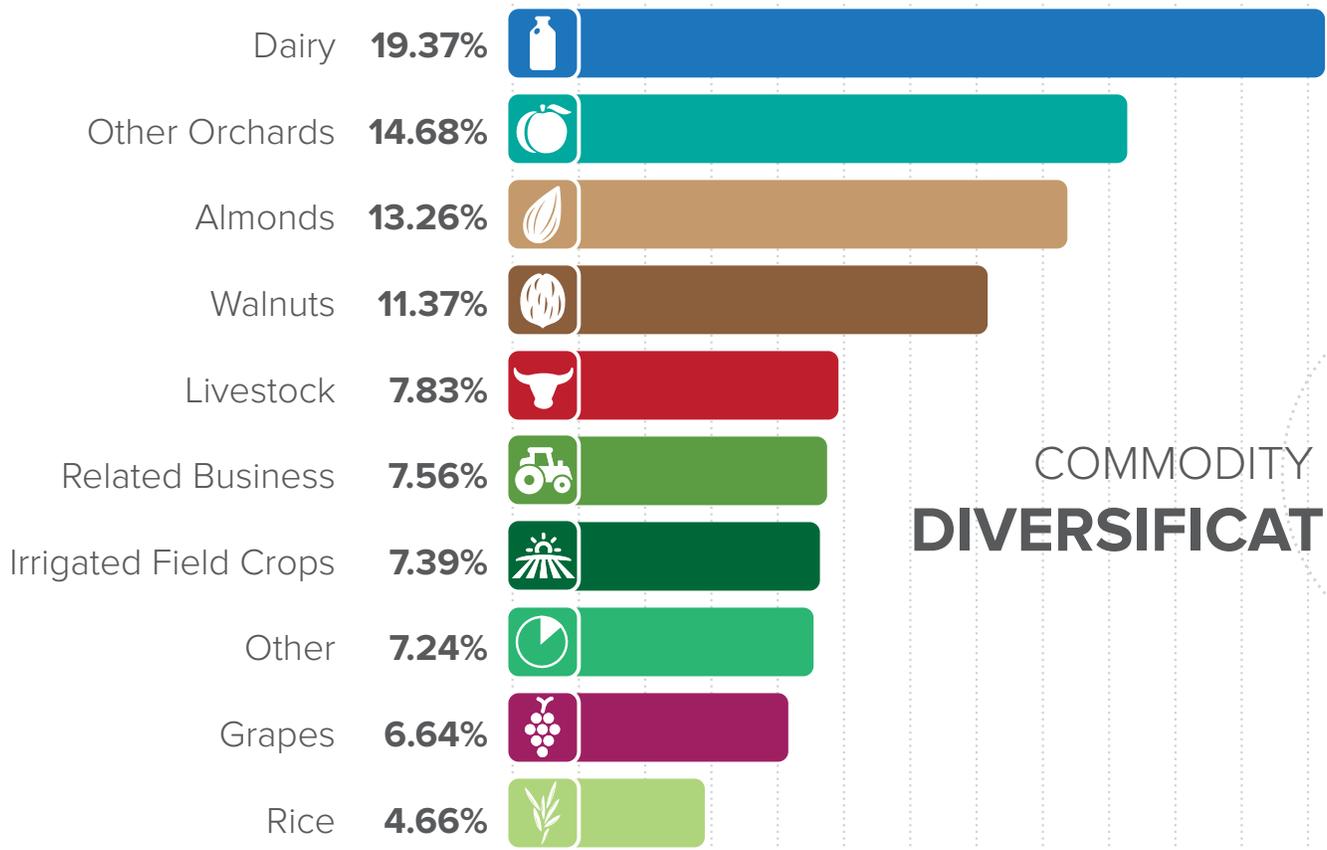
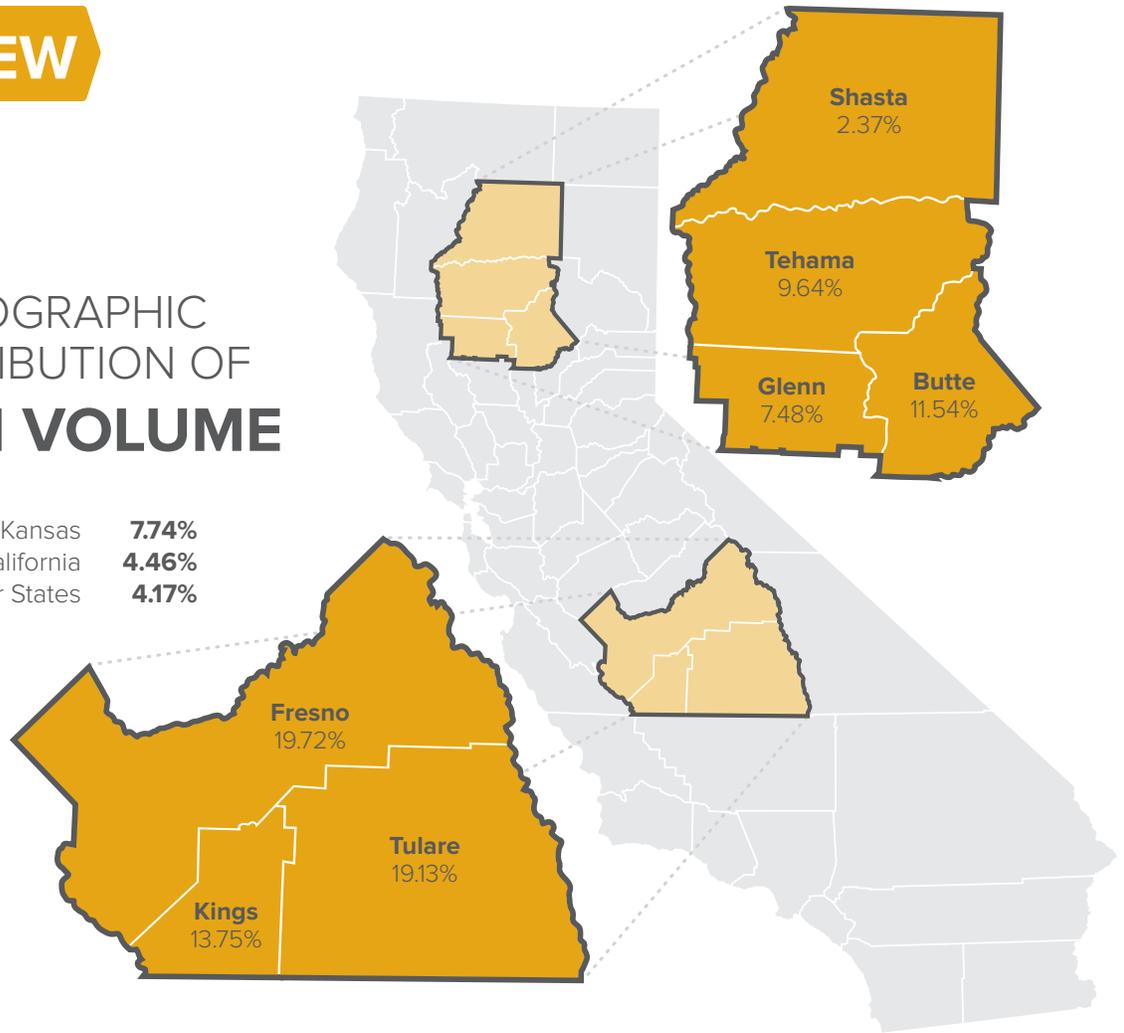
(In Millions)

Cost Per \$100



GEOGRAPHIC DISTRIBUTION OF LOAN VOLUME

Other - Kansas **7.74%**
 Other - California **4.46%**
 Other - Other States **4.17%**



COMMODITY DIVERSIFICATION

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(Dollars in Thousands)

December 31

	2021	2020	2019	2018	2017
Statement of Condition Data					
Loans	\$ 2,004,080	\$ 1,781,843	\$ 1,646,738	\$ 1,515,010	\$ 1,476,850
Less allowance for loan losses	4,689	4,665	4,466	4,157	4,603
Net loans	1,999,391	1,777,178	1,642,272	1,510,853	1,472,247
Investment in CoBank, ACB	58,251	58,012	52,733	49,984	47,453
Other assets	60,373	47,719	65,584	54,397	45,395
Total assets	\$ 2,118,015	\$ 1,882,909	\$ 1,760,589	\$ 1,615,234	\$ 1,565,095
Obligations with maturities of one year or less	\$ 1,749,997	\$ 1,538,941	\$ 1,433,653	\$ 1,303,987	\$ 1,273,264
Reserve for unfunded commitments	358	430	400	536	153
Total liabilities	1,750,355	1,539,371	1,434,053	1,304,523	1,273,417
Capital stock and participation certificates	1,513	1,500	1,529	1,524	1,555
Additional paid-in capital	141,442	141,442	141,442	141,442	141,442
Unallocated retained earnings	224,640	200,541	183,514	167,613	148,925
Accumulated other comprehensive income/(loss)	65	55	51	132	(244)
Total shareholders' equity	367,660	343,538	326,536	310,711	291,678
Total liabilities and shareholders' equity	\$ 2,118,015	\$ 1,882,909	\$ 1,760,589	\$ 1,615,234	\$ 1,565,095

For the Year Ended December 31

	2021	2020	2019	2018	2017
Statement of Income/(Expense) Data					
Net interest income	\$ 52,218	\$ 46,636	\$ 44,153	\$ 42,097	\$ 40,087
Patronage distribution from Farm Credit institutions	11,351	7,512	5,860	6,828	5,731
Credit loss reversal/(Provision for credit losses)	37	(229)	(173)	(21)	(337)
Noninterest expense, net	(18,665)	(18,705)	(18,237)	(17,564)	(17,474)
Provision for income taxes	(1)	(2)	(2)	(2)	(2)
Net income	\$ 44,940	\$ 35,212	\$ 31,601	\$ 31,338	\$ 28,005
Comprehensive income	\$ 44,950	\$ 35,216	\$ 31,520	\$ 31,714	\$ 27,945

Key Financial Ratios**For the Year**

Return on average assets	2.32%	1.95%	1.90%	1.99%	1.87%
Return on average shareholders' equity	12.48%	10.39%	9.79%	10.28%	9.75%
Net interest income as a percentage of average earning assets	2.84%	2.72%	2.81%	2.82%	2.80%
Net charge-offs as a percentage of average net loans	<0.01%	-	-	0.01%	-

At Year End

Shareholders' equity as a percentage of total assets	17.36%	18.25%	18.55%	19.24%	18.64%
Debt as a ratio to shareholders' equity	4.76:1	4.48:1	4.39:1	4.20:1	4.37:1
Allowance for loan losses as a percentage of loans	0.23%	0.26%	0.27%	0.27%	0.31%
Common equity tier 1 (CET1) capital ratio	14.03%	14.55%	15.35%	16.06%	15.60%
Tier 1 capital ratio	14.03%	14.55%	15.35%	16.06%	15.60%
Total regulatory capital ratio	14.26%	14.82%	15.60%	16.35%	15.90%
Tier 1 leverage ratio	15.10%	15.49%	16.24%	16.73%	16.39%
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	16.76%	17.06%	17.80%	18.27%	17.58%
Permanent capital ratio	14.06%	14.59%	15.39%	16.10%	15.65%

Net Income Distribution

Cash patronage distributions paid	\$ 19,381	\$ 16,874	\$ 14,221	\$ 11,800	\$ 10,600
Cash patronage declared	\$ 20,900	\$ 18,185	\$ 15,700	\$ 12,650	\$ 11,400

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

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

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

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.goldenstatefarmcredit.com, or upon request. We are located at 3013 Ceres Avenue, Chico, California 95973, or may be called at (530) 571-4160.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

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

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region including Butte, Fresno, Glenn, Kings, Shasta, Tehama, Trinity and Tulare counties in California. We make long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses, and production and intermediate-term loans for agricultural production or operating purposes. Additionally, we provide other related services to our borrowers, such as advance conditional payment accounts, leasing, and fee appraisals. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

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

We, along with the borrower's investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 3013 Ceres Avenue, Chico, California 95973, or by calling (530) 571-4160. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

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

ECONOMIC OVERVIEW

At the end of 2021, 100% of California was experiencing drought conditions with 28% of the state falling under exceptional drought (the worst category) compared to 88% in the 3rd quarter. Despite a wet start to this water year, the Department of Water Resources (DWR) is still planning for a below average water year. On December 1, 2021, the DWR announced the plan for their initial water allocation is to prioritize health and safety needs, which means farmers should expect a zero water allocation from the State Water Project. This is something that will most likely change due to recent rainfall, but we will continue to monitor throughout 2022.

Like many industries, the COVID pandemic affected the dairy market. Milk prices have rebounded significantly from their bottom last year. If these prices hold, 2022 would be the highest priced year of milk since 2014. Based on 2021 financial information gathered from our borrower base, most operators showed break-even or a net profit on their 2nd quarter financials and have had a strong 4th quarter. As a result, many operators have adequate liquidity and have paid down operating debt in 2021 using profits from the past two years. Overall the dairy portfolio is strong with almost all dairies performing as expected. Additionally, many dairymen have both diversified to permanent plantings and have been diligent in utilizing the Dairy Revenue Protection insurance in order to mitigate risk in their operations.

Based on the California Walnut Board 2020/2021 reports, year-over-year shipments are trending lower than last year by 25 million lbs., or 19%. Demand for walnuts is still high; however, ocean freight logistical issues are affecting exporting walnuts. Despite these shipping issues, walnut prices have been holding steady. The 2021 California crop projection for walnuts is 670,000 tons, down 15% from the 2020's record production of 785,000 tons. The Almond Board of California's position report released in October 2021 shows a 14% decrease in shipments compared to prior year due to disruptions in shipping logistics. Almond prices have softened slightly due to slowdowns in shipments.

The California rice industry outlook remains favorable. Demand is strong as prices surge throughout the state due to production impairment caused by extreme drought conditions. Importers and traders around the world are well aware of California's water conditions and so far, seem prepared to tolerate rising prices. According to the Creed Rice Market Report as of August 25, 2021, the undertone of the California medium grain market is strong. The USDA Crop Progress reports 100% of the crop rated as "Fair" to "Excellent", and 80% rated as "Good".

According to internal commodity analysis, California tree fruit sales in 2021 have been moderate to good. At this time, it is unclear whether demand will remain at the strong levels seen during the prior year. Plum prices remained strong for the entire season, while mid-to-late season peaches and nectarines were

profitable, but failed to reach more favorable prices. Strong volume challenged the industry across all varieties as growers benefitted from favorable weather conditions. As a result, inventories had built up in storage in the middle of the season, as the demand could not keep up with the supply. Eventually, sales brought supply down; however, some growers reported fruit left on the trees and packers culling at higher rates as a result.

In 2021, the COVID-19 pandemic remained in control of the global economy. With the introduction of new COVID-19 strains such as the delta and omicron variants, the U.S. economy and rural industries have made the transition into the next phase of the pandemic. This phase has brought about supply chain disruptions and labor shortages that have taken a toll on all industries. The U.S. farm economy has grappled with a combination of increasing input costs, product shortages, flattened commodity prices, and inflation. The pace of workers' return and the rebalancing of the U.S. economy in early 2022 is largely dependent upon the new omicron variant. This ongoing threat of virus mutations has caused, and will continue to cause, economic uncertainty, but economists are optimistic given the resiliency of the economy after the spread of the delta variant. From a monetary policy perspective, the Fed has announced plans to increase rates multiple times in 2022. Anticipation of tighter monetary policy is contributing to a stronger dollar and changes in the shape of the yield curve.

The U.S. government has continued to institute various programs in support of the COVID-19 recovery. In March 2021, Congress passed the \$1.9 trillion American Rescue Plan Act designed to provide near-term help to those hurt by the pandemic. In December 2020, Congress passed the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, which, among other provisions, allocated additional funding for Paycheck Protection Program (PPP) loans and allows certain existing PPP borrowers to apply for additional loans or draws on existing loans. The Association obtained approval to participate as a lender in the PPP and continued to provide funds to eligible borrowers during the first quarter of 2021. As of December 31, 2021, the Association's PPP loans totaled \$673 thousand. In March 2021, the current presidential administration also proposed the \$2.3 trillion American Jobs Plan intended to create jobs and rebuild the country's infrastructure.

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

Management has analyzed the material effects of transition risks related to climate change that may affect the Association's business, financial condition, and results of operations. These risks include policy and regulatory changes that could impose operational and compliance burdens, market trends that may alter business opportunities, credit risks, litigation risks or technological changes. The Association is not aware of any specific material impacts on our business, results of operations or financial condition from the effects of climate change transition risks. We have no material past or planned future capital expenditures for climate-related projects and, at this time, we are not aware of any material financial impacts from the indirect consequences of climate-related regulation or business trends.

LOAN PORTFOLIO

Total loans outstanding were \$2.00 billion at December 31, 2021, an increase of \$222.2 million, or 12.5%, from loans at December 31, 2020 of \$1.78 billion, and an increase of \$357.3 million, or 21.7%, from loans at December 31, 2019 of \$1.65 billion. The increase was due to seasonal growth in the third and fourth quarter, purchased participations, and the booking of a number of large loans to new and existing borrowers. Additionally, the Association made a strategic decision to pursue higher rates of loan growth at

mid-year 2021, which increased the third and fourth quarter growth rate compared to previous quarters. The types of loans outstanding at December 31 are reflected in the following table.

<i>(dollars in thousands)</i>	2021		2020		2019	
	Volume	Percent	Volume	Percent	Volume	Percent
Real estate mortgage	\$ 1,533,171	76.5%	\$ 1,337,407	75.1%	\$ 1,319,863	80.2%
Production and intermediate-term	331,691	16.6%	310,622	17.4%	215,905	13.1%
Agribusiness	80,440	4.0%	76,355	4.3%	57,956	3.5%
Rural infrastructure	33,170	1.6%	30,971	1.7%	21,722	1.3%
Rural residential real estate	45	–	83	–	224	–
Lease receivables	25,563	1.3%	26,405	1.5%	31,068	1.9%
Total	\$ 2,004,080	100.0%	\$ 1,781,843	100.0%	\$ 1,646,738	100.0%

Real estate mortgage loans outstanding increased 14.6% to \$1.53 billion, compared with \$1.34 billion at year-end 2020. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans increased 6.8% to \$331.7 million, compared with 2020 loans of \$310.6 million. Production loans are used to finance the ongoing operating needs of agricultural producers and generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years. Our production and intermediate-term loan portfolio shows some seasonality. Borrowings increase throughout the planting and growing seasons to meet farmers' operating and capital needs. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs.

Portfolio Diversification

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

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

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

<i>(dollars in thousands)</i>	2021	2020	2019
Participations purchased	\$211,644	\$172,053	\$117,399
Participations sold	\$467,211	\$344,841	\$230,716

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

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

	2021	2020	2019
Fresno	19.72%	19.57%	20.62%
Tulare	19.13%	20.16%	19.01%
Kings	13.75%	13.65%	13.79%
Butte	11.54%	10.58%	11.12%
Tehama	9.64%	9.69%	10.42%
Glenn	7.48%	7.74%	8.54%
Shasta	2.37%	2.33%	1.99%
Trinity	—	—	0.01%
Other - Kansas	7.74%	7.00%	5.37%
Other - California	4.46%	4.48%	5.90%
Other - Other States	4.17%	4.80%	3.23%
Total	100.00%	100.00%	100.00%

We are a party to an Agreement Providing Territorial Concurrence (Agreement) with Farm Credit West, ACA. This Agreement eliminates territorial restrictions and allows either party to make loans through its dealer network in the other's territory for a fee. Additionally, we have an agreement with Northwest Farm Credit, which allows them to offer rural residential real estate loans to our borrowers.

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

SIC Category	December 31		
	2021	2020	2019
Dairy	19.37%	19.49%	17.99%
Other Orchards	14.68%	13.15%	13.01%
Almonds	13.26%	12.99%	15.04%
Walnuts	11.37%	11.14%	12.70%
Livestock	7.83%	6.27%	7.61%
Related Business	7.56%	6.86%	3.21%
Irrigated Field Crops	7.39%	8.14%	8.24%
Grapes	6.64%	8.28%	8.96%
Rice	4.66%	4.78%	5.11%
Other	7.24%	8.90%	8.13%
Total	100.00%	100.00%	100.00%

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

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

The loans outstanding at December 31, 2021 for loans \$250 thousand or less accounted for 6.9% of loan volume and 57.7% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loans outstanding by dollar size at December 31 for the last three years.

<i>(dollars in thousands)</i>	2021		2020		2019	
	Amount outstanding	Number of loans	Amount outstanding	Number of loans	Amount outstanding	Number of loans
\$1 - \$250	\$ 140,125	1,811	\$ 148,735	1,985	\$ 149,336	2,153
\$251 - \$500	175,927	486	170,095	475	177,317	487
\$501 - \$1,000	266,069	373	241,072	340	226,184	316
\$1,001 - \$5,000	878,333	406	790,522	372	738,984	334
\$5,001 - \$25,000	543,626	64	402,823	52	354,917	45
\$25,001 - \$100,000	—	—	28,596	1	—	—
Total	\$ 2,004,080	3,140	\$ 1,781,843	3,225	\$ 1,646,738	3,335

As of December 31, 2021, approximately 11.9% of our loans outstanding is attributable to our ten largest borrower relationships. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

The credit risk of some long-term real estate loans has been reduced by entering into agreements that provide long-term standby commitments by Federal Agricultural Mortgage Corporation (Farmer Mac) to purchase the loans in the event of default. The amount of loans subject to these Farmer Mac credit enhancements was \$120.4 million at December 31, 2021, \$125.3 million at December 31, 2020 and \$139.8 million at December 31, 2019. Included in other operating expenses were fees paid for these Farmer Mac commitments totaling \$428 thousand in 2021, \$478 thousand in 2020 and \$445 thousand in 2019. Under the Farmer Mac long-term standby commitment to purchase agreements, we continue to hold the loans in our portfolio, and we pay commitment fees to Farmer Mac for the right to put a loan designated in these agreements to Farmer Mac at par in the event the loan becomes significantly delinquent (typically four months past due). If the borrower cures the default, we must repurchase the loan and the commitment remains in place. Farmer Mac long-term standby commitments to purchase agreements are further described in Note 3. Other than the contractual obligations arising from these business transactions with Farmer Mac, Farmer Mac is not liable for any debt or obligation of ours and we are not liable for any debt or obligation of Farmer Mac. For more information on Farmer Mac, refer to their website at www.farmermac.com.

Credit guarantees with government agencies of \$2.3 million at year-end 2021, \$12.5 million at year-end 2020 and \$1.1 million at year-end 2019 were outstanding.

Credit Commitments

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

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

<i>(dollars in thousands)</i>	Due 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years	Total
Commitments to extend credit	\$ 158,279	\$ 110,520	\$ 40,263	\$ 253,578	\$ 562,640
Standby letters of credit	2,412	618	–	–	3,030
Total commitments	\$ 160,691	\$ 111,138	\$ 40,263	\$ 253,578	\$ 565,670

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

High Risk Assets

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

<i>(dollars in thousands)</i>	2021	2020	2019
Nonaccrual loans:			
Real estate mortgage	\$ 1,375	\$ 5,453	\$ 3,680
Production and intermediate term	361	1,189	365
Lease receivables	16	80	142
Total nonaccrual loans	1,752	6,722	4,187
Accruing restructured loans:			
Real estate mortgage	229	231	230
Total accruing restructured loans	229	231	230
Accruing loans 90 days past due:			
Real estate mortgage	–	19,880	–
Total accruing loans 90 days past due	–	19,880	–
Total high risk assets	\$ 1,981	\$ 26,833	\$ 4,417
Nonaccrual loans to total loans	0.09%	0.38%	0.25%
High risk assets to total loans	0.10%	1.51%	0.27%
High risk assets to total shareholders' equity	0.54%	7.81%	1.35%

We had no other property owned for the years presented.

Total high risk assets decreased \$24.8 million, or 92.6%, to \$2.0 million at December 31, 2021 compared with year-end 2020. The reduction in high risk assets was due to significant nonaccrual payoffs and improved credit quality in our portfolio.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased \$5.0 million compared with December 31, 2020 due to significant nonaccrual payoffs. Two customers comprise approximately 97% of total nonaccrual volume. The following table provides additional information on nonaccrual loans as of December 31 for the last three fiscal years.

<i>(dollars in thousands)</i>	2021	2020	2019
Nonaccrual loans current as to principal and interest	\$ 639	\$ 5,299	\$ 570
Restructured loans in nonaccrual status	\$ 351	\$ 4,086	\$ 3,680

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

Accruing restructured loans including related accrued interest decreased \$2 thousand during 2021 primarily as a result of repayments. The accruing restructured loans include only the year-end balances of loans and related accrued interest on which monetary concessions have been granted to borrowers and that are in accrual status. Accruing restructured loans do not include loans on which monetary concessions have been granted but which remain in nonaccrual status.

Loans 90 days past due and still accruing interest decreased \$19.9 million during 2021. The entire balance at prior year-end was attributable to one borrower, and was due to billing and construction delays caused by the impact of COVID-19 on the borrower's workforce. A six-month temporary forbearance was provided; the loan was not considered distressed. In 2021, the loan became current due to timely payments.

High risk asset volume is low compared to overall loan volume, but is anticipated to increase modestly in the future.

Credit Quality

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

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

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

	2021	2020	2019
Acceptable	97.51%	96.63%	98.02%
OAEM	2.08%	2.28%	0.90%
Substandard	0.41%	1.09%	1.08%
Total	100.00%	100.00%	100.00%

During 2021, overall credit quality improved. Loans classified as Acceptable and OAEM were 99.59% at December 31, 2021, 98.91% at December 31, 2020 and 98.92% at December 31, 2019. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less

favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased and remained at a low level of 0.06% at December 31, 2021, compared with 1.47% at December 31, 2020 and 0.10% at December 31, 2019.

Allowance for Loan Losses

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

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

<i>(dollars in thousands)</i>	2021	2020	2019
Balance at beginning of year	\$ 4,665	\$ 4,466	\$ 4,157
Charge-offs:			
Lease receivables	11	—	—
Provision for loan losses	35	199	309
Balance at December 31	\$ 4,689	\$ 4,665	\$ 4,466
Net charge-offs as a percentage of average net loans	<0.01%	—	—

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

<i>(dollars in thousands)</i>	2021	2020	2019
Real estate mortgage	\$ 1,158	\$ 707	\$ 790
Production and intermediate-term	2,102	2,645	2,426
Agribusiness	937	671	557
Rural infrastructure	100	114	60
Lease receivables	392	528	633
Total	\$ 4,689	\$ 4,665	\$ 4,466

The allowance for loan losses increased \$24 thousand from December 31, 2020, to \$4.7 million at December 31, 2021. The increase in allowance for loan losses was primarily due to the provision for loan losses totaling \$35 thousand that was recorded due to an increase in loan volume. Net charge-offs of \$11 thousand were recorded during 2021. Overall, charge-off activity remains low relative to the size of our loan portfolio. During 2020, our allowance for loan losses increased \$199 thousand from 2019 primarily due to the provision for loan losses totaling \$199 thousand that was recorded as a result of increased risk in the loan portfolio.

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

	2021	2020	2019
Allowance as a percentage of:			
Loans	0.23%	0.26%	0.27%
Impaired loans	236.70%	17.39%	101.11%
Nonaccrual loans	267.64%	69.40%	106.66%

The increase in the allowance as a percentage of impaired loans was primarily due to the \$19.9 million decrease in loans 90 days past due and still accruing interest discussed above.

The increase in the allowance as a percentage of nonaccrual loans was due to the \$5.0 million decrease in nonaccrual loans during 2021. The majority of these loans were well collateralized and thus movement out of nonaccrual status did not significantly impact the allowance.

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

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

<i>(dollars in thousands)</i>	2021	2020	2019
Balance at beginning of year	\$ 430	\$ 400	\$ 536
(Reversal of)/Provision for reserve for unfunded commitments	(72)	30	(136)
Total	\$ 358	\$ 430	\$ 400

The decrease in provision for reserve for unfunded commitments in 2021 is due to improved credit quality.

Young, Beginning and Small Farmers and Ranchers Program

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

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

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

	USDA	December 31		
		2021	2020	2019
Young	10%	12%	13%	12%
Beginning	29%	18%	16%	19%
Small	74%	23%	19%	24%

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

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

- Offer products and services to YBS farmers and ranchers in our territories to ensure we are inclusive to all qualified applicants;
- Utilize opportunities to coordinate products and services with other institutions, government, and private sources who offer credit and services to those who qualify under the YBS farmers and ranchers category in our territories; and

- Create marketing and outreach programs that focus on loans, products, and services that are beneficial to YBS farmers and ranchers for growth and sustainability.

A major component of supporting our rural community is advancing YBS farmers and ensuring there are opportunities for young people to get involved in agriculture early in life. Some of the key endeavors undertaken in this regard include sponsorship of local fairs and agricultural events, support for agricultural education programs, provision of scholarships, and direct financing to youths participating in local livestock projects.

Quarterly reports are provided to our Board of Directors detailing the number, volume and credit quality of our YBS customers. The quantitative targets we have developed to monitor our progress includes loan volume and loan number goals for YBS farmers and ranchers in our territory.

	Volume (change)		Number of loans (change)	
	Goal	Actual	Goal	Actual
Young	5%	10%	5%	4%
Beginning	5%	4%	5%	2%
Small	0%	6%	0%	(1)%

With the exception of volume growth in the Young and Small categories, our 2021 YBS goals were not met. Despite our efforts to make advances with the YBS demographic, and despite high levels of overall loan growth in 2021, the demand needed to meet all of our YBS goals did not materialize. We have begun efforts to improve YBS outreach including enhancing our social media presence and focusing our marketing efforts to better increase awareness of our products and services. We are also reviewing our goal setting process to ensure that our goals are realistically aligned with the demands and demographics of our local region.

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize customized loan underwriting standards, loan guarantee programs, fee waiver programs, or other credit enhancement programs. Additionally, we are actively developing and sponsoring educational opportunities, leadership trainings, business development, and financial skills trainings for YBS farmers and ranchers to demonstrate our commitment and foster long-term relationships with these customers and potential customers.

CREDIT RISK MANAGEMENT

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

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

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

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

By regulation, we cannot have loan commitments to one borrower for more than 15% of our lending and lease limit base. As of December 31, 2021, the lending and lease limit base was defined as permanent capital with any applicable adjustments related to preferred stock and any investment held in connection with the sale of loan participation interest. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established for individual loan size, commodity type, special lending programs and geographic concentrations. We have adopted an individual lending limit maximum of 10% of total regulatory capital.

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

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

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

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

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

RESULTS OF OPERATIONS

Earnings Summary

In 2021, we recorded net income of \$44.9 million, compared with \$35.2 million in 2020, and \$31.6 million in 2019. The increase in 2021 was primarily due to higher net interest income resulting from the recognition of interest income associated with the payoff of several large nonaccrual loans, recognition of fee income associated with the administration of PPP loans, and higher patronage income driven by loan growth and increased patronage from CoBank. The increase in 2020 was due to increased net interest income from growth in loan volume, recognition of a special patronage distributed by CoBank, and decreased operating expenses due to COVID-19.

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

<i>(dollars in thousands)</i>	2021 vs. 2020	2020 vs. 2019
Net income, prior year	\$ 35,212	\$ 31,601
Increase/(Decrease) from changes in:		
Interest income	638	(13,063)
Interest expense	4,944	15,546
Net interest income	5,582	2,483
Provision for credit losses	266	(56)
Noninterest income	3,588	2,221
Noninterest expense	291	(1,037)
Provision for income tax	1	–
Total increase in net income	9,728	3,611
Net income, current year	\$ 44,940	\$ 35,212

Return on average assets increased to 2.32% from 1.95% in 2020, and return on average shareholders' equity increased to 12.48% from 10.39% in 2020, primarily as a result of higher net income as described above.

Net Interest Income

Net interest income for 2021 was \$52.2 million compared with \$46.6 million for 2020 and \$44.2 million for 2019. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to increases in loan volume and the recognition of interest income associated with the payoffs of several large nonaccrual loans and decreasing cost of funds.

The following table provides an analysis of the individual components of the change in net interest income during 2021 and 2020.

<i>(dollars in thousands)</i>	2021 vs. 2020	2020 vs. 2019
Net interest income, prior year	\$ 46,636	\$ 44,153
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	(5,407)	(18,653)
Interest rates paid	6,032	17,308
Volume of interest-bearing assets and liabilities	3,563	3,786
Interest income on nonaccrual loans	1,394	42
Increase in net interest income	5,582	2,483
Net interest income, current year	\$ 52,218	\$ 46,636

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

	For the Year Ended December 31		
	2021	2020	2019
Net interest margin	2.84%	2.72%	2.81%
Interest rate on:			
Average loan volume	3.65%	3.89%	5.07%
Average debt	0.96%	1.37%	2.68%
Interest rate spread	2.69%	2.52%	2.39%

The increase in interest rate spread resulted from a 24 basis point decrease in interest rates on average loan volume and a 41 basis point decrease in interest rates on average debt. The increase in net interest margin was due to the increase in interest rate spread, partially offset by lower earnings on our own capital.

Provision for Credit Losses/(Credit Loss Reversals)

We monitor our loan portfolio and unfunded commitments on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for loan losses or reserve for unfunded commitments is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio and unfunded commitments. We recorded net credit loss reversals of \$37 thousand in 2021, compared with net provision for credit losses of \$229 thousand in 2020 and \$173 thousand in 2019. The provision for loan losses of \$35 thousand recorded during 2021 was primarily due to increased loan volume offset by improvements in the qualitative adjustment factors. The reversal of provision for reserve for unfunded commitments of \$72 thousand was recorded during 2021 due to improved credit quality. The provision for loan losses of \$199 thousand recorded during 2020 was primarily due to increased loan volume. The provision for loan losses of \$309 thousand recorded during 2019 was primarily due to increased loan volume offset by improvements in the qualitative adjustment factors. The provision for reserve for unfunded commitments of \$30 thousand in 2020 was due to an increase in commitments. The reversal of reserves for unfunded commitments in 2019 was due to the reduction of the loss emergence period.

Noninterest Income

During 2021, we recorded noninterest income of \$12.5 million, compared with \$8.9 million in 2020 and \$6.6 million in 2019. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. The total patronage from CoBank is comprised of two sources: patronage based on our borrowing balance (direct note patronage) and patronage based on loans we originate and then sell a portion to them as a participant (sold volume patronage). Patronage earned from CoBank was \$9.9 million in 2021, \$7.4 million in 2020 and \$5.8 million in 2019. Patronage income from CoBank includes special cash patronage distributions of \$1.5 million for 2021 and \$1.3 million for 2020 due to CoBank's strong capital levels and financial results. There was no special patronage distribution in 2019.

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

We recorded a cash patronage of \$25 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services, which will be paid in the following year. This compares with \$14 thousand recorded in 2020 and \$12 thousand in 2019. Patronage from Farm Credit Foundations and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received a refund of \$366 thousand during 2020 and \$382 thousand during 2019 from FCSIC. No such refund was received in 2021. The FCSIC refund is our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts.

Loan fees in 2021 were \$857 thousand, an increase of \$61 thousand, from 2020, primarily due to an increase in participation related fees.

Noninterest Expense

Noninterest expense for 2021 decreased \$291 thousand, or 1.5%, to \$19.8 million compared with 2020 and increased \$746 thousand, or 3.9% compared with 2019. Noninterest expense for each of the three years ended December 31 is summarized as follows:

<i>(dollars in thousands)</i>	Percent of Change				
	2021	2020	2019	2021/2020	2020/2019
Salaries & employee benefits	\$ 9,718	\$ 11,852	\$ 11,200	(18.01%)	5.82%
Occupancy & equipment	942	939	1,103	0.32%	(14.87%)
Purchased services from AgVantis	2,433	2,055	1,897	18.39%	8.33%
Purchased services - Other	1,086	794	700	36.78%	13.43%
Other	3,078	2,371	3,010	29.82%	(21.23%)
Total operating expense	17,257	18,011	17,910	(4.19%)	0.55%
Farm Credit Insurance Fund premium	2,321	1,306	1,114	77.72%	17.24%
Prepayment expense	192	744	–	(74.19%)	100.00%
Total noninterest expense	\$ 19,770	\$ 20,061	\$ 19,024	(1.45%)	5.45%

For the year ended December 31, 2021, total operating expense decreased \$754 thousand, or 4.2%, compared with the year ended December 31, 2020, primarily due to decreases in salaries and employee benefits. Impacting the noninterest expense was a decrease in conversion fee expense offset by increases in purchased services and Farm Credit Insurance fund premium expense. The decrease in salaries and benefits expense is primarily due to an increase in direct loan origination costs. Purchased services expense increased due to higher usage of professional services. Insurance Fund premium increased \$1.0 million to \$2.3 million at December 31, 2021 due to increases in the premium rate and average loan volume. Additionally, we recorded prepayment fee expense of \$192 thousand during 2021 and \$744 thousand in 2020 due to prepayment fees charged by CoBank. These fees are primarily related to loan conversions that resulted from the current low interest rate environment in the wake of the COVID-19 pandemic.

Provision for income taxes

We recorded \$1 thousand in provision for income taxes during 2021, compared with \$2 thousand in 2020 and 2019. We operate as a Subchapter T cooperative for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 2 for additional details.

LIQUIDITY

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

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank, which matures on December 31, 2022. Our Association's promissory note for the note payable with CoBank is renewed annually in the normal course of business and matures on May 31, 2022. The annual average principal balance of the note payable to CoBank was \$1.53 billion in 2021, \$1.43 billion in 2020 and \$1.3 billion in 2019.

We plan to continue to fund lending operations through the utilization of our funding arrangement with CoBank, retained earnings from current and prior years and from borrower stock investments. CoBank's

primary source of funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Banks Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets experienced significant volatility in the last few years, we were able to obtain sufficient funding to meet the needs of our customers.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and its asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed excess loanable funds with CoBank at a fixed rate for a specified term as a part of CoBank's Association Equity Positioning Program (AEPP). This enables us to reduce our overall cost of funds with CoBank without significantly increasing our overall interest rate risk position.

Funds Management

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

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

While our Association currently holds legacy LIBOR indexed loans in our portfolio, we have adopted a transition plan to reduce LIBOR exposures and stop the inflow of new LIBOR volume. We have analyzed potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. Though we engage in transactions involving financial instruments that reference LIBOR, these developments did not have a material impact on the Association and our borrowers. Management has documented and worked through the LIBOR transition plan with our funding bank and service provider to address the phase out of LIBOR rates, including any updates to processes and loan servicing technology.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2021 totaled \$367.7 million, compared with \$343.5 million at December 31, 2020 and \$326.5 million at December 31, 2019. The increase of \$24.1 million in shareholders' equity reflects net income, net stock issuances, and an increase in accumulated other comprehensive income, partially offset by patronage distributions. Our capital position is reflected in the following ratio comparisons.

	2021	2020	2019
Debt to shareholders' equity	4.76:1	4.48:1	4.39:1
Shareholders' equity as a percent of net loans	18.39%	19.33%	19.88%
Shareholders' equity as a percent of total assets	17.36%	18.25%	18.55%

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2020 primarily due to substantial loan growth during 2021.

Retained Earnings

Our retained earnings increased \$24.1 million to \$224.6 million at December 31, 2021 from \$200.5 million at December 31, 2020 and increased \$41.1 million from \$183.5 million at December 31, 2019. The increase in 2021 was a result of net income of \$44.9 million, partially offset by \$20.9 million of patronage distributions declared.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, the Bylaws address increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of \$19.4 million in 2021, \$16.9 million in 2020 and \$14.2 million in 2019. During 2021, we declared patronage distributions of \$20.9 million with \$9.9 million paid in September 2021 and the remaining \$11 million to be paid in March 2022.

Stock

Our total stock and participation certificates increased \$13 thousand to \$1.5 million at December 31, 2021, from \$1.5 million at December 31, 2020 and decreased \$16 thousand from \$1.5 million at December 31, 2019. The increase during 2021 was due to \$185 thousand of stock issuances, partially offset by \$172 thousand of stock retirements. We require a stock investment for each borrower. We have a Borrower Level Stock Program which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s).

Accumulated Other Comprehensive Income or Loss

Accumulated other comprehensive income totaled \$65 thousand at December 31, 2021, an increase of \$10 thousand compared with year-end 2020 and an increase of \$14 thousand compared with year-end 2019. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Accounting guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income/loss.

Capital Plan and Regulatory Requirements

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

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

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

	2021	2020	2019	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	14.03%	14.55%	15.35%	7.00%
Tier 1 Capital ratio	14.03%	14.55%	15.35%	8.50%
Total Capital ratio	14.26%	14.82%	15.60%	10.50%
Tier 1 Leverage ratio	15.10%	15.49%	16.24%	5.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	16.76%	17.06%	17.80%	1.50%
Permanent capital ratio	14.06%	14.59%	15.39%	7.00%

The minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. Due to our strong capital position, we will continue to be able to retire at-risk stock.

Refer to Note 7, Shareholders' Equity, in this report for additional information on our capital and related requirements and restrictions.

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

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

During 2021, the Association purchased a building for approximately \$3.8 million which is the new administration and Chico lending office. We moved into the space in February 2022. The Association also entered into a construction contract for approximately \$1.9 million for building improvements. As of December 31, 2021, there were approximately \$400 thousand left to spend on the construction contract. The Association used its capital to pay for the building purchase and improvements. As of January 2022, the former Chico lending office was put up for sale.

REGULATORY MATTERS

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

Board of Directors

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

- selects, evaluates and compensates the chief executive officer;

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

Director Independence

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

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

Audit Committee

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

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the consolidated financial statements;
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls or auditing matters; and
- oversight of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities.

Compensation Committee

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

Building Committee

During 2018, a Building Committee was established. The Building Committee reports to the Board of Directors. The Committee is composed of four members of the Board of Directors and three members of management. The Committee is responsible to evaluate the long-term facility requirements for the future growth of the Association and to make recommendations to the Board of Directors.

Other Governance

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

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

Code of Ethics

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

Whistleblower Program

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

FORWARD-LOOKING INFORMATION

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses/Reserve for Unfunded Commitments

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

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

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

CUSTOMER PRIVACY

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

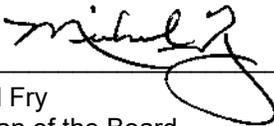
REPORT OF MANAGEMENT

The consolidated financial statements of Golden State Farm Credit, ACA (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2021 annual report is consistent with that in the financial statements.

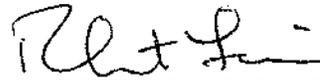
To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded.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

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

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



Michael Fry
Chairman of the Board



Robert Faris
President and Chief Executive Officer



Zach Clark
Chief Financial Officer

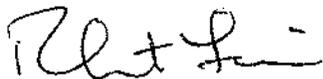
March 8, 2022

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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



Robert Faris
President and Chief Executive Officer



Zach Clark
Chief Financial Officer

March 8, 2022

AUDIT COMMITTEE REPORT

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

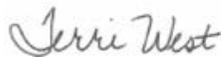
The fees for professional services rendered for the Association by its independent auditor, PwC, during 2021 were \$94,500 for audit services and \$15,500 for tax services.

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

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

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

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



Terri West, CPA, MBA, Chairperson of the Audit Committee

Audit Committee Members
Terri West, CPA, MBA, Chair
Michael Chambers
Michael Andersen
Jim Bates
Casey Jones

March 8, 2022



Report of Independent Auditors

To the Board of Directors of Golden State Farm Credit, ACA,

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Other Information

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

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

PricewaterhouseCoopers LLP

Kansas City, Missouri
March 8, 2022

CONSOLIDATED STATEMENT OF CONDITION

<i>(Dollars in Thousands)</i>	December 31		
	2021	2020	2019
ASSETS			
Loans	\$ 2,004,080	\$ 1,781,843	\$ 1,646,738
Less allowance for loan losses	4,689	4,665	4,466
Net loans	1,999,391	1,777,178	1,642,272
Cash	6,912	9,717	18,407
Accrued interest receivable	16,408	16,691	19,848
Investment in CoBank, ACB	58,251	58,012	52,733
Premises and equipment, net	8,409	3,101	3,394
Prepaid benefit expense	11,777	8,990	6,511
Other assets	16,867	9,220	17,424
Total assets	\$ 2,118,015	\$ 1,882,909	\$ 1,760,589
LIABILITIES			
Note payable to CoBank, ACB	\$ 1,698,426	\$ 1,496,407	\$ 1,382,820
Advance conditional payments	23,678	23,752	19,723
Accrued interest payable	1,354	1,274	2,715
Patronage distributions payable	11,000	9,540	8,229
Accrued benefits liability	512	846	1,317
Reserve for unfunded commitments	358	430	400
Other liabilities	15,027	7,122	18,849
Total liabilities	\$ 1,750,355	\$ 1,539,371	\$ 1,434,053
Commitments and Contingencies (See Note 14)			
SHAREHOLDERS' EQUITY			
Capital stock and participation certificates	1,513	1,500	1,529
Additional paid-in capital	141,442	141,442	141,442
Unallocated retained earnings	224,640	200,541	183,514
Accumulated other comprehensive income	65	55	51
Total shareholders' equity	367,660	343,538	326,536
Total liabilities and shareholders' equity	\$ 2,118,015	\$ 1,882,909	\$ 1,760,589

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(Dollars in Thousands)</i>	For the Year Ended December 31		
	2021	2020	2019
INTEREST INCOME			
Loans	\$ 67,239	\$ 66,601	\$ 79,664
Total interest income	67,239	66,601	79,664
INTEREST EXPENSE			
Note payable to CoBank, ACB	14,936	19,768	35,038
Other	85	197	473
Total interest expense	15,021	19,965	35,511
Net interest income	52,218	46,636	44,153
(Credit loss reversal)/Provision for credit losses	(37)	229	173
Net interest income after credit loss reversal/provision for credit losses	52,255	46,407	43,980
NONINTEREST INCOME			
Loan fees	857	796	311
Patronage distribution from Farm Credit institutions	11,351	7,512	5,860
Farm Credit Insurance Fund distribution	-	366	382
Other noninterest income	248	194	94
Total noninterest income	12,456	8,868	6,647
NONINTEREST EXPENSE			
Salaries and employee benefits	9,718	11,852	11,200
Occupancy and equipment	942	939	1,103
Purchased services from AgVantis, Inc.	2,433	2,055	1,897
Purchased Services - Other	1,086	794	700
Farm Credit Insurance Fund premium	2,321	1,306	1,114
Prepayment expense	192	744	-
Other noninterest expense	3,078	2,371	3,010
Total noninterest expense	19,770	20,061	19,024
Income before income taxes	44,941	35,214	31,603
Provision for income taxes	1	2	2
Net income	44,940	35,212	31,601
COMPREHENSIVE INCOME			
Amortization of retirement costs/(credits)	10	(1)	(24)
Actuarial gain/(loss) in retirement obligation	-	5	(57)
Total comprehensive income	\$ 44,950	\$ 35,216	\$ 31,520

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(Dollars in Thousands)</i>	Capital Stock and Participation Certificates	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2018	\$ 1,524	\$ 141,442	\$ 167,613	\$ 132	\$ 310,711
Comprehensive income			31,601	(81)	31,520
Stock and participation certificates issued	165				165
Stock and participation certificates retired	(160)				(160)
Patronage Distributions: Cash			(15,700)		(15,700)
Balance at December 31, 2019	1,529	141,442	183,514	51	326,536
Comprehensive income			35,212	4	35,216
Stock and participation certificates issued	130				130
Stock and participation certificates retired	(159)				(159)
Patronage distributions: Cash			(18,185)		(18,185)
Balance at December 31, 2020	1,500	141,442	200,541	55	343,538
Comprehensive income			44,940	10	44,950
Stock and participation certificates issued	185				185
Stock and participation certificates retired	(172)				(172)
Patronage distributions:					
Cash			(20,900)		(20,900)
Reversal of patronage			59		59
Balance at December 31, 2021	\$ 1,513	\$ 141,442	\$ 224,640	\$ 65	\$ 367,660

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

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(Dollars in Thousands)</i>	For the Year Ended December 31		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 44,940	\$ 35,212	\$ 31,601
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	474	568	595
(Credit loss reversal)/Provision for credit losses	(37)	229	173
Patronage stock from CoBank, ACB	(386)	(239)	(139)
Gains on sales of premises and equipment	(114)	(36)	(25)
Gains on sales of other property owned	-	(18)	-
Carrying value adjustment for other property owned	-	21	-
Net accretion of yield related to loans and notes payable acquired in merger	249	316	421
Change in assets and liabilities:			
Decrease/(Increase) in accrued interest receivable	283	3,157	(5,847)
Increase in prepaid benefit expense	(2,787)	(2,479)	(1,291)
(Increase)/Decrease in other assets	(7,500)	8,443	(10,005)
Increase/(Decrease) in accrued interest payable	80	(1,441)	(38)
(Decrease)/Increase in accrued benefits liability	(324)	(467)	(256)
Increase/(Decrease) in other liabilities	7,905	(11,727)	9,618
Total adjustments	(2,157)	(3,673)	(6,794)
Net cash provided by operating activities	42,783	31,539	24,807
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	(222,572)	(136,292)	(132,657)
Increase in investment in CoBank, ACB	-	(5,279)	(2,749)
Expenditures for premises and equipment	(5,831)	(293)	(203)
Proceeds from sales of premises and equipment	163	54	57
Proceeds from sales of other property owned	-	33	-
Net cash used in investing activities	(228,240)	(141,777)	(135,552)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank, ACB	202,094	114,422	121,438
(Decrease)/Increase in advance conditional payments	(74)	4,029	(2,148)
Capital stock and participation certificates retired	(172)	(159)	(160)
Capital stock and participation certificates issued	185	130	165
Cash patronage distributions paid	(19,381)	(16,874)	(14,221)
Net cash provided by financing activities	182,652	101,548	105,074
Net (decrease)/increase in cash	(2,805)	(8,690)	(5,671)
Cash at beginning of year	9,717	18,407	24,078
Cash at end of year	\$ 6,912	\$ 9,717	\$ 18,407
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	\$ 14,941	\$ 21,406	\$ 35,549
Income taxes	\$ 2	\$ 2	\$ 2
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Patronage stock from CoBank, ACB	\$ 386	\$ 239	\$ 139
Loans transferred to other property owned	\$ -	\$ 36	\$ -
Net charge-offs	\$ 11	\$ -	\$ -
Patronage distributions payable	\$ 11,000	\$ 9,540	\$ 8,229
Change in accumulated other comprehensive income/(loss)	\$ 10	\$ 4	\$ (81)

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

NOTES OF CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND OPERATIONS

- A. Organization:** Golden State Farm Credit, ACA and its subsidiaries, Golden State Farm Credit, FLCA, (Federal Land Credit Association (FLCA)) and Golden State Farm Credit, PCA, (Production Credit Association (PCA)), (collectively called “the Association”) are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Butte, Fresno, Glenn, Kings, Shasta, Tehama, Trinity and Tulare in the state of California.

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

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

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

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

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

- B. Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related

services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents and farm-related businesses.

The Association also offers related services to our borrowers, such as advance conditional payment accounts, leasing and fee appraisals.

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting the Association at 3013 Ceres Avenue, Chico, California 95973 or by calling (530) 571-4160. Upon request, Association shareholders will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of CoBank's and District's financial condition, changes in financial condition, and results of operations. In addition, the CoBank Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation.

In addition, the Farm Credit Council acts as a full-service federated trade association, which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

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

Use of Estimates

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

Recently Issued Accounting Pronouncements

Adopted Guidance

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association adopted the optional expedients as it related to loans during the first quarter of 2021 and the impact of the adoption was not material to the Association's financial condition or results of operations.

Guidance Pending Adoption

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities

and Exchange Commission filers, this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB approved deferral of the effective date for certain entities for this guidance by two years, which will result in the new credit loss standard becoming effective for interim and annual reporting periods beginning after December 15, 2022 with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

Summary of the Association's Significant Accounting Policies

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

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

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

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

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

lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan. Certain loan modifications that resulted from circumstances related to COVID-19 are eligible under the FCA issued guidance and the Association is not required to report them as a TDR.

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

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

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

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

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

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of

uncertainty, imprecision and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations and appraisals to change over time. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

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

- B. Cash:** Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.
- C. Investment in CoBank:** The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.00 percent of the prior five-year average direct loan volume. The investment in CoBank is comprised of patronage based stock and purchased stock. The requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the prior ten-year average of such participations sold to CoBank.
- D. Premises and Equipment:** Land is carried at cost. 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 life for the building ranges from 20 to 40 years and ranges from 3 to 10 years for furniture and equipment and 7 years for automobiles. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed and improvements above certain thresholds are capitalized.
- E. Other Assets and Other Liabilities:** Other assets are comprised primarily of accounts receivable, prepaid expenses, and investment in Farm Credit institutions other than CoBank. Significant components of other liabilities primarily include accounts payable and employee benefits.
- F. Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advance conditional payments are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in liabilities. Restricted advance conditional payments are primarily associated with mortgage loans, while unrestricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.
- G. Employee Benefit Plans:** Substantially all employees of the Association participate in the Eleventh District Defined Benefit Retirement Plan (Pension) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401 (k)). The Defined Benefit Plan is a noncontributory plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Defined Benefit Plan was closed to employees hired after December 31, 1997.

The 401 (k) Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employees hired on or after January 1, 1998 are eligible to participate only in the Defined Contribution Plan and

Salary Deferral Plan. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also provides certain health and life insurance benefits to eligible current and retired employees through the Farm Credit Foundations Retiree Medical and Retiree Life Plans. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the Association. The anticipated costs of these benefits are accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

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

- H. **Patronage Distribution from CoBank:** Patronage distributions from CoBank are accrued by the Association in the year earned and are included in Other Assets on the Consolidated Statement of Condition.
- I. **Income Taxes:** As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state or local laws.

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

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

The Association has provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings.

For California tax purposes, the Association can exclude from taxable income all patronage sourced income. Therefore, the provision for state income taxes is made only on non-patronage sourced earnings.

- J. **Other Comprehensive Income/Loss:** Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the

balance of these transactions. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan. See Note 7 for further information.

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

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

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

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

The fair value disclosures are presented in Note 14.

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

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

<i>(dollars in thousands)</i>	December 31		
	2021	2020	2019
Real estate mortgage	\$ 1,533,171	\$ 1,337,407	\$ 1,319,863
Production and intermediate-term	331,691	310,622	215,905
Agribusiness	80,440	76,355	57,956
Rural infrastructure	33,170	30,971	21,722
Rural residential real estate	45	83	224
Lease receivables	25,563	26,405	31,068
Total loans	\$ 2,004,080	\$ 1,781,843	\$ 1,646,738

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

<i>(dollars in thousands)</i>	Other Farm Credit Institutions	
	Purchased	Sold
Real estate mortgage	\$ 56,642	\$ 295,850
Production and intermediate term	35,745	171,177
Agribusiness	62,344	–
Rural infrastructure	33,170	–
Lease receivables	23,743	184
Total	\$211,644	\$ 467,211

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

The Association has obtained credit enhancements by entering into Standby Commitment to Purchase Agreements (Agreements) with Federal Agricultural Mortgage Corporation (Farmer Mac), covering loans with principal balance outstanding of \$120.4 million, \$125.3 million and \$139.8 million at December 31, 2021, 2020 and 2019, respectively. Under the Agreements, Farmer Mac agrees to purchase loans from the Association in the event of default (typically four months past due), subject to certain conditions, thereby mitigating the risk of loss from covered loans. In return, the Association pays Farmer Mac commitment fees based on the outstanding balance of loans covered by the Agreements. Such fees, totaling \$428 thousand for 2021, \$478 thousand in 2020 and \$445 thousand in 2019 are reflected in noninterest expense.

In addition to Farmer Mac, credit enhancements with federal government agencies of \$2.3 million at year-end 2021, \$12.5 million at year-end 2020 and \$1.1 million at year-end 2019 were outstanding.

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

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

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

	2021	2020	2019
Real estate mortgage			
Acceptable	97.85%	96.86%	98.45%
OAEM	1.74%	2.18%	0.44%
Substandard	0.41%	0.96%	1.11%
Total	100.00%	100.00%	100.00%
Production and intermediate-term			
Acceptable	98.76%	98.53%	99.06%
OAEM	0.98%	0.28%	0.25%
Substandard	0.26%	1.19%	0.69%
Total	100.00%	100.00%	100.00%
Agribusiness			
Acceptable	85.39%	84.17%	82.77%
OAEM	14.61%	13.88%	14.61%
Substandard	–	1.95%	2.62%
Total	100.00%	100.00%	100.00%
Rural infrastructure			
Acceptable	100.00%	100.00%	100.00%
Total	100.00%	100.00%	100.00%
Rural residential real estate			
Acceptable	100.00%	100.00%	81.80%
OAEM	–	–	18.20%
Total	100.00%	100.00%	100.00%
Lease receivables			
Acceptable	95.63%	94.64%	99.40%
OAEM	0.03%	0.12%	0.06%
Substandard	4.34%	5.24%	0.54%
Total	100.00%	100.00%	100.00%
Total Loans			
Acceptable	97.51%	96.63%	98.02%
OAEM	2.08%	2.28%	0.90%
Substandard	0.41%	1.09%	1.08%
Total	100.00%	100.00%	100.00%

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

<i>(dollars in thousands)</i>	December 31		
	2021	2020	2019
Nonaccrual loans:			
Current as to principal and interest	\$ 639	\$ 5,299	\$ 570
Past due	1,113	1,423	3,617
Total nonaccrual loans	1,752	6,722	4,187
Impaired accrual loans:			
Restructured	229	231	230
90 days or more past due	–	19,880	–
Total impaired accrual loans	229	20,111	230
Total impaired loans	\$ 1,981	\$ 26,833	\$ 4,417

There were no material commitments to lend additional funds to debtors whose loans were classified impaired for the years presented.

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

<i>(dollars in thousands)</i>	December 31		
	2021	2020	2019
Nonaccrual loans:			
Real estate mortgage	\$ 1,375	\$ 5,453	\$ 3,680
Production and intermediate-term	361	1,189	365
Lease receivables	16	80	142
Total nonaccrual loans	1,752	6,722	4,187
Accruing restructured loans:			
Real estate mortgage	229	231	230
Accruing loans 90 days past due			
Real estate mortgage	–	19,880	–
Total impaired loans	1,981	26,833	4,417
Total high risk assets	\$ 1,981	\$ 26,833	\$ 4,417

The Association had no other property owned for the years presented.

Additional impaired loan information is as follows:

<i>(dollars in thousands)</i>	Recorded Investment at 12/31/21	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with related allowance for credit losses:					
Production and intermediate-term Lease receivables	\$ 361 16	\$ 290 16	\$ 11 16	\$ 670 109	\$ – –
Total	\$ 377	\$ 306	\$ 27	\$ 779	\$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage Production and intermediate-term	\$ 1,604 –	\$ 1,563 –		\$ 7,304 91	\$ 1,442 16
Total	\$ 1,604	\$ 1,563		\$ 7,395	\$ 1,458
Total impaired loans:					
Real estate mortgage Production and intermediate-term Lease receivables	\$ 1,604 361 16	\$ 1,563 290 16	\$ – 11 16	\$ 7,304 761 109	\$ 1,442 16 –
Total	\$ 1,981	\$ 1,869	\$ 27	\$ 8,174	\$ 1,458

<i>(dollars in thousands)</i>	Recorded Investment at 12/31/20	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with related allowance for credit losses:					
Production and intermediate-term Lease receivables	\$ 800 80	\$ 725 80	\$ 76 80	\$ 855 189	\$ – –
Total	\$ 880	\$ 805	\$ 156	\$ 1,044	\$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage Production and intermediate-term	\$25,564 389	\$26,013 434		\$ 7,299 391	\$ 146 13
Total	\$25,953	\$26,447		\$ 7,690	\$ 159
Total impaired loans:					
Real estate mortgage Production and intermediate-term Lease receivables	\$25,564 1,189 80	\$26,013 1,159 80	\$ – 76 80	\$ 7,299 1,246 189	\$ 146 13 –
Total	\$26,833	\$27,252	\$ 156	\$ 8,734	\$ 159

<i>(dollars in thousands)</i>	Recorded Investment at 12/31/19	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with related allowance for credit losses:					
Production and intermediate-term	\$ 42	\$ 43	\$ 42	\$ 193	\$ –
Total	\$ 42	\$ 43	\$ 42	\$ 193	\$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 3,910	\$ 3,206		\$ 4,645	\$ 55
Production and intermediate-term	323	323		73	1
Lease receivables	142	142		192	–
Total	\$ 4,375	\$ 3,671		\$ 4,910	\$ 56
Total impaired loans:					
Real estate mortgage	\$ 3,910	\$ 3,206	\$ –	\$ 4,645	\$ 55
Production and intermediate-term	365	366	42	266	1
Lease receivables	142	142	–	192	–
Total	\$ 4,417	\$ 3,714	\$ 42	\$ 5,103	\$ 56

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

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

<i>(dollars in thousands)</i>	Year Ended December 31		
	2021	2020	2019
Interest income recognized on:			
Nonaccrual loans	\$ 1,447	\$ 52	\$ 10
Restructured accrual loans	11	11	1
Accrual loans 90 days or more past due	–	96	45
Interest income recognized on impaired loans	\$ 1,458	\$ 159	\$ 56

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

<i>(dollars in thousands)</i>	For the Year Ended December 31		
	2021	2020	2019
Interest income which would have been recognized under the original loan terms	\$ 235	\$ 606	\$ 971
Less: interest income recognized	1,458	63	11
Interest income (recognized)/not recognized	\$ (1,223)	\$ 543	\$ 960

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

December 31, 2021						
<i>(dollars in thousands)</i>	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	\$ 128	\$ 720	\$ 848	\$1,546,201	\$ 1,547,049	\$ –
Production and intermediate-term	1,112	361	1,473	332,336	333,809	–
Agribusiness	–	–	–	80,747	80,747	–
Rural infrastructure	–	–	–	33,173	33,173	–
Rural residential real estate	–	–	–	45	45	–
Lease receivables	–	–	–	25,665	25,665	–
Total	\$ 1,240	\$ 1,081	\$ 2,321	\$2,018,167	\$2,020,488	\$ –

December 31, 2020						
<i>(dollars in thousands)</i>	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	\$ 1,533	\$21,293	\$ 22,826	\$ 1,328,247	\$ 1,351,073	\$ 19,880
Production and intermediate-term	3,743	11	3,754	309,500	313,254	–
Agribusiness	1,221	–	1,221	75,423	76,644	–
Rural infrastructure	–	–	–	30,973	30,973	–
Rural residential real estate	–	–	–	84	84	–
Lease receivables	–	–	–	26,506	26,506	–
Total	\$6,497	\$21,304	\$ 27,801	\$1,770,733	\$1,798,534	\$ 19,880

December 31, 2019						
<i>(dollars in thousands)</i>	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	\$ 878	\$ 3,617	\$ 4,495	\$1,332,335	\$ 1,336,830	\$ –
Production and intermediate-term	805	–	805	217,697	218,502	–
Agribusiness	–	–	–	58,137	58,137	–
Rural infrastructure	–	–	–	21,730	21,730	–
Rural residential real estate	–	–	–	225	225	–
Lease receivables	–	–	–	31,162	31,162	–
Total	\$1,683	\$ 3,617	\$ 5,300	\$1,661,286	\$ 1,666,586	\$ –

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

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

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

	Year Ended December 31					
	2021		2020		2019	
	Outstanding Recorded Investment					
<i>(dollars in thousands)</i>	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Troubled debt restructurings:						
Real estate mortgage	\$ -	\$ -	\$ 708	\$ 708	\$ 230	\$ 230
Production and intermediate-term	-	-	884	884	-	-
Total	\$ -	\$ -	\$ 1,592	\$ 1,592	\$ 230	\$ 230

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

The following table presents information regarding troubled debt restructurings that occurred within the previous 12 months of that year and for which there was a payment default during the period.

<i>(dollars in thousands)</i>	Recorded Investment at December 31		
	2021	2020	2019
Troubled debt restructurings that subsequently defaulted:			
Real estate mortgage	\$ -	\$ -	\$ 3,466
Total	\$ -	\$ -	\$ 3,466

The Association had no additional commitments to lend to borrowers whose loans have been modified in TDRs during the periods presented.

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

<i>(dollars in thousands)</i>	Loans Modified as TDRs			TDRs in Nonaccrual Status*		
	2021	2020	2019	2021	2020	2019
Real estate mortgage	\$ 229	\$ 4,212	\$ 3,696	\$ -	\$ 3,983	\$ 3,466
Production and intermediate-term	351	863	-	351	863	-
Total	\$ 580	\$ 5,075	\$ 3,696	\$ 351	\$ 4,846	\$ 3,466

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

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

<i>(dollars in thousands)</i>	Balance at December 31, 2020	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2021
Real estate mortgage	\$ 707	\$ –	\$ –	\$ 451	\$ 1,158
Production and intermediate-term	2,644	–	–	(542)	2,102
Agribusiness	671	–	–	266	937
Rural infrastructure	115	–	–	(15)	100
Lease receivables	528	11	–	(125)	392
Total	\$ 4,665	\$ 11	\$ –	\$ 35	\$ 4,689

<i>(dollars in thousands)</i>	Balance at December 31, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2020
Real estate mortgage	\$ 790	\$ –	\$ –	\$ (83)	\$ 707
Production and intermediate-term	2,426	–	–	218	2,644
Agribusiness	557	–	–	114	671
Rural infrastructure	60	–	–	55	115
Lease receivables	633	–	–	(105)	528
Total	\$ 4,466	\$ –	\$ –	\$ 199	\$ 4,665

<i>(dollars in thousands)</i>	Balance at December 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2019
Real estate mortgage	\$ 829	\$ –	\$ –	\$ (39)	\$ 790
Production and intermediate-term	2,086	–	–	340	2,426
Agribusiness	663	–	–	(106)	557
Rural infrastructure	44	–	–	16	60
Rural residential real estate	1	–	–	(1)	–
Lease receivables	534	–	–	99	633
Total	\$ 4,157	\$ –	\$ –	\$ 309	\$ 4,466

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

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

<i>(dollars in thousands)</i>	For the Year Ended December 31		
	2021	2020	2019
Balance at beginning of period	\$ 430	\$ 400	\$ 536
(Reversal of)/Provision for reserve for unfunded commitments	(72)	30	(136)
Total	\$ 358	\$ 430	\$ 400

Additional information on the allowance for loan losses follows:

<i>(dollars in thousands)</i>	Allowance for Loan Losses Ending Balance at December 31, 2021		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2021	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ —	\$ 1,158	\$ 1,604	\$ 1,545,445
Production and intermediate-term	11	2,091	361	333,448
Agribusiness	—	937	—	80,747
Rural infrastructure	—	100	—	33,173
Rural residential real estate	—	—	—	45
Lease receivables	16	376	16	25,649
Total	\$ 27	\$ 4,662	\$ 1,981	\$ 2,018,507

<i>(dollars in thousands)</i>	Allowance for Loan Losses Ending Balance at December 31, 2020		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2020	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ —	\$ 707	\$ 25,564	\$ 1,325,509
Production and intermediate-term	76	2,568	1,189	312,065
Agribusiness	—	671	—	76,644
Rural infrastructure	—	115	—	30,973
Rural residential real estate	—	—	—	84
Lease receivables	80	448	80	26,426
Total	\$ 156	\$ 4,509	\$ 26,833	\$ 1,771,701

<i>(dollars in thousands)</i>	Allowance for Loan Losses Ending Balance at December 31, 2019		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2019	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ —	\$ 790	\$ 3,910	\$ 1,332,920
Production and intermediate-term	42	2,384	365	218,137
Agribusiness	—	557	—	58,137
Rural infrastructure	—	60	—	21,730
Rural residential real estate	—	—	—	225
Lease receivables	—	633	142	31,020
Total	\$ 42	\$ 4,424	\$ 4,417	\$ 1,662,169

A summary of the components of the Association's net investment in direct financing leases is as follows.

<i>(dollars in thousands)</i>	2021	2020	2019
Net investment in Direct Financing Leases:			
Minimum Lease Payments to be Received, Net of Participation Interests	\$ 1,929	\$ 3,577	\$ 10,160
Estimated Residual Values of Leased Property (Unguaranteed)	58	486	968
Less: Unearned Finance Income	(167)	(294)	(846)
Net Investment in Direct Financing Leases	\$ 1,820	\$ 3,769	\$ 10,282

At December 31, 2021, gross minimum lease payments and minimum future revenue to be received for direct financing leases are as follows:

Year	Minimum Lease Payments	Minimum Future Revenue
2022	\$ 657	\$ 41
2023	\$ 361	\$ 33
2024	\$ 327	\$ 33
2025	\$ 327	\$ 33
2026	\$ 257	\$ 27

NOTE 4 – INVESTMENT IN COBANK

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

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

The Association owned approximately 1.46 percent of the outstanding common stock of CoBank at December 31, 2021, compared with 1.49 percent in 2020 and 1.46 percent in 2019.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

<i>(dollars in thousands)</i>	December 31		
	2021	2020	2019
Land	\$ 526	\$ 508	\$ 508
Buildings and leasehold improvements	3,889	3,724	3,724
Furniture, equipment and automobiles	2,935	2,934	2,775
Construction in progress	5,370	–	–
	12,720	7,166	7,007
Less: accumulated depreciation	4,311	4,065	3,613
Total	\$ 8,409	\$ 3,101	\$ 3,394

NOTE 6 – NOTE PAYABLE TO COBANK

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

<i>(dollars in thousands)</i>	December 31		
	2021	2020	2019
Line of credit	\$ 1,900,000	\$ 1,600,000	\$ 1,475,000
Outstanding principal and accrued interest balance	\$ 1,699,767	\$ 1,497,672	\$ 1,385,476
Average outstanding principal balance under the line of credit	\$ 1,534,800	\$ 1,429,440	\$ 1,302,614
Weighted average interest rate	0.97%	1.38%	2.69%

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

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

The average committed funds as of December 31 are as follows:

<i>(dollars in thousands)</i>	2021	2020	2019
Average committed funds	\$ 309,131	\$ 292,023	\$ 272,523
Average rates	0.35%	0.84%	1.95%

NOTE 7 – SHAREHOLDERS’ EQUITY

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

A. Capital Stock and Participation Certificates

In accordance with the Farm Credit Act, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership of the stock or participation certificates at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. The Association has a first lien on the stock or participation certificates owned by its borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates. Our bylaws generally permit stock and participation certificates to be retired at the discretion of the Board of Directors and in compliance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2021, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock or participation certificates.

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00 percent to 5.00 percent of the borrower’s combined loan volume. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. Currently, the Association has a stock requirement of the lesser of one thousand dollars or 2.00 percent of the amount of the borrower’s combined loan volume.

B. Regulatory Capitalization Requirements and Restrictions

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

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

Ratio	Primary Components of Numerator	Denominator	2021	2020	2019	Minimum with Buffer	Minimum Requirement
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE) and common cooperative equities (qualifying capital stock and allocated equity) ¹	Risk-weighted assets	14.03%	14.55%	15.35%	7.0%	4.5%
Tier 1 Capital	CET1 Capital and noncumulative perpetual preferred stock	Risk-weighted assets	14.03%	14.55%	15.35%	8.5%	6.0%
Total Capital	Tier 1 Capital, allowance for loan losses ² , other common cooperative equities ³ , and term preferred stock and subordinated debt ⁴	Risk-weighted assets	14.26%	14.82%	15.60%	10.5%	8.0%
Tier 1 Leverage	Tier 1 Capital (at least 1.5% must be URE and URE equivalents)	Total assets	15.10%	15.49%	16.24%	5.0%	4.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	16.76%	17.06%	17.80%	–	1.5%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-weighted assets	14.06%	14.59%	15.39%	–	7.0%

¹ Equities subject to a minimum redemption or revolvement period of outstanding 7 or more years

² Capped at 1.25% of risk-weighted assets and inclusive of the reserve for unfunded commitments

³ Equities subject to a minimum redemption or revolvement period of 5 or more years, but less than 7 years

⁴ Equities subject to a minimum redemption or revolvement period of 5 or more years

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

The Association Board and management fully recognize the need to take appropriate actions to generate adequate earnings, maintain adequate capital levels, and to manage risk. Should significant capital, risk management, or earnings stresses emerge, management would give consideration to various capital and earnings enhancement strategies as outlined in the Association's capital contingency plan.

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

C. Description of Equities

Each owner of class C capital stock is entitled to a single vote. Other classes of borrower equities do not provide voting rights to their owners. All classes of stock are transferable to other customers who are eligible to hold such class of stock.

At December 31, 2021, the Association had 297,521 shares of common stock and 5,000 shares of participation certificates outstanding, all at a par value of \$5.00 per share/unit.

The Association has the authority to issue other classes of stock, no shares of which are outstanding. The voting rights, duties and liabilities of such classes of stock are similar to the classes of stock discussed above.

Any net losses, to the extent that they exceed any contingency reserve and unallocated surplus shall, except as otherwise provided in the Farm Credit Act, be treated as impairing; first, unallocated surplus evidenced by nonqualified written notices of allocation; second, allocated surplus evidenced by qualified written notices of allocation in the reverse order of issuance until all such allocated surplus has been impaired; third, to all classes of common stock and participation certificates until fully impaired; and fourth, to preferred stock (if any) until fully impaired.

In the event of liquidation or dissolution of the Association, any assets remaining after payment or retirement of all liabilities shall be distributed in the following order of priority. First, to the holders, pro rata, of all classes of preferred stock (if any) until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders. Second, to the holders, pro rata, of all classes of common stock and participation certificates, until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders. Third, to the holders of allocated surplus evidenced by qualified written notices of allocation. Fourth, to the holders of unallocated surplus evidenced by non-qualified written notices of allocation. Fifth, any remaining assets after such distributions shall be distributed to present and former patrons on a patronage basis, to the extent practicable.

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

<i>Shares in whole numbers</i>	Capital
Shares outstanding at December 31, 2020	300,003
Issuances	36,980
Retirements	(34,462)
Shares outstanding at December 31, 2021	302,521

D. Patronage and/or Dividends

The Association's bylaws provide for the payment of patronage distributions. All patronage distributions to a borrower shall be on such proportionate patronage basis as may be approved by the Association's Board of Directors, consistent with the requirement of Subchapter T of the Internal Revenue Code.

At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage refund. For 2021, the Association allocated 46.5 percent of its patronage-sourced net income to its patrons.

For 2021, the Board approved patronage distributions to borrowers of the ACA of \$20.9 million of 2021 income. Of this amount, \$9.9 million was disbursed in 2021 and the remaining \$11.0 million will be disbursed in 2022.

For 2020, the Board approved patronage distributions to borrowers of the ACA of \$18.2 million of 2020 income. Of this amount, \$8.7 million was disbursed in 2020 and the remaining \$9.5 million was disbursed in 2021.

For 2019, the Board approved patronage distributions to borrowers of the ACA of \$15.7 million of 2019 income. Of this amount, \$7.5 million was disbursed in 2019 and the remaining \$8.2 million was disbursed in 2020.

E. Accumulated Other Comprehensive Income/Loss

The Association reports accumulated other comprehensive income/loss in its Consolidated Statement of Changes in Shareholders' Equity. As more fully described in Note 2, accumulated other comprehensive income/loss results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits. The Association has accumulated other comprehensive income of \$65 thousand in 2021, \$55 thousand in 2020 and \$51 thousand in 2019. There were no other items affecting comprehensive income or loss.

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

<i>(dollars in thousands)</i>	2021	2020	2019
Pension and other benefit plans:			
Beginning balance	\$ 55	\$ 51	\$ 132
Other comprehensive income/(loss) before reclassifications	–	5	(57)
Amounts reclassified from accumulated other comprehensive income	10	(1)	(24)
Net current period other comprehensive income/(loss)	10	4	(81)
Year-end balance	\$ 65	\$ 55	\$ 51

The following table represents reclassifications out of accumulated other comprehensive income/(loss).

<i>(dollars in thousands)</i>	Amount Reclassified from Accumulated Other Comprehensive Income			Location of Gain/Loss Recognized in Statement of Income
	December 31			
	2021	2020	2019	
Pension and other benefit plans:				Salaries and employee benefits
Net actuarial loss/(gain)	\$ 10	\$ (1)	\$ (24)	
Total reclassifications	\$ 10	\$ (1)	\$ (24)	

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

<i>(dollars in thousands)</i>	2021	2020	2019
CoBank	\$ 9,948	\$ 7,376	\$ 5,830
Farm Credit Foundations	25	14	12
Other	1,378	122	18
Total	\$ 11,351	\$ 7,512	\$ 5,860

Patronage distributed from CoBank was in cash and stock. The amount earned in 2021 was accrued and will be paid by CoBank in March 2022. The Association received additional patronage distributions from CoBank of \$1.5 million in 2021 and \$1.3 million in 2020 due to CoBank's strong capital levels and financial results. No additional patronage was received in 2019. The amount earned and accrued in 2020 and 2019 was paid by CoBank in March of the following year.

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

Patronage distributions were received from other Farm Credit entities that the Association has sold participation loans to.

NOTE 9 – INCOME TAXES

The provision for income taxes includes current state provision of \$1 thousand for December 31, 2021 and \$2 thousand for each of the years ending December 31 2020, and 2019. There was no current Federal provision for these years. Additionally, there was no deferred Federal or state provision for the years presented.

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

<i>(dollars in thousands)</i>	Year Ended December 31		
	2021	2020	2019
Federal tax at statutory rate	\$ 9,438	\$ 7,395	\$ 6,637
State tax, net	1	1	1
Effect of non-taxable FLCA subsidiary	(8,472)	(7,210)	(6,435)
Change in valuation allowance	(408)	(14)	(197)
Patronage distributions	(558)	(172)	(250)
Non-deductible meals and entertainment	–	2	4
Provision to return difference	–	–	222
Other	–	–	20
Provision for income taxes	\$ 1	\$ 2	\$ 2

Deferred tax assets and liabilities are comprised of the following.

<i>(dollars in thousands)</i>	December 31		
	2021	2020	2019
Deferred income tax assets:			
Allowance for loan losses	\$ 564	\$ 702	\$ 668
Accrued annual leave	36	36	36
Nonaccrual loan interest	12	19	5
Net operating loss carryforwards (NOL)	347	347	347
Gross deferred tax assets	959	1,104	1,056
Deferred tax asset valuation allowance	(197)	(605)	(618)
Deferred income tax liabilities:			
Cumulative stock patronage	(270)	(270)	(270)
Patronage refunds from Bank	(492)	(229)	(168)
Gross deferred tax liabilities	(762)	(499)	(438)
Net deferred tax asset	\$ -	\$ -	\$ -

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

The Association recorded a valuation allowance of \$197 thousand in 2021, \$605 thousand in 2020 and \$618 thousand in 2019. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. The Association had federal and state net operating losses of \$1 thousand that have an indefinite carryforward period and \$1.7 million that expire from 2026 to 2037.

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

NOTE 10 – EMPLOYEE BENEFIT PLANS

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

The defined benefit pension plan reflects an unfunded liability totaling \$5.4 million for the Ninth Retirement Plan (Ninth Plan) and \$7.8 million for the Eleventh Retirement Plan (Eleventh Plan) at December 31, 2021. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is

the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels.

The projected benefit obligation and the fair value of the multi-employer plan assets at December 31, follows:

	2021	2020	2019
Projected benefit obligation (\$ Millions)			
Ninth Plan	\$ 347.3	\$ 359.9	\$ 333.7
Eleventh Plan	\$ 298.8	\$ 318.4	\$ 299.3
Fair value of plan assets (\$ Millions)			
Ninth Plan	\$ 341.9	\$ 302.5	\$ 252.5
Eleventh Plan	\$ 291.1	\$ 271.7	\$ 228.4

The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding.

Costs and contributions for the multi-employer plans at December 31 follow.

<i>(dollars in thousands, except as noted)</i>	2021	2020	2019
Plan (income)/expenses for all participating employers (\$ Millions)			
Ninth Plan	\$ 13.7	\$ 19.5	\$ 6.8
Eleventh Plan	\$ (1.3)	\$ 1.3	\$ 3.6
Association's allocated share of plan (income)/expenses included in salaries and benefits			
Ninth Plan	\$ 79	\$ 219	\$ 89
Eleventh Plan	\$ (187)	\$ 136	\$ 323
Plan contributions for all participating employers (\$ Millions)			
Ninth Plan	\$ 30.0	\$ 30.0	\$ 20.0
Eleventh Plan	\$ 23.0	\$ 23.0	\$ 16.0
Association's allocated share of plan contributions			
Ninth Plan	\$ 212	\$ 314	\$ 262
Eleventh Plan	\$ 2,467	\$ 2,520	\$ 1,441

While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2022 is \$30.0 million for the Ninth Plan and \$23.0 million for the Eleventh Plan. The Association's allocated share of these pension contributions is expected to be \$213 thousand for the Ninth Plan and \$2.4 million for the Eleventh Plan. The amount ultimately to be contributed and the amount ultimately recognized as expense, as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are also provided through the Farm Credit Foundations Retiree Medical and Retiree Life Plans to eligible current and retired employees of the Association. Benefits provided are determined on a graduated scale, based on years of service. The anticipated costs of these benefits are accrued during the period of the employee's active service. Postretirement benefits expense (primarily health care benefits and life insurance) included in salaries and employee benefits was \$8 thousand in 2021, \$5

thousand in 2020 and \$6 thousand in 2019. The Association made cash contributions of \$13 thousand in 2021, \$11 thousand in 2020 and \$18 thousand in 2019.

The Association participated in two non-qualified defined benefit Pension Restoration Plans that are unfunded. The plans provide retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. Pension Restoration Plan expenses included in salaries and employee benefits were \$16 thousand in 2021, \$14 thousand in 2020 and \$14 thousand in 2019.

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

<i>(dollars in thousands)</i>	2021	2020	2019
Change in benefit obligation:			
Benefit obligation at the beginning of the period	\$ 546	\$ 1,012	\$ 1,175
Service cost		–	18
Interest cost	6	15	20
Actuarial loss/(gain)	–	(5)	57
Benefits paid	(335)	(476)	(258)
Benefit obligation at the end of the period	\$ 217	\$ 546	\$ 1,012
Change in plan assets:			
Company contributions	\$ 335	\$ 476	\$ 258
Benefits paid	(335)	(476)	(258)
Fair value of plan assets at the end of the period	\$ –	\$ –	\$ –
Funded status of the plan	\$ (217)	\$ (546)	\$ (1,012)
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	\$ 217	\$ 546	\$ 1,012
Net amount recognized	\$ 217	\$ 546	\$ 1,012

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

<i>(dollars in thousands)</i>	2021	2020	2019
Net actuarial gain	\$ 65	\$ 55	\$ 51
Total amount recognized in AOCI	\$ 65	\$ 55	\$ 51

An estimated net actuarial gain of \$11 thousand for the Pension Restoration Plan will be amortized into income over the next year.

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

<i>(dollars in thousands)</i>	2021	2020	2019
Accumulated benefit obligation	\$ 217	\$ 546	\$ 1,012
Fair value of plan assets	\$ –	\$ –	\$ –

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

<i>(dollars in thousands)</i>	2021	2020	2019
Projected benefit obligation	\$ 217	\$ 546	\$ 1,012
Fair value of plan assets	\$ –	\$ –	\$ –

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

<i>(dollars in thousands)</i>	2021	2020	2019
Components of net periodic benefit cost			
Service cost	\$ –	\$ –	\$ 18
Interest cost	6	15	20
Net amortization and deferral	10	(1)	(24)
Net periodic benefit cost	\$ 16	\$ 14	\$ 14

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

<i>(dollars in thousands)</i>	2021	2020	2019
Current year net actuarial gain/(loss)	\$ –	\$ 5	\$ (57)
Amortization of net actuarial loss	10	(1)	(24)
Total recognized in other comprehensive income/(loss)	\$ 10	\$ 4	\$ (81)

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

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

	2021	2020	2019
Ninth Plan			
Discount rate	2.14%	1.65%	2.59%
Rate of compensation increase	5.40%	5.40%	5.40%
Interest crediting rate	5.00%	5.00%	5.00%
Eleventh Plan			
Discount rate	1.54%	1.03%	2.35%
Rate of compensation increase	4.60%	4.60%	4.60%
Interest crediting rate	N/A	N/A	N/A

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

	2021	2020	2019
Ninth Plan			
Discount rate			
Projected benefit obligation	1.65%	2.59%	4.06%
Service cost	1.36%	2.69%	4.11%
Interest cost	1.45%	2.49%	3.93%
Rate of compensation increase	5.40%	5.40%	5.00%
Interest crediting rate	5.00%	5.00%	5.00%
Eleventh Plan			
Discount rate			
Projected benefit obligation	1.03%	2.35%	3.81%
Service cost	1.25%	2.48%	3.98%
Interest cost	0.83%	2.23%	3.68%
Rate of compensation increase	4.60%	4.60%	5.50%
Interest crediting rate	N/A	N/A	N/A

Estimated Future Benefit Payments

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

<i>(dollars in thousands)</i>	Pension Restoration Benefits
2022	\$ 217
2023	\$ —
2024	\$ —
2025	\$ —
2026	\$ —
2027 – 2031	\$ —

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan. The Contribution Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employer contributions to the Contribution Plan were \$792 thousand in 2021, \$843 thousand in 2020 and \$638 thousand in 2019.

NOTE 11 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association enters into loan and lease transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans and leases are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

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

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

<i>(dollars in thousands)</i>	2021	2020	2019
Beginning balance	\$ 148,042	\$ 137,127	\$ 96,405
New loans	178,856	63,514	69,410
Repayments	(101,695)	(53,036)	(44,426)
Reclassifications*	1,731	437	15,738
Ending balance	\$ 226,934	\$ 148,042	\$ 137,127

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

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

The Association also has business relationships with certain other System entities. The Association paid \$2.4 million in 2021, \$2.1 million in 2020 and \$1.9 million in 2019 to AgVantis for technology services. One Association officer serves as an AgVantis' director. The Association paid \$193 thousand in 2021, \$178 thousand in 2020 and \$159 thousand in 2019 to Foundations for human resource services and \$20 thousand in 2021 and \$16 thousand in 2020 compared with none in 2019 to CoBank for operational services. Refer to Note 4, "Investment in CoBank", and Note 6, "Note Payable to CoBank", for additional information on the Association's relationship with CoBank.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Association is subject to loss contingencies related to litigation, claims, and legal proceedings arising in the ordinary course of business. The Association evaluates these contingencies based on information currently available, advice of legal counsel and available insurance coverage. The Association establishes accruals for those matters when a loss contingency is considered probable and the related amount is reasonably estimable. While the outcomes of litigation and claims exposures are inherently unpredictable, management is currently of the opinion that the outcome of pending and threatened litigation will not have a material effect on the Association's business, consolidated financial position, results of operations or cash flows as a whole.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2021, \$562.6 million of commitments to extend credit were outstanding.

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

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2021, \$3.0 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2022 to 2024. The maximum potential amount of future payments the Association is required to make under the guarantees is \$3.0 million. Payment/performance risk of the standby letters of credit guarantee is assessed using the same internal customer credit ratings that we use to manage credit risk in our loan portfolio.

NOTE 14 – FAIR VALUE MEASUREMENTS

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

The Association has assets held in nonqualified benefit trusts measured at fair value on a recurring basis that are determined to be Level 1 of \$60 thousand at December 31, 2021, \$47 thousand at December 31, 2020 and \$28 thousand at December 31, 2019. The Association has no liabilities measured at fair value on a recurring basis for the periods presented.

The Association has no loans measured at fair value on a non-recurring basis at December 31, 2021 compared with \$723 thousand at December 31, 2020 and none at December 31, 2019.

The Association has no liabilities measured at fair value on a non-recurring basis for the periods presented. During the three years presented, the Association recorded no transfers in or out of Level 3 and no purchases or issuances.

Valuation Techniques

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

Assets Held in Non-Qualified Benefits Trusts

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

Loans

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

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

<i>(dollars in thousands)</i>	2021				
	First	Second	Third	Fourth	Total
Net interest income	\$13,630	\$12,330	\$12,864	\$13,394	\$52,218
(Credit loss reversal)/Provision for credit losses	(156)	(26)	178	(33)	(37)
Noninterest expense, net	2,634	2,287	2,357	37	7,315
Net income	\$11,152	\$10,069	\$10,329	\$13,390	\$44,940

<i>(dollars in thousands)</i>	2020				
	First	Second	Third	Fourth	Total
Net interest income	\$10,857	\$11,469	\$12,020	\$12,290	\$46,636
(Credit loss reversal)/Provision for credit losses	(48)	130	404	(257)	229
Noninterest expense, net	2,935	3,165	3,939	1,156	11,195
Net income	\$ 7,970	\$ 8,174	\$ 7,677	\$11,391	\$35,212

<i>(dollars in thousands)</i>	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$10,883	\$10,904	\$11,100	\$11,266	\$44,153
(Credit loss reversal)/Provision for credit losses	(86)	(408)	175	492	173
Noninterest expense, net	3,127	3,255	3,259	2,738	12,379
Net income	\$ 7,842	\$ 8,057	\$ 7,666	\$ 8,036	\$31,601

NOTE 16 – SUBSEQUENT EVENTS

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

DISCLOSURE INFORMATION

REQUIRED BY FARM CREDIT ADMINISTRATIVE REGULATIONS

Description of Business

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

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

Description of Property

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

Locations

Kingsburg Branch
1580 Ellis Street
Kingsburg, California 93631
559-897-5814

Administrative office – As of
February 2022
3013 Ceres Avenue
Chico, California 95973
530-895-8698

Hanford Branch
1001 E. Third Street
Hanford, California 93230
559-584-5401

Red Bluff Branch
255 Sale Lane
Red Bluff, California 96080
530-527-1941

Willows Branch
201-A North Tehama Street
Willows, California 95988
530-934-7071

Administrative Office – Vacant
as of February 2022
1359 East Lassen Avenue
Chico, California 95973
530-571-4160

Appraisal Office – Leased
1530 Marion Street
Kingsburg, California 93631
559-897-7490

Chico Branch – Vacant
as of February 2022
3435 Silverbell Road
Chico, California 95973

Unless otherwise noted, branches and offices are owned.

Legal Proceedings and Enforcement Actions

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Selected Financial Data

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

Management's Discussion and Analysis

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

Directors

Michael Fry

Chairman of the Board

Term of Office: 2021-2026

Mr. Fry is Vice President of Ag Operations for Olam Spices and Vegetables Ingredients. Mr. Fry also farms tree fruit and walnuts in a partnership with his brother. Prior to joining the Golden State Board, he had served on the Federal Land Bank Association of Kingsburg, FLCA Board since 2006.

Gregory W. Long

Vice Chairman of the Board

Term of Office: 2019-2024

Mr. Long grows almonds and does custom farm management of almonds, walnuts and prunes. He is involved as a member of the Farm Bureau. Prior to joining Golden State Board, he had served on the Northern California Farm Credit, ACA Board since 2005.

Michael Andersen

Director

Term of Office: 2018-2023

Mr. Andersen is a third generation farmer in Vina. Along with his family, he owns and operates Andersen & Sons Shelling and Andersen & Sons Ranch where they farm walnuts, almonds and prunes throughout Tehama, Butte and Glenn Counties. Mr. Andersen is an active supporter of Tehama County Farm Bureau and Los Molinos High School FFA. He was elected to the Golden State Board in 2018.

Jim Bates

Director

Term of Office: 2018-2023

Mr. Bates along with his son, grows mandarins and walnuts in Fresno and Tulare Counties. He is on the board of Fowler Fruit Growers Cooperative and Fowler Packing Company where he served as CFO for over 30 years. He is also a retired member of the American Society of CPA's. Mr. Bates was elected to the Golden State Board in 2018.

Stephen Brown

Director

Term of Office: 2020-2025

Mr. Brown is a dairyman and farmer. He is a former director for California Dairies, Inc. Prior to joining the Golden State Board, Mr. Brown had served on the Federal Land Bank Association of Kingsburg, FLCA Board since 2009.

Michael R. Chambers

Director

Term of Office: 2018-2023

Mr. Chambers grows walnuts and prunes in the Gridley area. He is involved with Butte County Farm Bureau and Sunsweet Growers, Inc. Prior to joining the Golden State Board, he had served on the Northern California Farm Credit, ACA Board since 1987.

Casey Jones

Director

Term of Office: 2017-2022

Mr. Jones and his family farm peaches, plums, pluots, nectarines, apricots, and almonds in the Kingsburg area. Mr. Jones is the Managing Partner with Sun Valley Packing in Reedley. He also serves on the California Fresh Fruit Association board. He was elected to the Golden State Board in 2017.

Pete Knight

Director

Term of Office: 2019-2024

Mr. Knight and his sons run a diverse farming operation in Glenn and Butte counties. Their main crops are rice, almonds, walnuts, tomatoes, vineseeds, sunflowers, and alfalfa. They also own and operate Dixon Seed, Inc. Mr. Knight serves on the Glenn Colusa Irrigation District Board and is an active supporter of Hamilton High School FFA. He was elected to the Golden State Farm Credit, ACA Board in 2019.

George R. Nicolaus

Director

Term of Office: 2020-2025

Mr. Nicolaus grows almonds and walnuts in Butte County. His family owned business, Nicolaus Nut Company, provides custom farming, planting and harvest operations. He is a general partner in two farming and land development partnerships in the Chico area. Mr. Nicolaus is chairman of the Zimmerman Scholarship Committee and a Butte County Farm Bureau member. He has served on the Northern California Farm Credit, ACA Board since 2006.

Vernon Peterson

Director, Compensation Committee Chairman

Term of Office: 2021-2026

Mr. Peterson, along with his family, grows organic stone fruit and chickens in Kingsburg. Additionally, the family packs stone fruit, pomegranates and citrus for several dozen of their neighbors. Mr. Peterson is past treasurer of CCOF, he has served on the board of KCAPS for over 35 years, and serves on the board of The Landing which works with troubled youth. He is also the current chairman of his church. He was elected to the Golden State Board in 2016.

Terri West

Appointed Director, Audit Committee Chairwoman

Term of Office: 2018-2023

Ms. West is Chief Financial Officer at Ostara Nutrient Recovery Technologies. Previously, she provided consulting services for a broad range of clients with large, complex agribusinesses from 2019 to 2021. Prior to that, she served as Chief Financial Officer at Actagro, LLC from 2009 to 2019. Before joining Actagro in 2009, she served as Finance and Credit Manager for a California-based manufacturer, and as Senior Accountant at two public accounting firms. She received an MBA with an emphasis in Finance from California State University at Fresno and a Bachelor of Business Administration in Marketing from Pacific Lutheran University. Ms. West is a certified public accountant. She was appointed to the Golden State Board in 2017.

SENIOR OFFICERS

Robert Faris Jr.

Mr. Faris has served as President and Chief Executive Officer, from April 2019 to present. He also serves as the Vice Chairman for the AgVantis Board of Directors, our technology services provider, since January 2019, and has been a member of the Board since 2014. He was previously the President and Chief Executive Officer for Farm Credit Services of Colusa-Glenn, ACA. He began his career in agricultural lending in 2000. His career experience includes credit, business banking and management.

Zach Clark

Mr. Clark has served as Senior Vice President and Chief Financial Officer since July 2021. He was previously Interim CFO effective August 2020, and prior to that, Vice President and Controller since December 2019. Mr. Clark is a certified public accountant (CPA) and certified fraud examiner (CFE). He began his career in 2010 working for an agriculture focused public accounting firm and he brings experience in areas such as financial analysis and reporting, development and maintenance of internal controls, forecasting and budgeting, and fraud risk mitigation.

Dave Lehrman

Mr. Lehrman has served as Executive Vice President and Chief Operating Officer since February 2020. His current areas of responsibility include appraisal, loan documentation, loan accounting, marketing, and information technology. Prior to his current role, Mr. Lehrman served as Golden State Farm Credit's Chief Appraisal Officer. Mr. Lehrman has been working within the Farm Credit System since 1986 in a variety of roles and maintains a Certified General real estate appraisal license as well as an Accredited Rural Appraiser (ARA) designation.

Justin Nunes

Mr. Nunes has served as Senior Vice President and Chief Credit Officer since September 2021. He has been working in Agricultural Lending for 15 years with 13 of those in the Farm Credit System serving in various roles, including loan officer and credit administrator. Mr. Nunes served as the Regional Vice President until his current role, where he was responsible for managing the credit team in the North region. He brings experience in agriculture lending and credit procedures and administration.

Mike Rico

Mr. Rico has served as Senior Vice President and Chief Lending Officer since September 2021. He has been working in the Farm Credit System since 1996 with various associations. Prior to his current role, Mr. Rico has served as the Branch Manager in Hanford and most recently in the role of Regional Vice President, where he was responsible for managing the credit team in the South Valley region. He brings experience in agriculture finance and lending.

Walter Lohse

Mr. Lohse has served as Senior Vice President and Chief Credit Officer since August 2017 and retired in August 2021. He previously served as VP Credit Administration for Golden State Farm Credit from March 2015 through August 2017. Mr. Lohse previously served as a Loan Officer with Northern California Farm Credit. Mr. Lohse has been employed in the Farm Credit System since 1986.

Compensation of Directors and Senior Officers

January 1 through July 31, 2021, per the Association's Director Honoraria policy, directors were compensated for their services as well as trainings attended based on daily honorarium of \$600. A \$100 preparation fee for board meetings was also paid. The Board Chairman and Vice Chairman were paid a daily honorarium of \$1,000 and \$750, respectively, with the Board Chairman receiving a \$250 preparation fee for board meetings. The Audit Committee Chairman and Compensation Committee Chairman were paid a daily honorarium of \$750. If the activity in which a board member was participating did not exceed 4 hours, the member was compensated at the half day rate of \$250. On August 1, 2021, an updated Director Compensation (Director Honoraria) policy went into effect. Based on the updated policy, directors are paid a monthly retainer of \$500 as well as a per diem of \$750 based on attendance. The Board Chairman and Audit Committee Chairman are paid a monthly retainer of \$2,000 and the Compensation Committee Chairman is paid a monthly retainer of \$833 with all three receiving a per diem of \$1,000 based on attendance. The Board Vice Chairman, Audit Committee Vice Chairman, and Compensation Committee Vice Chairman are paid a monthly retainer of \$667. Additionally, this policy notates that Association

directors are eligible for reimbursement of director travel and subsistence expenses including reimbursement for mileage at the current IRS rate, as well as documented business expenses while serving in an official capacity.

Additional information for each director follows.

Name	Number of Days Served at		Compensation for			Total Compensation Paid During 2021
	Board Meetings	Other Official Duties	Board Meetings And Official Duties	Audit Committee	Compensation Committee	
Michael Fry	10	5	\$ 22,500	\$ –	\$ 1,250	\$ 23,750
Gregory W. Long	9	4	10,835	250	1,000	12,085
Michael Andersen	10	5	9,600	2,250	–	11,850
Jim Bates	10	9	10,435	1,750	3,000	15,185
Stephen Brown	9	6	10,000	–	2,250	12,250
Michael R. Chambers	9	7	9,150	2,500	–	11,650
Casey Jones	10	5	9,850	1,000	500	11,350
Pete Knight	10	8	11,100	750	2,250	14,100
George R. Nicolaus	10	7	11,935	–	2,750	14,685
Vernon Peterson	10	7	14,265	–	3,750	18,015
Terri West	10	26	24,750	4,750	–	29,500
Total Compensation			\$ 144,420	\$ 13,250	\$ 16,750	\$ 174,420

Directors, officers, and employees of the Association are reimbursed for travel, subsistence, and other related expenses which are incurred in the performance of their duties. Each traveler is required to submit travel expenses on forms provided by the Association. They are then reviewed for appropriateness and reimbursed upon approval pursuant to the AP Company Credit Card and Expense Reimbursement Procedure. A copy of the Association's Travel and Reimbursement for Business Expenses policy or the Director's Compensation Policy is available to shareholders upon request. Aggregate reimbursement to directors for travel, subsistence and other related expenses was \$16,820 in 2021, \$8,147 in 2020 and \$35,530 in 2019. There was no noncash compensation paid to directors in 2021.

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

Transactions with Senior Officers and Directors

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

Involvement of Senior Officers and Directors in Certain Legal Proceedings

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

Borrower Privacy Statement

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. The Association does not sell or trade customers' personal information to marketing companies or

information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting the Association.

Relationship with Independent Auditors

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

Relationship with CoBank, ACB (CoBank)

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

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

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

Credit and Services to Young, Beginning and Small Farmers, Ranchers and Producers or Harvesters of Aquatic Products

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

Financial Statements

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

CoBank Annual and Quarterly Reports to Shareholders

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2021 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 3013 Ceres Avenue, Chico, California 95973, or may be contacted by calling (530) 571-4160. The reports may also be obtained free of charge by visiting CoBank's website at www.cobank.com.

Affirmative Action Plan And Equal Employment Opportunity Policy

The Association has adopted an Affirmative Action Plan and Equal Employment Opportunity Policy.



American Grown
MJDOA



CA Youth
Ag Expo



Carriere Farms,
Glenn



Dover Dairy,
Hanford



Tehama Fair,
Red Bluff



Northern Exposure



Northern Exposure



American Grown
MJDOA



The Mighty Honker
Goat Program



www.goldenstatefarmcredit.com