2022 ANNUAL REPORT

Customer Owned | Customer Focused

GOLDEN STATE FARM CREDIT

Serving Our Customers
and Communities






OUR MISSION

To support rural California communities by providing members with reliable access to capital



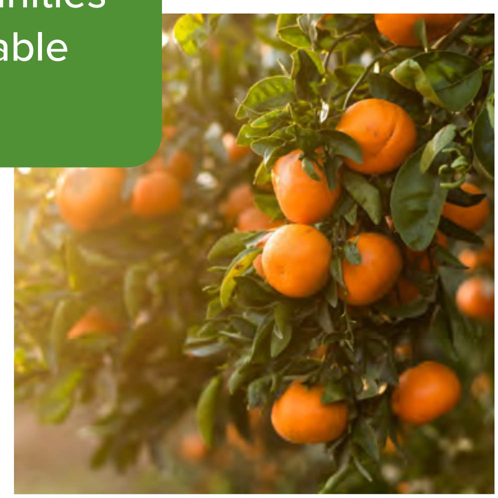
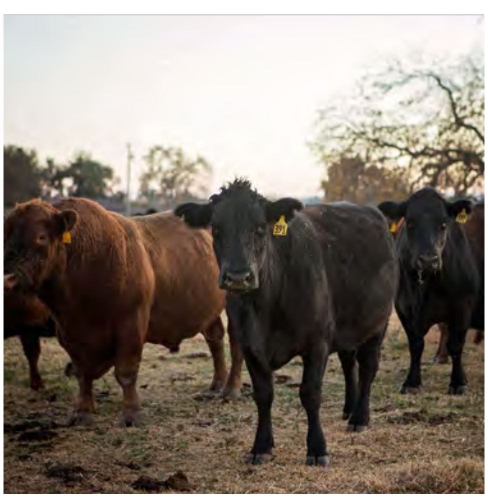



TABLE OF CONTENTS

MESSAGE TO STOCKHOLDERS

At the close of 2022, Golden State Farm Credit is pleased to report that the Association ended the year in a strong financial position. We appreciate the opportunity to be your financial partner and will continue to support the needs of your business in the years ahead. Our promise is to help rural communities in California prosper, which we are able to fulfill because of the success of our member-owners.

The 2022 Annual Report illustrates a detailed account of the Association's success through our earnings, capital strength, and patronage. The management team and Board of Directors appreciates your trust in our team and are excited to share the following highlights:

- $50.8 million of net income and strong asset quality
- 98.0% of loan volume classified as Acceptable
- Record patronage of $24.3 million cash patronage dividend, an increase of nearly $3.4 million over 2021 patronage dividend; a total combined patronage dividend equal to 100 basis points (bps) or 1%

We strive to be the premier ag lender in our communities, and we know the most important part of our business is the strong relationships with our customers who entrust us to help them grow and thrive. In 2022, we purchased a new building in Chico and consolidated our two Chico offices to provide our customers with a stronger, more personalized experience. In our relationships with all of you, we are guided by integrity, tenacity, compassion and are committed to your success. Our diverse team understands that your farming operations and businesses have different needs and requirements, and we will continue to work alongside you to do what is best suited for your business.

The Association has assembled a team of talented employees and a supportive Board of Directors who understand that being adaptable is important to stay relevant and strong in our service to our customers. We enjoy the opportunity to support generations of farming families as well as new and upcoming agriculture business owners. Our commitment to youth in agriculture is an important part of ensuring that California agriculture continues for many generations. The Association was pleased to support youth livestock programs through county fairs, statewide livestock shows, and a youth lending program. We continued to provide academic scholarships to agriculture students, internships for students interested in learning about agriculture finance and worked collaboratively with local county farm bureaus to provide education about Young, Beginning, Small and Tomorrow's Farmer programs.

As a member-owned cooperative, you are the reason the Association continues to be in a strong financial position. In 2023, our strategic marketing plan will showcase the investments you are making on your farms and businesses to be sustainable for the future. The stories will highlight our diverse commodity portfolio and provide us an opportunity to share your stories on a larger platform to give you "The Credit You Deserve."

As we prepare for 2023, the Association and Board of Directors has positioned itself to ensure success for our members. As you prepare to weather the uncertainty of farming in California, the Association is equipped to help you navigate the challenges of volatile commodity prices and an ever-changing regulatory environment. Looking ahead, the Association will continue to strengthen our relationships with member-owners, grow and retain our talented employees, provide competitive interest rates, and strong financial programs. On behalf of the Board of Directors and management team, we appreciate our partnership with all of you and look forward to working collaboratively in the year ahead.

MICHAEL FRY
Chairman of the Board

ROBERT FARIS
President and Chief Executive Officer

BOARD OF DIRECTORS

MICHAEL FRY
Chairman of the Board
Term of Office: 2021-2026
Mr. Fry farms tree fruit, pistachios, and walnuts in a partnership with his brother. He currently serves on the Fresno State Ag Business Advisory Board. Prior to joining the Golden State Board, Mr. Fry 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 Tehama County Farm Bureau. Prior to joining the 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. Mr. Bates 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.

BOARD OF DIRECTORS

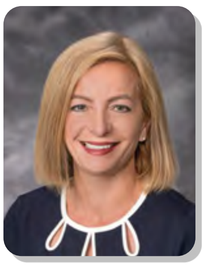
MICHAEL R. CHAMBERS
Director
Term of Office: 2018-2023
Mr. Chambers grows walnuts and prunes in the Gridley area. He is involved with Butte County Farm Bureau and Sunsweet Growers, Inc. Prior to joining the Golden State Board, he had served on the Northern California Farm Credit, ACA Board since 1987.

PETE KNIGHT
Director
Term of Office: 2019-2024
Mr. Knight and his sons run a diverse farming operation in Glenn, Butte, and Tehama 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.

DAN MATTOS
Appointed Director
Term of Office: 2022-2027
Mr. Mattos retired from CoBank in March of 2021 where he served as a Relationship Manager for nine years. In his role, he worked with Farm Credit Associations and assisted with lending to cooperatives in California. Prior to joining CoBank, he worked in the Farm Credit System for US AgBank, Western Farm Credit Bank, Sacramento Farm Credit Bank, and Fresno-Madera Production Credit Association. He received a Bachelor of Science in Ag Business from Cal Poly and an Associate Degree from Modesto Junior College. He was appointed to the Golden State Farm Credit, ACA Board in 2022.

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, operates almond and walnut orchards in Chico. 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 is a member of the North State Hulling Co-Op and Butte County Farm Bureau. He has served on the Northern California Farm Credit, ACA Board since 2006.

ROBBIE ROCHA
Director
Term of Office: 2022-2027
Mr. Rocha is the owner-operator of R&R Farms, where they farm pistachios and row crops, and K&M Ag, an agriculture composting and trucking business in Kings County and surrounding areas. He is a member of Kings County Farm Bureau, a supporter of the Education and Agriculture Together (E.A.T) Foundation, and is actively involved with local 4-H and FFA programs, as well as the Kings Fair in Hanford. He was elected to the Golden State Farm Credit, ACA Board in 2022.



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.

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.

VERNON PETERSON
Director, Compensation Committee Chairman
Term of Office: 2021-February 2023
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 36 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, where he has served as a director and the Compensation Committee Chairman until his resignation in February 2023.

A YEAR OF GIVING

Community Support Highlights

$280,000

SPENT TO SUPPORT AGRICULTURE AND OUR RURAL COMMUNITIES

$20,000

Awarded through the Sharing 'Success' Program

$20,000

Dontated to local food banks to support our rural communities

$75,000

Spent to support youth livestock programs

100 Families

Supported with food, clothes, and gifts during Christmas

$160,000

Spent to support agriculture organizations, industry events, and youth ag programs

$11,000

Awarded in scholarship funds to support the next generation of agriculturalists

Community Food Banks

GSFC believes in the importance of supporting local community food banks. According to a 2021 USDA report, more than 34 million people, including 9 million children, in the United States are food insecure. Every community in the country is home to families who face hunger. But rural communities are especially hit by hunger. Many households that experience food insecurity do not qualify for federal nutrition programs and rely on local food banks for extra support.

In 2022,Golden State Farm Credit supported food banks serving our rural communities for a total of **$20,000**, including an additional $5,000 from CoBank.

North State Food Bank

Oroville, CA

North State Food Bank (NSFB) distributes food throughout Butte, Glenn, Colusa, Plumas, Sierra, and Tehama counties. Every month, NSFB serves 5,000 residents in six counties. With the help of their extensive network of partners, the North State Food Bank offers multiple programs to help low-income families get the food and nutrition they need each month.

Central California Food Bank

Fresno, CA

CCFB is the largest food bank in Central California serving Fresno, Madera, Kings, Kern, and Tulare counties. As part of Hunger Action Month in September, GSFC donated funds to the Feeding Families Fund Drive (FFFD) where every dollar donated receives a 50% match from GAR Bennett. During the FFFD, CCFB was able to raise over $656K.

300K
People Served Every Month

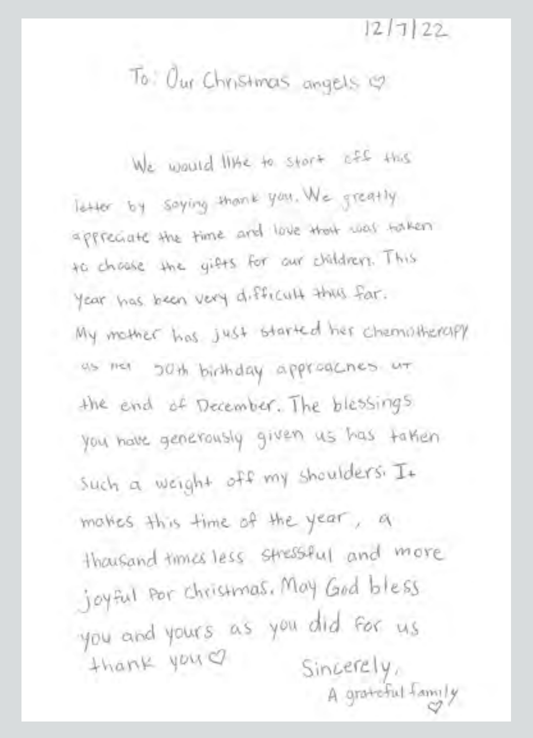
46 Million
Pounds of Food Distributed Annually

50%
of Food Distributed is Fresh Produce

Caring at Christmas

In addition to providing support for local food banks, GSFC also supported families during Christmas by providing food and gifts. The Association was able to provide toys, clothing, and food to over **100 families** in our local communities with the help of these organizations:

Salvation Army Angel Tree Network – Chico
North Valley Catholic Social Services – Red Bluff
Glenn County Health & Human Services – Willows
Kingsburg Community Action Agency – Kingsburg
Kings Community Action Organization – Hanford



12/7/22

To: Our Christmas angels ♡

We would like to start off this letter by saying thank you. We greatly appreciate the time and love that was taken to choose the gifts for our children. This year has been very difficult thus far. My mother has just started her chemotherapy as her 50th birthday approaches at the end of December. The blessings you have generously given us has taken such a weight off my shoulders. It makes this time of the year, a thousand times less stressful and more joyful for christmas. May God bless you and yours as you did for us thank you ♡

Sincerely,
A grateful family ♡

SHARING SUCCESS

Since 2012, CoBank has offered their Sharing Success program, which is a $5 million fund at the cornerstone of their corporate citizenship efforts. The program matches donations by the bank's customers to nonprofit organizations in their communities. This year, Golden State Farm Credit participated in the Sharing Success Program to provide $20,000 to four nonprofit organizations in our local communities.

$20,000

AWARDED THROUGH THE 'SHARING SUCCESS' PROGRAM

Refuge Armona

Armona, CA
www.refugearmona.org

The community of Armona consists of 95% socioeconomically disadvantaged youth. Refuge Armona's vision is to provide hope and transform a generation of young men and women to recognize their God given purpose, and to become leaders in their community and beyond. This is a safe place for struggling youth to receive food, clothing, mentorship, and safety.

"The staff at Golden State Farm Credit have been so kind and easy to collaborate with. They have continued to express a willingness to help meet the needs of the youth we serve and their partnership has impacted over 100 youth and families. It is a JOY to partner with such a wonderful company in helping make a difference in the community of Armona."
Alyssa Haley, Co-Founder.

Boys & Girls Club of the North Valley

Chico, CA
www.bgcnv.org

Serving Butte and Glenn counties, the Boys & Girls Club of the North Valley hosts summer youth camps for children ages of 5 to 12. The students attend the camp daily, where they receive meals, mentorship through caring staff, and diverse educational opportunities and engaging programs.

"Youth were able to have a fulfilling summer of activities, building friendships, and having a positive place to be a kid every day. For me personally, to see that nearly 650 kids were able to have three meals and a snack every day for two months while schools are closed has a large impact on me."
Alex Beehner, Development Director.

SpiritHorse Connections

Kingsburg, CA
www.spirithorsekingsburg.org

SpiritHorse Connections provides therapeutic horseback riding services for individuals with various abilities. Equine therapy is provided to people with disabilities, at-risk youth, veterans, ill children, battered women, and children who are victims of abuse.

"We were able to provide 4 students lessons for an entire semester that could not have otherwise participated because of financial situations. Watching them learn and grow each week through interacting with their horses and peers was amazing. We watched them grow not only in their horsemanship skills, but their peer interactions, self confidence, and independence as well."
Kasey Thiesen, Co-Founder.

Wildcat Food Pantry

Chico, CA
www.csuchico.edu/basic-needs/pantry

The Wildcat Food Pantry is a basic needs initiative at CSU Chico for students and staff facing food insecurity. The Pantry strives to provide a wide assortment of nutritious, student-friendly food products. They specialize in the distribution of local, farm-direct, organic produce and foods. Since 2013, the Wildcat Food Pantry has served over 40,000 students.

"GSFC's donation went a long way in making sure we were adequately feeding our most vulnerable students and therefore supporting their academic success."
- Leah Slem, Basic Needs Manager

thank you

Hi,

I am a senior in Crop Research and I couldn't have come nearly as far as I have in my schooling if it weren't for the food pantry. Not everyone can afford to go grocery shopping when they need to or prepare a meal to help get them through the day. I am one of these people. I have been going to the food pantry ever since it opened on campus and can say has been what kept me from starving on most days. So, I want to thank you for every donation, every moment of effort put into working with the food pantry and for keeping our campus a healthy and full community during the times when we, as college students and general citizens of Chico, desperately need help. We are very grateful for any support during these difficult times and every ounce of aid goes towards building a better future for the lives of countless individuals. Thank you so much!

Sincerely,
Chico State Student

County Fairs and Livestock Shows

Golden State Farm Credit plays an integral role in supporting local county fairs and statewide livestock shows. We believe in the importance of supporting the next generation of agriculture leaders and supporting junior livestock programs is at the forefront of our investment in youth in agriculture.

A total investment of nearly **$76K** was spent to help support youth livestock programs. In 2022, GSFC started a new Youth Lending Program that provides no-interest loans to 4-H, FFA, Grange, and Independent Livestock students who exhibit a market animal at a county fair in our territories.

Livestock Shows Supported

Butte County Fair
CA Youth Ag Expo
Caruthers Fair
Fresno County Fair
Glenn County Fair
Kings County Fair
Northern Exposure
Silver Dollar Fair
Tehama County Fair
Tulare County Fair
Western Bonanza

Scholarship and Summer Internship Program

Golden State Farm Credit is proud to invest in the next generation of agriculture. GSFC provides scholarships to deserving students in our territories of service who are pursuing a higher education in agriculture or attending trade school to work in the agriculture industry. A total of 15 scholarships in the amount of **$11K** were presented to students who are studying agriculture business, animal science, agriculture education, ag systems management, and plant and soil science.

In addition to scholarships, GSFC offers an eight-week paid internship to college students pursuing a career in agriculture, where interns learn valuable knowledge about the agricultural lending process. The internship offers students an opportunity to take a deep dive into the Farm Credit system, gain an in-depth understanding of agricultural lending, and build a network of contacts in the agriculture industry.

PATRONAGE

2022 PATRONAGE
$24,294,000

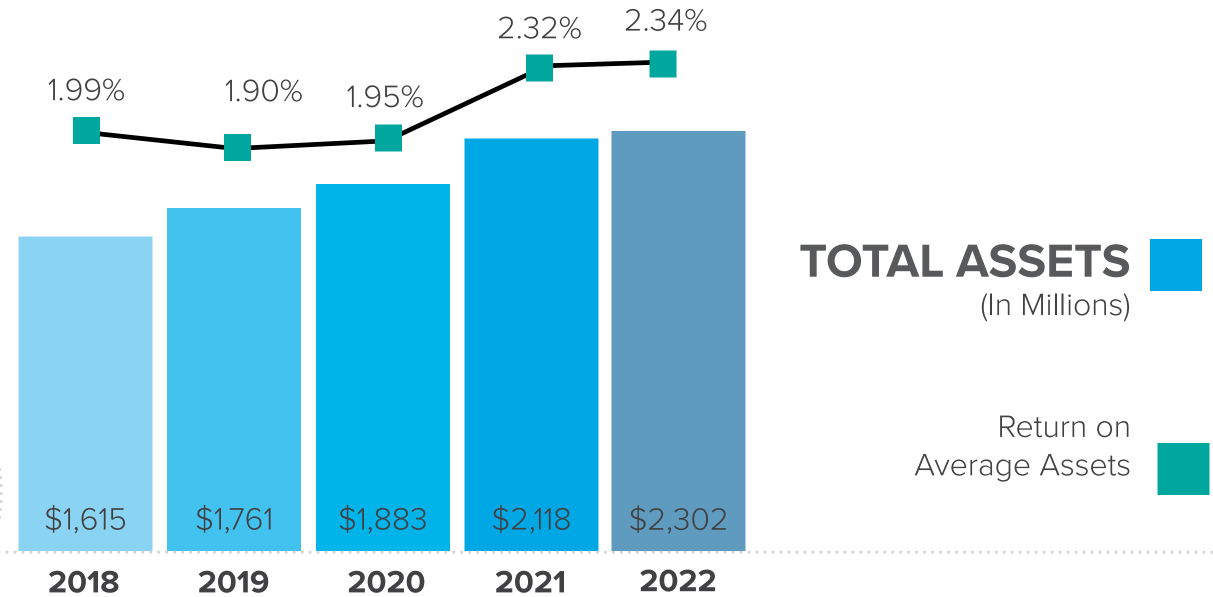
1%

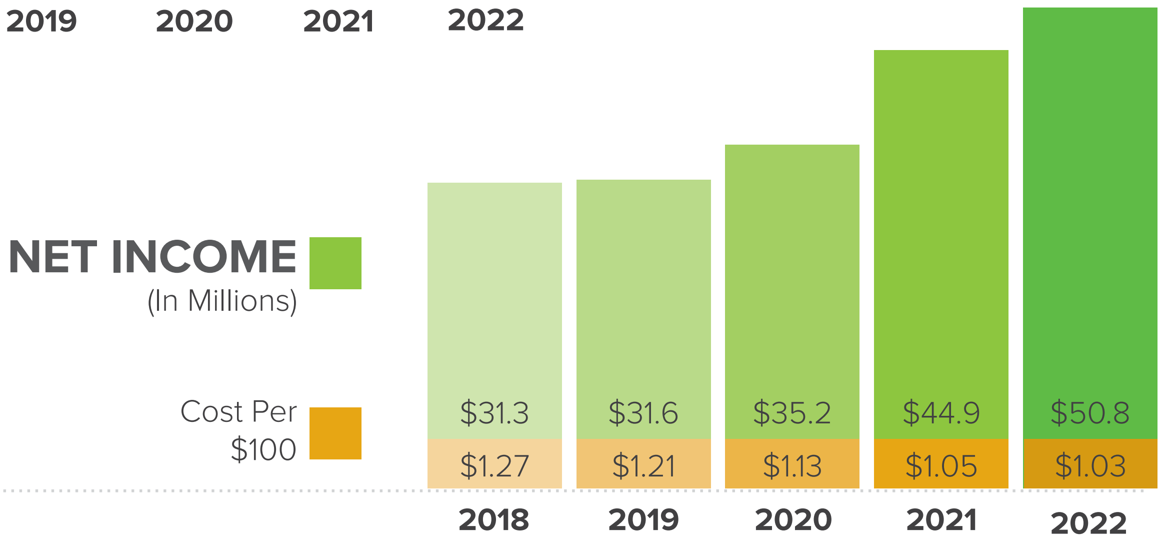
2022	$24,294,000
2021	$20,900,000
2020	$18,185,000
2019	$15,700,000
2018	$12,650,000
2017	$11,400,000

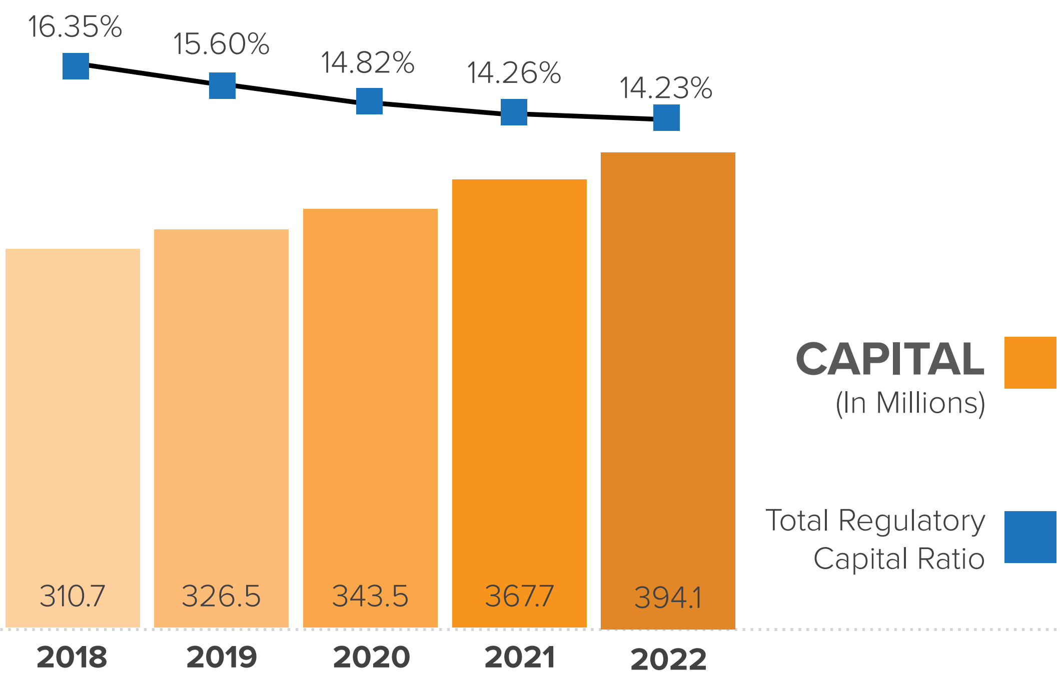
PAID MEMBERS $103.1M SINCE 2017

Thank you Summerhill Goat Dairy and Lone Oak Farms for allowing us to photograph your operation.

FINANCIAL HIGHLIGHTS

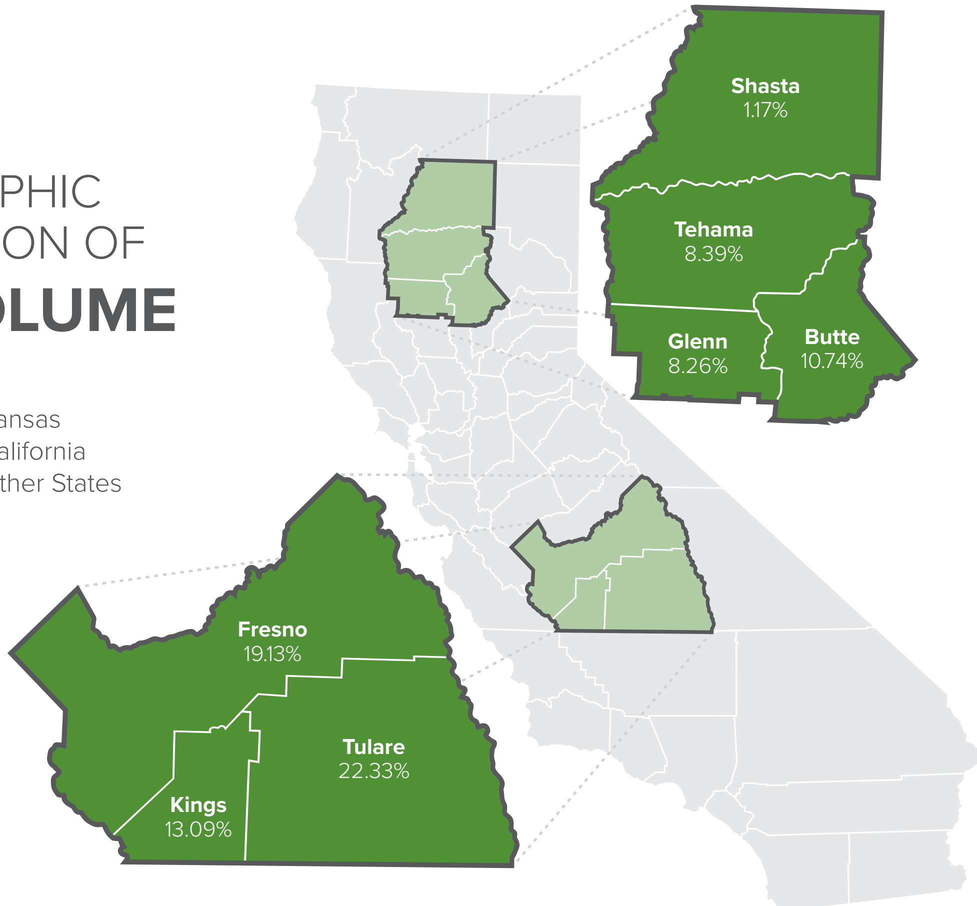




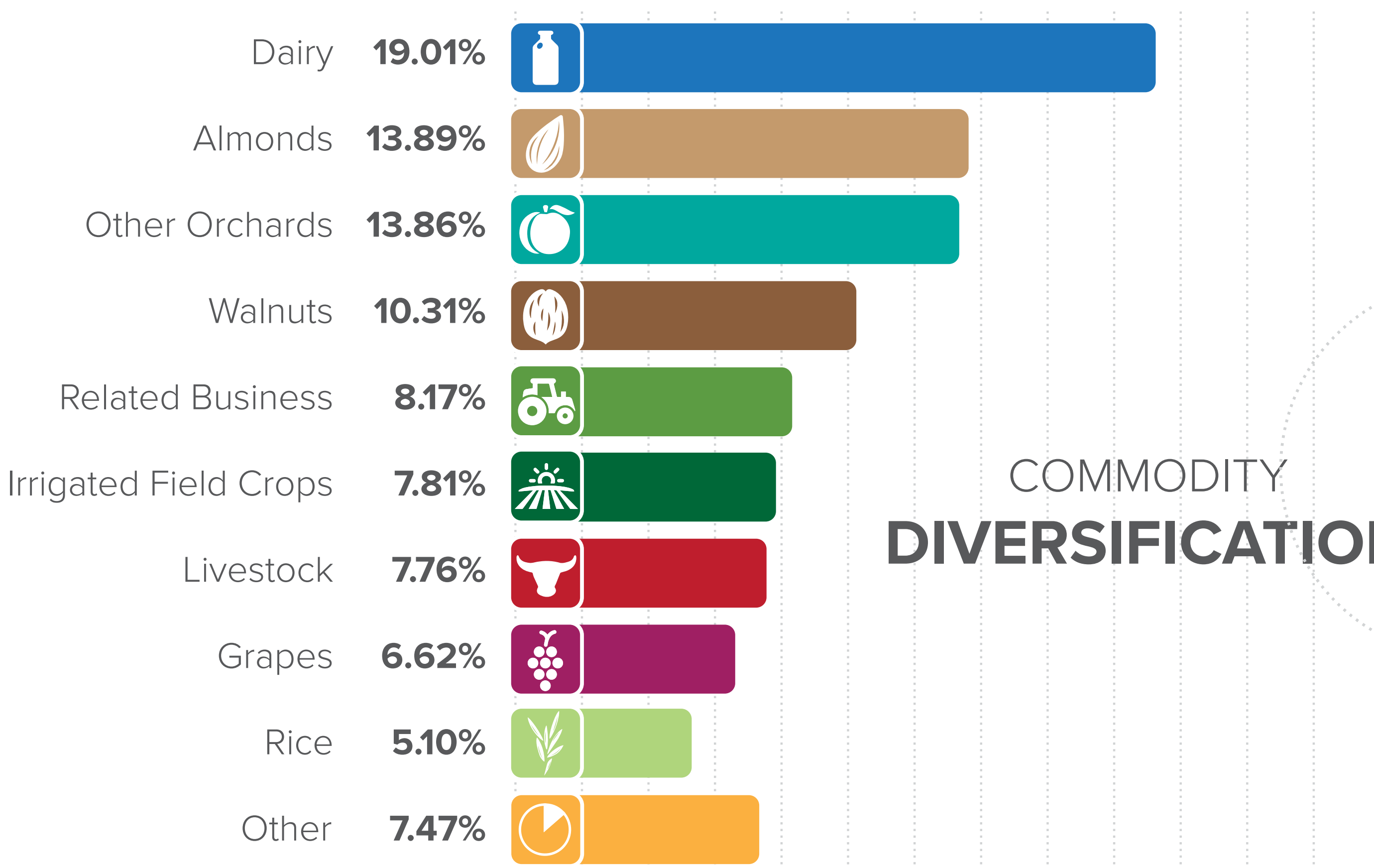


GEOGRAPHIC DISTRIBUTION OF **LOAN VOLUME**

5.98% Other - Kansas
4.53% Other - California
6.38% Other - Other States



COMMODITY **DIVERSIFICATION**



FIVE-YEAR SUMMARY OF
SELECTED CONSOLIDATED FINANCIAL DATA

(Dollars in Thousands)	December 31				
	2022	2021	2020	2019	2018
Statement of Condition Data					
Loans	**$ 2,169,478**	$ 2,004,080	$ 1,781,843	$ 1,646,738	$ 1,515,010
Less allowance for loan losses	**5,247**	4,689	4,665	4,466	4,157
Net loans	**2,164,231**	1,999,391	1,777,178	1,642,272	1,510,853
Investment in CoBank, ACB	**54,846**	58,251	58,012	52,733	49,984
Other assets	**83,169**	60,373	47,719	65,584	54,397
Total assets	**$ 2,302,246**	$ 2,118,015	$ 1,882,909	$ 1,760,589	$ 1,615,234
Obligations with maturities of one year or less	**$ 1,907,660**	$ 1,749,997	$ 1,538,941	$ 1,433,653	$ 1,303,987
Reserve for unfunded commitments	**472**	358	430	400	536
Total liabilities	**1,908,132**	1,750,355	1,539,371	1,434,053	1,304,523
Capital stock and participation certificates	**1,462**	1,513	1,500	1,529	1,524
Additional paid-in capital	**141,442**	141,442	141,442	141,442	141,442
Unallocated retained earnings	**251,151**	224,640	200,541	183,514	167,613
Accumulated other comprehensive income	**59**	65	55	51	132
Total shareholders' equity	**394,114**	367,660	343,538	326,536	310,711
Total liabilities and shareholders' equity	**$ 2,302,246**	$ 2,118,015	$ 1,882,909	$ 1,760,589	$ 1,615,234

	For the Year Ended December 31				
	2022	2021	2020	2019	2018
Statement of Income/(Expense) Data					
Net interest income	**$ 58,511**	$ 52,218	$ 46,636	$ 44,153	$ 42,097
Patronage distribution from Farm Credit institutions	**13,238**	11,351	7,512	5,860	6,828
(Provision for credit losses)/Credit loss reversal	**(784)**	37	(229)	(173)	(21)
Noninterest expense, net	**(20,194)**	(18,665)	(18,705)	(18,237)	(17,564)
Provision for income taxes	**(2)**	(1)	(2)	(2)	(2)
Net income	**$ 50,769**	$ 44,940	$ 35,212	$ 31,601	$ 31,338
Comprehensive income	**$ 50,763**	$ 44,950	$ 35,216	$ 31,520	$ 31,714
Key Financial Ratios					
For the Year					
Return on average assets	**2.34%**	2.32%	1.95%	1.90%	1.99%
Return on average shareholders' equity	**13.16%**	12.48%	10.39%	9.79%	10.28%
Net interest income as a percentage of average earning assets	**2.84%**	2.84%	2.72%	2.81%	2.82%
Net charge-offs as a percentage of average net loans	**0.01%**	<0.01%	-	-	0.01%
At Year End					
Shareholders' equity as a percentage of total assets	**17.12%**	17.36%	18.25%	18.55%	19.24%
Debt as a ratio to shareholders' equity	**4.84:1**	4.76:1	4.48:1	4.39:1	4.20:1
Allowance for loan losses as a percentage of loans	**0.24%**	0.23%	0.26%	0.27%	0.27%
Common equity tier 1 (CET1) capital ratio	**13.98%**	14.03%	14.55%	15.35%	16.06%
Tier 1 capital ratio	**13.98%**	14.03%	14.55%	15.35%	16.06%
Total regulatory capital ratio	**14.23%**	14.26%	14.82%	15.60%	16.35%
Tier 1 leverage ratio	**15.25%**	15.10%	15.49%	16.24%	16.73%
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	**15.19%**	16.76%	17.06%	17.80%	18.27%
Permanent capital ratio	**14.01%**	14.06%	14.59%	15.39%	16.10%
Net Income Distribution					
Cash patronage distributions paid	**$ 21,938**	$ 19,381	$ 16,874	$ 14,221	$ 11,800
Cash patronage declared	**$ 24,294**	$ 20,900	$ 18,185	$ 15,700	$ 12,650

Unaudited

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, 2022. 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
- Human Capital
- 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 contacted by calling (530) 895-8698.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

As of December 31, 2022, we are one of 63 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 may be contacted by calling (530) 895-8698. 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, we signed a two-year extension to the service agreement to expire on December 31, 2024. 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

In 2022, farmers in California faced severe drought conditions, which was further impacted by low reservoir levels and no state water allocations. The state was left damaged and vulnerable, specifically our agricultural economy, after the 2021 and 2020 water years. A dry start to the water year, combined with warm and dry long-range forecasts suggest that the drought will continue to negatively affect the state's agriculture in the future.

While the dairy market softened in 2022, it continues to remain relatively strong. Despite increases to feed prices and other input costs, the vast majority of dairy operations in our portfolio have maintained profitability and are performing well. Many dairymen have mitigated their risk by contracting feed purchases, diversifying a portion of their operations to permanent plantings, and utilizing Dairy Revenue Protection insurance.

The 2022/2023 almond crop is suffering from weak demand across several destination markets. Due to the significant carryover from the 2021/2022 crop, the almond market is experiencing a historically large supply of crops which has reduced prices. Some sellers have shifted from Europe to the U.S. domestic market to reduce risk and fast-track payments. The walnut market has seen similar effects from the supply and demand imbalance which has eroded prices. This imbalance has been caused by the carryover of the 2022 Chilean crop, competition from China, quality issues, a strong U.S. dollar, and rising food and energy prices.

The results for tree fruit sales in 2022 were good, with the industry benefiting from a lower overall crop in California. Additionally, other states had a below-average peach crop due to weather-related disasters. The lower overall crop volume resulted in below-average production costs and slightly higher prices, thus benefiting growers. Challenges remain for the tree fruit industry as costs continue to rise for labor and other inputs such as chemicals and fertilizers.

Our Association continues to analyze the material effects of transition risks related to climate change that may affect our 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, and technological changes. Agricultural producers continue to adjust to changing climate conditions and have implemented additional practices of no-till planting, minimal till practices, cover crops, and other water conservation techniques to manage reduced amounts of rainfall and to keep their farmland in a state of sustainable production. At this time, we are not aware of any specific material impacts on our business, results of operations, or financial conditions from the effects of climate change transition risks.

The global economy continues to weaken with persistent inflation, rising interest rates, the effects of the Ukraine/Russia war, and lingering effects of the pandemic. While the U.S. economy remains healthy and continues to be driven by strong consumer spending and stabilizing labor markets, business operating costs are rising faster than consumer prices, so elevated inflation remains a concern. Severe supply chain disruptions are adding significant costs to business operations and these costs are likely to be passed on to the consumer. The real estate market has begun to weaken with prices declining after years of sizeable appreciation. From a monetary policy perspective, the Federal Reserve raised interest rates by 425 basis points in 2022 with more rate hikes anticipated in 2023 in an effort to curb inflation. Tighter monetary policy is contributing to a stronger dollar and changes in the shape of the yield curve.

The U.S. government instituted 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 through the end of the program in 2021. As of December 31, 2022, the Association had no PPP loans outstanding. In March 2021, the current presidential administration also proposed the $2.3 trillion American Jobs Plan intended to create jobs and rebuild the country's infrastructure.

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

LOAN PORTFOLIO

Total loans outstanding were $2.17 billion at December 31, 2022, an increase of $165.4 million, or 8.3%, from loans at December 31, 2021 of $2.00 billion, and an increase of $387.6 million, or 21.8%, from loans at December 31, 2020 of $1.78 billion. The increase in loans 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. The types of loans outstanding at December 31 are reflected in the following table.

	2022		2021		2020	
(dollars in thousands)	Volume	Percent	Volume	Percent	Volume	Percent
Real estate mortgage	$ 1,605,718	74.0%	$ 1,533,171	76.5%	$ 1,337,407	75.1%
Production and intermediate-term	414,181	19.1%	331,691	16.6%	310,622	17.4%
Agribusiness	76,155	3.6%	80,440	4.0%	76,355	4.3%
Rural infrastructure	53,048	2.4%	33,170	1.6%	30,971	1.7%
Rural residential real estate	–	–	45	–	83	–
Lease receivables	20,376	0.9%	25,563	1.3%	26,405	1.5%
Total	$ 2,169,478	100.0%	$ 2,004,080	100.0%	$ 1,781,843	100.0%

Real estate mortgage loans outstanding increased 4.7% to $1.61 billion, compared with $1.53 billion at year-end 2021. 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 24.9% to $414.2 million, compared with 2021 loans of $331.7 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.

(dollars in thousands)	2022	2021	2020
Participations purchased	$ 279,542	$ 211,644	$ 172,053
Participations sold	$ 657,722	$ 467,211	$ 344,841

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.

	2022	2021	2020
Tulare	22.33%	19.13%	20.16%
Fresno	19.13%	19.72%	19.57%
Kings	13.09%	13.75%	13.65%
Butte	10.74%	11.54%	10.58%
Tehama	8.39%	9.64%	9.69%
Glenn	8.26%	7.48%	7.74%
Shasta	1.17%	2.37%	2.33%
Other – Kansas	5.98%	7.74%	7.00%
Other – California	4.53%	4.46%	4.48%
Other – Other States	6.38%	4.17%	4.80%
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.

	December 31		
SIC Category	2022	2021	2020
Dairy	19.01%	19.37%	19.49%
Almonds	13.89%	13.26%	12.99%
Other Orchards	13.86%	14.68%	13.15%
Walnuts	10.31%	11.37%	11.14%
Related Business	8.17%	7.56%	6.86%
Irrigated Field Crops	7.81%	7.39%	8.14%
Livestock	7.76%	7.83%	6.27%
Grapes	6.62%	6.64%	8.28%
Rice	5.10%	4.66%	4.78%
Other	7.47%	7.24%	8.90%
Total	100.00%	100.00%	100.00%

Our loan portfolio contains a diverse mix of commodities. Dairy, almonds, other orchards, walnuts, related business producers, and irrigated field crops 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, 2022 for loans $250 thousand or less accounted for 6.0% of loan volume and 54.3% 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.

	2022		2021		2020	
(dollars in thousands)	Amount outstanding	Number of loans	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	$ 129,778	1,653	$ 140,125	1,811	$ 148,735	1,985
$251 - $500	166,182	464	175,927	486	170,095	475
$501 - $1,000	276,172	395	266,069	373	241,072	340
$1,001 - $5,000	981,159	454	878,333	406	790,522	372
$5,001 - $25,000	616,187	77	543,626	64	402,823	52
$25,001 - $100,000	–	–	–	–	28,596	1
Total	$ 2,169,478	3,043	$ 2,004,080	3,140	$ 1,781,843	3,225

As of December 31, 2022, approximately 12.3% 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 $93.0 million at December 31, 2022, $120.4 million at December 31, 2021, and $125.3 million at December 31, 2020. Included in other operating expenses were fees paid for these Farmer Mac commitments totaling $360 thousand in 2022, $428 thousand in 2021, and $478 thousand in 2020. 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 $1.5 million at year-end 2022, $2.3 million at year-end 2021, and $12.5 million at year-end 2020 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, 2022.

(dollars in thousands)	Due 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years	Total
Commitments to extend credit	$ 179,239	$ 101,540	$ 57,543	$ 260,186	$ 598,508
Standby letters of credit	3,429	624	–	–	4,053
Total commitments	$ 182,668	$ 102,164	$ 57,543	$ 260,186	$ 602,561

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

High Risk Assets

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

(dollars in thousands)	2022	2021	2020
Nonaccrual loans:			
Real estate mortgage	$ 1,368	$ 1,375	$ 5,453
Production and intermediate term	–	361	1,189
Agribusiness	3,518	–	–
Lease receivables	–	16	80
Total nonaccrual loans	4,886	1,752	6,722
Accruing restructured loans:			
Real estate mortgage	227	229	231
Production and intermediate term	582	–	–
Total accruing restructured loans	809	229	231
Accruing loans 90 days past due:			
Real estate mortgage	–	–	19,880
Production and intermediate term	187	–	–
Total accruing loans 90 days past due	187	–	19,880
Total high risk assets	$ 5,882	$ 1,981	$ 26,833
Nonaccrual loans to total loans	0.23%	0.09%	0.38%
High risk assets to total loans	0.27%	0.10%	1.51%
High risk assets to total shareholders' equity	1.49%	0.54%	7.81%

We had no other property owned for the years presented.

Total high risk assets increased $3.9 million, or 196.9%, to $5.9 million at December 31, 2022 compared with year-end 2021. Contributing to the increase in our high risk assets were loans to borrowers who were adversely impacted due to stress in the general economy.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume increased $3.1 million compared with December 31, 2021 due to the transfer of one borrower's loans to nonaccrual status. Two customers comprise approximately 88% of total nonaccrual volume. The following table provides additional information on nonaccrual loans as of December 31 for the last three fiscal years.

(dollars in thousands)	2022	2021	2020
Nonaccrual loans current as to principal and interest	$ 1,408	$ 639	$ 5,299
Restructured loans in nonaccrual status	$ 798	$ 351	$ 4,086

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

Accruing restructured loans including related accrued interest increased $580 thousand during 2022 primarily as a result of one additional restructured loan due to falling commodity prices. 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.

High risk asset volume is anticipated to increase in the future due to high interest rates, commodity price volatility, and higher farm input costs.

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.

	2022	2021	2020
Acceptable	97.96%	97.51%	96.63%
OAEM	1.46%	2.08%	2.28%
Substandard	0.58%	0.41%	1.09%
Total	100.00%	100.00%	100.00%

Recent economic conditions have created challenges for some borrowers and our credit quality has declined slightly. Loans classified as Acceptable and OAEM were 99.42% at December 31, 2022, 99.59% at December 31, 2021, and 98.91% at December 31, 2020. 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 increased, however, remained at a low level of 0.10% at December 31, 2022, compared with 0.06% at December 31, 2021 and 1.47% at December 31, 2020.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable and estimable losses inherent in the loan portfolio identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors. The following table provides relevant information regarding the allowance for loan losses as of December 31 for the last three fiscal years.

(dollars in thousands)	2022	2021	2020
Balance at beginning of year	$ 4,689	$ 4,665	$ 4,466
Charge-offs:			
Production and intermediate-term	112	–	–
Lease receivables	–	11	–
Provision for loan losses	670	35	199
Balance at December 31	$ 5,247	$ 4,689	$ 4,665
Net charge-offs as a percentage of average net loans	0.01%	<0.01%	–

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

(dollars in thousands)	2022	2021	2020
Real estate mortgage	$ 1,176	$ 1,158	$ 707
Production and intermediate-term	2,266	2,102	2,645
Agribusiness	1,426	937	671
Rural infrastructure	156	100	114
Lease receivables	223	392	528
Total	$ 5,247	$ 4,689	$ 4,665

The allowance for loan losses increased $558 thousand from December 31, 2021, to $5.2 million at December 31, 2022. The increase in allowance for loan losses in 2022 and 2021 were primarily due to the provision for loan losses that were recorded due to increases in loan volume. Net charge-offs of $112 thousand were recorded during 2022. Overall, charge-off activity remains low relative to the size of our loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2022	2021	2020
Allowance as a percentage of:			
Loans	0.24%	0.23%	0.26%
Impaired loans	89.20%	236.70%	17.39%
Nonaccrual loans	107.39%	267.64%	69.40%

The decrease in the allowance as a percentage of impaired loans and nonaccrual loans was due to the $3.1 million increase in nonaccrual loans during 2022.

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

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

(dollars in thousands)	2022	2021	2020
Balance at beginning of year	$ 358	$ 430	$ 400
Provision for/(Reversal of) reserve for unfunded commitments	114	(72)	30
Total	$ 472	$ 358	$ 430

The increase in provision for reserve for unfunded commitments in 2022 is due to an increase in commitments.

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.

		December 31		
	USDA	2022	2021	2020
Young	10%	12%	12%	13%
Beginning	29%	18%	18%	16%
Small	74%	22%	23%	19%

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	3%	(17%)	1%	(7%)
Beginning	3%	(12%)	1%	(3%)
Small	3%	3%	1%	(6%)

With the exception of volume growth in the Small category, our 2022 YBS goals were not met. Despite our efforts to make advances with the YBS demographic, and despite high levels of overall loan growth in 2022, 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. Our Association's lending and lease limit base is established by our total regulatory capital. 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 principal loss; above 50% range of economic loss

RESULTS OF OPERATIONS

Earnings Summary

In 2022, we recorded net income of $50.8 million, compared with $44.9 million in 2021 and $35.2 million in 2020. The increase in 2022 was primarily due to higher net interest income resulting from increased earnings on loanable funds due to increases in interest rates, recognition of gain on sale of a building, and higher patronage income driven by loan growth. 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 following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	2022 vs. 2021	2021 vs. 2020
Net income, prior year	$ 44,940	$ 35,212
Increase/(Decrease) from changes in:		
Interest income	24,853	638
Interest expense	(18,560)	4,944
Net interest income	6,293	5,582
Provision for credit losses	(821)	266
Noninterest income	2,091	3,588
Noninterest expense	(1,733)	291
Provision for income tax	(1)	1
Total increase in net income	5,829	9,728
Net income, current year	$ 50,769	$ 44,940

Return on average assets increased to 2.34% from 2.32% in 2021, and return on average shareholders' equity increased to 13.16% from 12.48% in 2021, primarily as a result of higher net income as described above.

Net Interest Income

Net interest income for 2022 was $58.5 million compared with $52.2 million for 2021 and $46.6 million for 2020. 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 an increase in earnings on loanable funds due to rising interest rates and an increase in loan volume. The following table provides an analysis of the individual components of the change in net interest income during 2022 and 2021.

(dollars in thousands)	2022 vs. 2021	2021 vs. 2020
Net interest income, prior year	$ 52,218	$ 46,636
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	16,314	(5,407)
Interest rates paid	(14,722)	6,032
Volume of interest-bearing assets and liabilities	5,930	3,563
Interest income on nonaccrual loans	(1,229)	1,394
Increase in net interest income	6,293	5,582
Net interest income, current year	$ 58,511	$ 52,218

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		
	2022	2021	2020
Net interest margin	2.84%	2.84%	2.72%
Interest rate on:			
Average loan volume	4.47%	3.65%	3.89%
Average debt	1.90%	0.96%	1.37%
Interest rate spread	2.57%	2.69%	2.52%

The decrease in interest rate spread resulted from a 82 basis point increase in interest rates on average loan volume and a 94 basis point increase in interest rates on average debt. There was no change in net interest margin from 2021. Decrease in interest rate spread is due to cost of funds rising quicker than increases in the Association's interest rates.

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 provision for credit losses of $784 thousand in 2022, compared with net credit loss reversals of $37 thousand in 2021 and net provision for credit losses of $229 thousand in 2020. The provision for loan losses of $670 thousand recorded during 2022 was primarily due to an increase in loan volume and slight decrease in credit quality. The provision for reserve for unfunded commitments of $114 thousand was recorded during 2022 due to increased commitments. 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 reserve for unfunded commitments of $30 thousand in 2020 was due to an increase in commitments.

Noninterest Income

During 2022, we recorded noninterest income of $14.5 million, compared with $12.5 million in 2021 and $8.9 million in 2020. 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 $11.9 thousand in 2022, $9.9 million in 2021, and $7.4 million in 2020. Patronage income from CoBank includes special cash patronage distributions of $2.0 million for 2022, $1.5 million for 2021, and $1.3 million for 2020 due to CoBank's strong capital levels and financial results.

During 2022 and 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. These basis points are before any special patronage distributed by CoBank. As a result of changes to their patronage programs in 2021, CoBank has indicated that our patronage income related to our direct note with CoBank will remain at 45 basis points over the next two years.

We received a patronage distribution from AgVantis, based on our services purchased from AgVantis during 2022. We received a Notice of Allocation with our total patronage of $81 thousand for 2022, compared with none for 2021 and 2020. The balance of the allocation is recorded in other assets.

We recorded a cash patronage of $17 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 $25 thousand recorded in 2021 and $14 thousand in 2020. Patronage from Farm Credit Foundations, AgVantis, 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 from FCSIC. No such refund was received in 2022 or 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 2022 were $518 thousand, a decrease of $339 thousand, from 2021, primarily due to the PPP loan program discontinuing in 2021. As of December 31, 2022, the Association had no PPP loans outstanding.

Other noninterest income in 2022 was $791 thousand, an increase of $543 thousand, from 2021 primarily due to the gain recognized on the sale of the Association's Chico lending office building.

Noninterest Expense

Noninterest expense for 2022 increased $1.7 million, or 8.8%, to $21.5 million compared with 2021 and $1.4 million, or 7.2% compared with 2020. Noninterest expense for each of the three years ended December 31 is summarized as follows:

				Percent of Change	
(dollars in thousands)	2022	2021	2020	2022/2021	2021/2020
Salaries & employee benefits	$ 9,254	$ 9,718	$11,852	(4.77%)	(18.01%)
Occupancy & equipment	1,453	942	939	54.25%	0.32%
Purchased services from AgVantis	2,811	2,433	2,055	15.54%	18.39%
Purchased services - Other	1,516	1,086	794	39.59%	36.78%
Other	3,135	3,078	2,371	1.85%	29.82%
Total operating expense	18,169	17,257	18,011	5.28%	(4.19%)
Farm Credit Insurance Fund premium	3,334	2,321	1,306	43.64%	77.72%
Prepayment expense	–	192	744	(100.00%)	(74.19%)
Total noninterest expense	$ 21,503	$ 19,770	$ 20,061	8.77%	(1.45%)

For the year ended December 31, 2022, total operating expense increased $912 thousand, or 5.3%, compared with the year ended December 31, 2021, primarily due to increases in occupancy and equipment expense due to additional depreciation and other expense associated with the purchase of a new building and increases in purchased services due to an increase in legal fees, IT consulting, and outsourced audit costs. Offsetting these increases were decreases in salaries and benefits resulting from adjustments made to the prior year incentive accrual to reduce the accrued balance to actual at the time of payout, reduced headcount from the prior year, and increased loan origination cost deferrals. Insurance Fund premium increased $1.0 million to $3.3 million at December 31, 2022 due to an increase in the insurance premium accrual assessment rate on Systemwide adjusted insured debt from 16 basis points to 20 basis points, which was retroactively applied for 2022 during the second quarter. The increase was also impacted by an increase in average loan volume. We recorded prepayment fee expense of $192 thousand during 2021 and $744 thousand during 2020 due to prepayment fees charged by CoBank. These fees were primarily related to loan conversions that resulted from the low interest rate environment in the wake of the COVID-19 pandemic.

Provision for income taxes

We recorded $2 thousand in provision for income taxes during 2022, compared with $1 thousand in 2021 and $2 thousand in 2020. We operate as a Subchapter T cooperative for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 2 for additional details.

LIQUIDITY

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

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank, which renews annually and matures on May 31, 2023. 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, 2023. The annual average principal balance of the note payable to CoBank was $1.74 billion in 2022, $1.53 billion in 2021, and $1.43 billion in 2020.

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 London Interbank Offered Rate (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, 2022 totaled $394.1 million, compared with $367.7 million at December 31, 2021 and $343.5 million at December 31, 2020. The increase of $26.5 million in shareholders' equity reflects net income, partially offset by net stock retirements, a decrease in accumulated other comprehensive income, and patronage distributions. Our capital position is reflected in the following ratio comparisons.

	2022	2021	2020
Debt to shareholders' equity	4.84:1	4.76:1	4.48:1
Shareholders' equity as a percent of net loans	18.21%	18.39%	19.33%
Shareholders' equity as a percent of total assets	17.12%	17.36%	18.25%

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

Retained Earnings

Our retained earnings increased $26.5 million to $251.2 million at December 31, 2022 from $224.6 million at December 31, 2021 and increased $50.6 million from $200.5 million at December 31, 2020. The increase in 2022 was a result of net income of $50.8 million, partially offset by $24.3 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 $21.9 million in 2022, $19.4 million in 2021, and $16.9 million in 2020. During 2022, we declared patronage distributions of $24.3 million, with $11.0 million paid in September 2022 and the remaining $13.3 million to be paid in March 2023.

Stock

Our total stock and participation certificates decreased $51 thousand to $1.5 million at December 31, 2022, from $1.5 million at December 31, 2021 and decreased from $1.5 million at December 31, 2020. The decrease during 2022 was due to $165 thousand of stock retirements, partially offset by $114 thousand of stock issuances. 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 $59 thousand at December 31, 2022, a decrease of $6 thousand compared with year-end 2021 and an increase of $4 thousand compared with year-end 2020. 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, 2022, 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.

	2022	2021	2020	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	13.98%	14.03%	14.55%	7.00%
Tier 1 Capital ratio	13.98%	14.03%	14.55%	8.50%
Total Capital ratio	14.23%	14.26%	14.82%	10.50%
Tier 1 Leverage ratio	15.25%	15.10%	15.49%	5.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	15.19%	16.76%	17.06%	1.50%
Permanent capital ratio	14.01%	14.06%	14.59%	7.00%

The minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2022, we have met our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

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

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

On April 14, 2022, the FCA issued a final rule to address changes to its capital regulations and certain other regulations in response to the current expected credit losses (CECL) accounting standard. The regulation reflects the CECL methodology, which revises the accounting for credit losses in accordance with accounting principles generally accepted in the United States of America (GAAP), as well as conforming amendments to the other regulations to accurately reference credit losses. Specifically, the regulation identifies which credit loss allowances under CECL are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's tier 2 capital up to 1.25 percent of the System institution's total risk-weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's tier 2 capital. In addition, the regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The final rule was effective on January 1, 2023. The regulation did not have a material impact on our regulatory capital.

During 2021, the Association purchased a building for approximately $3.8 million and incurred approximately $1.9 million in building improvements. The building is the new administration and Chico lending office. We moved into the space in February 2022. The Association used its capital to pay for the building purchase and improvements. In March 2022, the Association sold the former Chico lending office for approximately $1.0 million.

HUMAN CAPITAL

As of December 31, 2022, we had 78 employees at our headquarters in Chico, California and at our other branch locations. Our employees have an established foundation and working knowledge of agriculture and the Farm Credit System. Our workforce is approximately 39.7 percent male and 60.3 percent female, with minorities representing approximately 12.8 percent of our associates.

REGULATORY MATTERS

As of December 31, 2022, 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.

In February of 2023, an elected director submitted his resignation, leaving an open board position. The Board is proceeding in accordance with the Association's policies and procedures to fill the vacancy.

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 2022, 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.

In February of 2023, the Compensation Committee chairman submitted his resignation, leaving an open committee position. The Board is proceeding in accordance with the Association's related policies and procedures to fill the vacancy and appoint an interim Compensation Committee Chairperson.

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.

Corporate Governance Committee

During 2022, a Corporate Governance Committee was established. The Corporate Governance Committee reports to the Board of Directors. The Committee is composed of four members of the Board of Directors. The Committee is responsible for ensuring the Board of Directors adheres to accepted ethical standards and best practices as well as formal laws and regulations.

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 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.

Our Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" on January 1, 2023. For additional information on our implementation of this guidance, refer to Note 2 Summary of Significant Accounting Policies.

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.

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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 2022 annual report is consistent with that in the financial statements.

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

The Audit Committee of the Board of Directors has overall responsibility for the Association's system of internal controls and financial reporting. The Audit Committee consults regularly with management and reviews the scope and results of the work of 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 9, 2023

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GoldenStateFarmCredit.com

Management's 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 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, 2022. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2022, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2022.

Robert Faris
President and Chief Executive Officer

Zach Clark
Chief Financial Officer

March 9, 2023

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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes five members from the Board of Directors of Golden State Farm Credit, ACA (Association). In 2022, 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 2022.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2022 were $107,100 for audit services and $16,200 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, 2022 (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, 2022 and for filing with the Farm Credit Administration.

Terri West

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

<u>Audit Committee Members</u>
Terri West, CPA, MBA, Chair
Jim Bates
Michael Chambers
Dan Mattos
Robbie Rocha

March 9, 2023

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, 2022, 2021 and 2020, 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, 2022, 2021 and 2020, 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 2022 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

PricewaterhouseCoopers LLP

Kansas City, Missouri
March 9, 2023

CONSOLIDATED STATEMENT
OF CONDITION

(Dollars in Thousands)	December 31		
	2022	2021	2020
ASSETS			
Loans	**$ 2,169,478**	$ 2,004,080	$ 1,781,843
Less allowance for loan losses	**5,247**	4,689	4,665
Net loans	**2,164,231**	1,999,391	1,777,178
Cash	**12,982**	6,912	9,717
Accrued interest receivable	**29,647**	16,408	16,691
Investment in CoBank, ACB	**54,846**	58,251	58,012
Premises and equipment, net	**8,797**	8,409	3,101
Prepaid benefit expense	**14,482**	11,777	8,990
Other assets	**17,261**	16,867	9,220
Total assets	**$ 2,302,246**	$ 2,118,015	$ 1,882,909
LIABILITIES			
Note payable to CoBank, ACB	**$ 1,841,208**	$ 1,698,426	$ 1,496,407
Advance conditional payments	**29,826**	23,678	23,752
Accrued interest payable	**5,182**	1,354	1,274
Patronage distributions payable	**13,320**	11,000	9,540
Accrued benefits liability	**289**	512	846
Reserve for unfunded commitments	**472**	358	430
Other liabilities	**17,835**	15,027	7,122
Total liabilities	**$ 1,908,132**	$ 1,750,355	$ 1,539,371
Commitments and Contingencies (See Note 14)			
SHAREHOLDERS' EQUITY			
Capital stock and participation certificates	**1,462**	1,513	1,500
Additional paid-in capital	**141,442**	141,442	141,442
Unallocated retained earnings	**251,151**	224,640	200,541
Accumulated other comprehensive income	**59**	65	55
Total shareholders' equity	**394,114**	367,660	343,538
Total liabilities and shareholders' equity	**$ 2,302,246**	$ 2,118,015	$ 1,882,909

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

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME

(Dollars in Thousands)	**For the Year Ended December 31**		
	2022	2021	2020
INTEREST INCOME			
Loans	**$ 92,092**	$ 67,239	$ 66,601
Total interest income	**92,092**	67,239	66,601
INTEREST EXPENSE			
Note payable to CoBank, ACB	**33,156**	14,936	19,768
Other	**425**	85	197
Total interest expense	**33,581**	15,021	19,965
Net interest income	**58,511**	52,218	46,636
Provision for credit losses/(Credit loss reversal)	**784**	(37)	229
Net interest income after provision for credit losses/ credit loss reversal	**57,727**	52,255	46,407
NONINTEREST INCOME			
Loan fees	**518**	857	796
Patronage distribution from Farm Credit institutions	**13,238**	11,351	7,512
Farm Credit Insurance Fund distribution	**-**	-	366
Other noninterest income	**791**	248	194
Total noninterest income	**14,547**	12,456	8,868
NONINTEREST EXPENSE			
Salaries and employee benefits	**9,254**	9,718	11,852
Occupancy and equipment	**1,453**	942	939
Purchased services from AgVantis, Inc.	**2,811**	2,433	2,055
Purchased Services - Other	**1,516**	1,086	794
Farm Credit Insurance Fund premium	**3,334**	2,321	1,306
Prepayment expense	**-**	192	744
Other noninterest expense	**3,135**	3,078	2,371
Total noninterest expense	**21,503**	19,770	20,061
Income before income taxes	**50,771**	44,941	35,214
Provision for income taxes	**2**	1	2
Net income	**50,769**	44,940	35,212
COMPREHENSIVE INCOME			
Amortization of retirement (credits)/costs	**(10)**	10	(1)
Actuarial gain/(loss) in retirement obligation	**4**	-	5
Total comprehensive income	**$ 50,763**	$ 44,950	$ 35,216

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

CONSOLIDATED STATEMENT
OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in Thousands)	Capital Stock and Participation Certificates	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
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)
Adjustment to prior-period patronage accrual			59		59
Balance at December 31, 2021	1,513	141,442	224,640	65	367,660
Comprehensive income			50,769	(6)	50,763
Stock and participation certificates issued	114				114
Stock and participation certificates retired	(165)				(165)
Patronage distributions:					
Cash			(24,294)		(24,294)
Adjustment to prior-period patronage accrual			36		36
Balance at December 31, 2022	**$ 1,462**	**$ 141,442**	**$ 251,151**	**$ 59**	**$ 394,114**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in Thousands)	For the Year Ended December 31		
	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 50,769**	$ 44,940	$ 35,212
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**609**	474	568
Provision for credit losses/(Credit loss reversal)	**784**	(37)	229
Patronage stock from CoBank, ACB	**(486)**	(386)	(239)
Allocated patronage from AgVantis	**(81)**	-	-
Gains on sales of premises and equipment	**(727)**	(114)	(36)
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	**146**	249	316
Change in assets and liabilities:			
(Increase)/Decrease in accrued interest receivable	**(13,239)**	283	3,157
Increase in prepaid benefit expense	**(2,705)**	(2,787)	(2,479)
(Increase)/Decrease in other assets	**(213)**	(7,500)	8,443
Increase/(Decrease) in accrued interest payable	**3,828**	80	(1,441)
Decrease in accrued benefits liability	**(229)**	(324)	(467)
Increase/(Decrease) in other liabilities	**2,808**	7,905	(11,727)
Total adjustments	**(9,505)**	(2,157)	(3,673)
Net cash provided by operating activities	**41,264**	42,783	31,539
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	**(165,875)**	(222,572)	(136,292)
Decrease/(Increase) in investment in CoBank, ACB	**3,791**	-	(5,279)
Expenditures for premises and equipment	**(1,357)**	(5,831)	(293)
Proceeds from sales of premises and equipment	**1,087**	163	54
Proceeds from sales of other property owned	**-**	-	33
Net cash used in investing activities	**(162,354)**	(228,240)	(141,777)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank, ACB	**143,001**	202,094	114,422
Increase/(Decrease) in advance conditional payments	**6,148**	(74)	4,029
Capital stock and participation certificates retired	**(165)**	(172)	(159)
Capital stock and participation certificates issued	**114**	185	130
Cash patronage distributions paid	**(21,938)**	(19,381)	(16,874)
Net cash provided by financing activities	**127,160**	182,652	101,548
Net increase/(decrease) in cash	**6,070**	(2,805)	(8,690)
Cash at beginning of year	**6,912**	9,717	18,407
Cash at end of year	**$ 12,982**	$ 6,912	$ 9,717
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 29,753**	$ 14,941	$ 21,406
Income taxes	**$ 2**	$ 2	$ 2
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Patronage stock from CoBank, ACB	**$ 486**	$ 386	$ 239
Allocated patronage from AgVantis	**$ 81**	$ -	$ -
Loans transferred to other property owned	**$ -**	$ -	$ 36
Net charge-offs	**$ 112**	$ 11	$ -
Patronage distributions payable	**$ 13,320**	$ 11,000	$ 9,540
Adjustment to prior-period patronage accrual	**$ 36**	$ 59	$ -
Change in accumulated other comprehensive (loss)/income	**$ (6)**	$ 10	$ 4

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, 2022, the System was comprised of three Farm Credit Banks, one Agricultural Credit Bank (System Banks), and 63 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, 2022, the CoBank District consists of CoBank, 18 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) 895-8698. 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

<u>Adopted Guidance</u>

The Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" on January 1, 2023. This guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. The guidance requires management to consider in its estimate of allowance for credit losses (ACL) relevant historical events, current conditions, and reasonable and supportable forecasts that affect the collectability of the assets. Prior to the adoption, the allowance for loan losses represented management's estimate of the probable credit losses inherent in its loan portfolio and certain unfunded commitments. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves. The adoption of this guidance did not have a material impact on our financial statements.

In March 2022, the FASB issued an update entitled "Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures." The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. The creditor will have to apply the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. These amendments were effective for the Association upon adoption of the measurement of credit losses on financial instruments standard on January 1, 2023.

In March 2020, the 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.

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.

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.

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.

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 3.00 percent of the prior one-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 7.00 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, 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 Association 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 loans acquired in an acquisition or merger and 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.

	December 31		
(dollars in thousands)	2022	2021	2020
Real estate mortgage	$ 1,605,718	$ 1,533,171	$ 1,337,407
Production and intermediate-term	414,181	331,691	310,622
Agribusiness	76,155	80,440	76,355
Rural infrastructure	53,048	33,170	30,971
Rural residential real estate	–	45	83
Lease receivables	20,376	25,563	26,405
Total loans	$ 2,169,478	$ 2,004,080	$ 1,781,843

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, 2022.

	Other Farm Credit Institutions	
(dollars in thousands)	Purchased	Sold
Real estate mortgage	$ 77,477	$ 423,835
Production and intermediate term	69,293	231,342
Agribusiness	60,532	2,497
Rural infrastructure	53,048	–
Lease receivables	19,192	48
Total	$ 279,542	$ 657,722

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 $93.0 million, $120.4 million, and $125.3 million at December 31, 2022, 2021, and 2020, 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 $360 thousand for 2022, $428 thousand for 2021, and $478 thousand in 2020 are reflected in noninterest expense.

In addition to Farmer Mac, credit enhancements with federal government agencies of $1.5 million at year-end 2022, $2.3 million at year-end 2021, and $12.5 million at year-end 2020 were outstanding. During 2021 and 2022, the Association's credit enhancements with federal government agencies also included loans guaranteed at 100% by the Small Business Administration (SBA).

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.

	2022	2021	2020
Real estate mortgage			
Acceptable	97.96%	97.85%	96.86%
OAEM	1.57%	1.74%	2.18%
Substandard	0.47%	0.41%	0.96%
Total	100.00%	100.00%	100.00%
Production and intermediate-term			
Acceptable	99.19%	98.76%	98.53%
OAEM	0.66%	0.98%	0.28%
Substandard	0.15%	0.26%	1.19%
Total	100.00%	100.00%	100.00%
Agribusiness			
Acceptable	90.65%	85.39%	84.17%
OAEM	4.76%	14.61%	13.88%
Substandard	4.59%	–	1.95%
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%
Total	–	100.00%	100.00%
Lease receivables			
Acceptable	95.64%	95.63%	94.64%
OAEM	–	0.03%	0.12%
Substandard	4.36%	4.34%	5.24%
Total	100.00%	100.00%	100.00%
Total Loans			
Acceptable	97.96%	97.51%	96.63%
OAEM	1.46%	2.08%	2.28%
Substandard	0.58%	0.41%	1.09%
Total	100.00%	100.00%	100.00%

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

	December 31		
(dollars in thousands)	2022	2021	2020
Nonaccrual loans:			
Current as to principal and interest	$ 1,408	$ 639	$ 5,299
Past due	3,478	1,113	1,423
Total nonaccrual loans	4,886	1,752	6,722
Impaired accrual loans:			
Restructured	809	229	231
90 days or more past due	187	–	19,880
Total impaired accrual loans	996	229	20,111
Total impaired loans	$ 5,882	$ 1,981	$ 26,833

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:

	December 31		
(dollars in thousands)	2022	2021	2020
Nonaccrual loans:			
Real estate mortgage	$ 1,368	$ 1,375	$ 5,453
Production and intermediate-term	–	361	1,189
Agribusiness	3,518	–	–
Lease receivables	–	16	80
Total nonaccrual loans	4,886	1,752	6,722
Accruing restructured loans:			
Real estate mortgage	227	229	231
Production and intermediate-term	582	–	–
Total accruing restructured loans	809	229	231
Accruing loans 90 days past due			
Real estate mortgage	–	–	19,880
Production and intermediate-term	187	–	–
Total accruing loans 90 days past due	187	–	19,880
Total impaired loans	5,882	1,981	26,833
Total high risk assets	$ 5,882	$ 1,981	$ 26,833

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

Additional impaired loan information is as follows:

(dollars in thousands)	Recorded Investment at 12/31/22	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with related allowance for credit losses:					
Production and intermediate-term	$ –	$ –	$ –	$ 437	$ 1
Agribusiness	3,518	3,584	703	1,329	27
Lease Receivables	–	–	–	6	–
Total	$ 3,518	$ 3,584	$ 703	$ 1,772	$ 28
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,595	$ 1,782		$ 1,610	$ 17
Production and intermediate-term	769	863		294	194
Total	$ 2,364	$ 2,645		$ 1,904	$ 211
Total impaired loans:					
Real estate mortgage	$ 1,595	$ 1,782	$ –	$ 1,610	$ 17
Production and intermediate-term	769	863	–	731	195
Agribusiness	3,518	3,584	703	1,329	27
Lease receivables	–	–	–	6	–
Total	$ 5,882	$ 6,229	$ 703	$ 3,676	$ 239

(dollars in thousands)	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	$ 361	$ 290	$ 11	$ 670	$ –
Lease receivables	16	16	16	109	–
Total	$ 377	$ 306	$ 27	$ 779	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,604	$ 1,563		$ 7,304	$ 1,442
Production and intermediate-term	–	–		91	16
Total	$ 1,604	$ 1,563		$ 7,395	$ 1,458
Total impaired loans:					
Real estate mortgage	$ 1,604	$ 1,563	$ –	$ 7,304	$ 1,442
Production and intermediate-term	361	290	11	761	16
Lease receivables	16	16	16	109	–
Total	$ 1,981	$ 1,869	$ 27	$ 8,174	$ 1,458

(dollars in thousands)	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	$ 800	$ 725	$ 76	$ 855	$ –
Lease receivables	80	80	80	189	–
Total	$ 880	$ 805	$ 156	$ 1,044	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$25,564	$26,013		$ 7,299	$ 146
Production and intermediate-term	389	434		391	13
Total	$25,953	$26,447		$ 7,690	$ 159
Total impaired loans:					
Real estate mortgage	$25,564	$26,013	$ –	$ 7,299	$ 146
Production and intermediate-term	1,189	1,159	76	1,246	13
Lease receivables	80	80	80	189	–
Total	$26,833	$27,252	$ 156	$ 8,734	$ 159

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

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

	Year Ended December 31		
(dollars in thousands)	2022	2021	2020
Interest income recognized on:			
Nonaccrual loans	$ 217	$ 1,447	$ 52
Restructured accrual loans	16	11	11
Accrual loans 90 days or more past due	6	–	96
Interest income recognized on impaired loans	$ 239	$ 1,458	$ 159

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

	For the Year Ended December 31		
(dollars in thousands)	2022	2021	2020
Interest income which would have been recognized under the original loan terms	$ 252	$ 235	$ 606
Less: interest income recognized	233	1,458	63
Interest income not recognized/(recognized)	$ 19	$ (1,223)	$ 543

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

December 31, 2022 *(dollars in thousands)*	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 84	$ 32	$ 116	$1,629,965	$ 1,630,081	$ –
Production and intermediate-term	1,936	187	2,123	416,624	418,747	187
Agribusiness	3,446	–	3,446	73,236	76,682	–
Rural infrastructure	–	–	–	53,157	53,157	–
Lease receivables	–	–	–	20,458	20,458	–
Total	$5,466	$ 219	$ 5,685	$2,193,440	$ 2,199,125	$ 187

December 31, 2021 *(dollars in thousands)*	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 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 *(dollars in thousands)*	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$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

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					
	2022		2021		2020	
	Outstanding Recorded Investment					
(dollars in thousands)	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Troubled debt restructurings:						
Real estate mortgage	$ 716	$ 716	$ –	$ –	$ 708	$ 708
Production and intermediate-term	586	586	–	–	884	884
Total	$ 1,302	$ 1,302	$ –	$ –	$ 1,592	$ 1,592

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

The Association has no TDR's that occurred within the previous 12 months of that year and for which there was a payment default. 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.

	Loans Modified as TDRs			TDRs in Nonaccrual Status*		
(dollars in thousands)	2022	2021	2020	2022	2021	2020
Real estate mortgage	$ 1,025	$ 229	$ 4,212	$ 798	$ –	$ 3,983
Production and intermediate-term	582	351	863	–	351	863
Total	$ 1,607	$ 580	$ 5,075	$ 798	$ 351	$ 4,846

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

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

(dollars in thousands)	Balance at December 31, 2021	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2022
Real estate mortgage	$ 1,158	$ –	$ –	$ 18	$ 1,176
Production and intermediate-term	2,102	112	–	276	2,266
Agribusiness	937	–	–	489	1,426
Rural infrastructure	100	–	–	56	156
Lease receivables	392	–	–	(169)	223
Total	$ 4,689	$ 112	$ –	$ 670	$ 5,247

(dollars in thousands)	Balance at December 31, 2020	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2021
Real estate mortgage	$ 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

(dollars in thousands)	Balance at December 31, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2020
Real estate mortgage	$ 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

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:

	For the Year Ended December 31		
(dollars in thousands)	2022	2021	2020
Balance at beginning of period	$ 358	$ 430	$ 400
Provision for/(Reversal of) reserve for unfunded commitments	114	(72)	30
Total	$ 472	$ 358	$ 430

Additional information on the allowance for loan losses follows:

	Allowance for Loan Losses Ending Balance at December 31, 2022		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2022	
(dollars in thousands)	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 1,176	$ 1,595	$ 1,628,485
Production and intermediate-term	–	2,266	769	417,978
Agribusiness	703	723	3,518	73,165
Rural infrastructure	–	156	–	53,157
Lease receivables	–	223	–	20,458
Total	$ 703	$ 4,544	$ 5,882	$ 2,193,243

(dollars in thousands)	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

(dollars in thousands)	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

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

(dollars in thousands)	2022	2021	2020
Net investment in Direct Financing Leases:			
Minimum Lease Payments to be Received, Net of Participation Interests	$ 1,285	$ 1,929	$ 3,577
Estimated Residual Values of Leased Property (Unguaranteed)	2	58	486
Less: Unearned Finance Income	(100)	(167)	(294)
Net Investment in Direct Financing Leases	$ 1,187	$ 1,820	$ 3,769

At December 31, 2022, 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
2023	$ 359	$ 26
2024	$ 332	$ 25
2025	$ 332	$ 26
2026	$ 261	$ 22
2027	$ –	$ –

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2022, 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. The current requirement for capitalizing the Association's direct loan from CoBank changed from 4.00 percent of the Association's prior five-year average direct loan volume to 3.00 percent of the prior one-year average direct loan volume. The current requirement for capitalizing patronage-based participation loans sold to CoBank is 7.00 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 1.38 percent of the outstanding common stock of CoBank at December 31, 2022, compared with 1.46 percent in 2021 and 1.49 percent in 2020.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
(dollars in thousands)	2022	2021	2020
Land	$ 1,229	$ 526	$ 508
Buildings and leasehold improvements	7,302	3,889	3,724
Furniture, equipment, and automobiles	3,527	2,935	2,934
Construction in progress	–	5,370	–
	12,058	12,720	7,166
Less: accumulated depreciation	3,261	4,311	4,065
Total	$ 8,797	$ 8,409	$ 3,101

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 May 31, 2023. The Association's promissory note for the note payable with CoBank renews annually and matures on May 31, 2023. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2022. 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.

	December 31		
(dollars in thousands)	2022	2021	2020
Line of credit	$ 2,050,000	$ 1,900,000	$ 1,600,000
Outstanding principal and accrued interest balance	$ 1,846,221	$ 1,699,767	$ 1,497,672
Average outstanding principal balance under the line of credit	$ 1,738,219	$ 1,534,800	$ 1,429,440
Weighted average interest rate	1.91%	0.97%	1.38%

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, 2022, the Association's notes payable was within the specified limitations.

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

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

(dollars in thousands)	2022	2021	2020
Average committed funds	$ 320,807	$ 309,131	$ 292,023
Average rates	1.65%	0.35%	0.84%

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, 2022, 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 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	2022	2021	2020	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	13.98%	14.03%	14.55%	7.0%	4.5%
Tier 1 Capital	CET1 Capital and noncumulative perpetual preferred stock	Risk-weighted assets	13.98%	14.03%	14.55%	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	14.23%	14.26%	14.82%	10.5%	8.0%
Tier 1 Leverage	Tier 1 Capital (at least 1.5% must be URE and URE equivalents)	Total assets	15.25%	15.10%	15.49%	5.0%	4.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	15.19%	16.76%	17.06%	–	1.5%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-weighted assets	14.01%	14.06%	14.59%	–	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, 2022, the Association had 287,178 shares of common stock and 5,200 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 2022 are summarized in the following table.

Shares in whole numbers	Capital
Shares outstanding at December 31, 2021	302,521
Issuances	22,901
Retirements	(33,044)
Shares outstanding at December 31, 2022	292,378

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 2022, the Association allocated 47.8 percent of its patronage-sourced net income to its patrons.

For 2022, the Board approved patronage distributions to borrowers of the ACA of $24.3 million of 2022 income. Of this amount, $11.0 million was disbursed in 2022 and the remaining $13.3 million will be disbursed in 2023.

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 was 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.

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 $59 thousand in 2022, $65 thousand in 2021, and $55 thousand in 2020. There were no other items affecting comprehensive income or loss.

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

(dollars in thousands)	2022	2021	2020
Pension and other benefit plans:			
Beginning balance	$ 65	$ 55	$ 51
Other comprehensive income before reclassifications	4	–	5
Amounts reclassified from accumulated other comprehensive income/(loss)	(10)	10	(1)
Net current period other comprehensive (loss)/income	(6)	10	4
Year-end balance	$ 59	$ 65	$ 55

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

	Amount Reclassified from Accumulated Other Comprehensive Income December 31			Location of Gain/Loss Recognized in Statement of Income
(dollars in thousands)	2022	2021	2020	
Pension and other benefit plans:				Salaries and employee benefits
Net actuarial (gain)/loss	$ (10)	$ 10	$ (1)	
Total reclassifications	$ (10)	$ 10	$ (1)	

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

(dollars in thousands)	2022	2021	2020
CoBank	$ 11,907	$ 9,948	$ 7,376
AgVantis	81	–	–
Farm Credit Foundations	17	25	14
Other	1,233	1,378	122
Total	$ 13,238	$ 11,351	$ 7,512

Patronage distributed from CoBank was in cash and stock. The amount earned in 2022 was accrued and will be paid by CoBank in March 2023. The Association received additional patronage distributions from CoBank of $2.0 million in 2022, $1.5 million in 2021, and $1.3 million in 2020 due to CoBank's strong capital levels and financial results. The amount earned and accrued in 2021 and 2020 was paid by CoBank in March of the following year.

In 2022, patronage distribution from AgVantis was in the form of a Notice of Allocation and was recorded as an investment in AgVantis. The allocation balance is included in other assets.

Patronage distributed by Farm Credit Foundations was accrued at the end of the year and will be paid in March 2023. 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 $2 thousand for December 31, 2022, $1 thousand for December 31, 2021, and $2 thousand for December 31, 2020. 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.

	Year Ended December 31		
(dollars in thousands)	2022	2021	2020
Federal tax at statutory rate	$ 10,662	$ 9,438	$ 7,395
State tax, net	1	1	1
Effect of non-taxable FLCA subsidiary	(9,976)	(8,472)	(7,210)
Change in valuation allowance	(89)	(408)	(14)
Patronage distributions	(596)	(558)	(172)
Non-deductible meals and entertainment	–	–	2
Provision for income taxes	$ 2	$ 1	$ 2

Deferred tax assets and liabilities are comprised of the following.

	December 31		
(dollars in thousands)	2022	2021	2020
Deferred income tax assets:			
Allowance for loan losses	$ 552	$ 564	$ 702
Accrued annual leave	36	36	36
Nonaccrual loan interest	–	12	19
Net operating loss carryforwards (NOL)	347	347	347
Gross deferred tax assets	935	959	1,104
Deferred tax asset valuation allowance	(108)	(197)	(605)
Deferred income tax liabilities:			
Cumulative stock patronage	(270)	(270)	(270)
Patronage refunds from Bank	(557)	(492)	(229)
Gross deferred tax liabilities	(827)	(762)	(499)
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 $108 thousand in 2022, $197 thousand in 2021, and $605 thousand in 2020. 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, 2022, 2021, or 2020. 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 2019 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 a funded asset totaling $9.6 million for the Ninth Retirement Plan (Ninth Plan) and an unfunded liability totaling $1.8 million for the Eleventh Retirement Plan (Eleventh Plan) at December 31, 2022. 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:

	2022	2021	2020
Projected benefit obligation ($ Millions)			
Ninth Plan	$ 271.9	$ 347.3	$ 359.9
Eleventh Plan	$ 238.6	$ 298.8	$ 318.4
Fair value of plan assets ($ Millions)			
Ninth Plan	$ 281.5	$ 341.9	$ 302.5
Eleventh Plan	$ 236.8	$ 291.1	$ 271.7

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.

(dollars in thousands, except as noted)	2022	2021	2020
Plan (income)/expenses for all participating employers ($ Millions)			
Ninth Plan	$ 8.1	$ 13.7	$ 19.5
Eleventh Plan	$ (1.5)	$ (1.3)	$ 1.3
Association's allocated share of plan (income)/expenses included in salaries and benefits			
Ninth Plan	$ 37	$ 79	$ 219
Eleventh Plan	$ (159)	$ (187)	$ 136
Plan contributions for all participating employers ($ Millions)			
Ninth Plan	$ 30.0	$ 30.0	$ 30.0
Eleventh Plan	$ 23.0	$ 23.0	$ 23.0
Association's allocated share of plan contributions			
Ninth Plan	$ 213	$ 212	$ 314
Eleventh Plan	$ 2,370	$ 2,467	$ 2,520

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 2023 is $4.0 million for the Ninth Plan and $1.5 million for the Eleventh Plan. The Association's allocated share of these pension contributions is expected to be $12 thousand for the Ninth Plan and $150 thousand 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 2022, $8 thousand in 2021, and $5 thousand in 2020. The Association made cash contributions of $14 thousand in 2022, $13 thousand in 2021, and $11 thousand in 2020.

The Association participated in two non-qualified defined benefit Pension Restoration Plans that are unfunded. In 2022, the Association's participation in the Eleventh district non-qualified defined benefit Pension Restoration Plan came to an end. 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 income included in salaries and employee benefits were $7 thousand in 2022. Pension Restoration Plan expenses included in salaries and employee benefits were $16 thousand in 2021 and $14 thousand in 2020.

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

(dollars in thousands)	2022	2021	2020
Change in benefit obligation:			
Benefit obligation at the beginning of the period	$ 217	$ 546	$ 1,012
Interest cost	4	6	15
Actuarial gain	(4)	–	(5)
Benefits paid	(217)	(335)	(476)
Benefit obligation at the end of the period	$ –	$ 217	$ 546
Change in plan assets:			
Company contributions	$ 217	$ 335	$ 476
Benefits paid	(217)	(335)	(476)
Fair value of plan assets at the end of the period	$ –	$ –	$ –
Funded status of the plan	$ –	$ (217)	$ (546)
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	$ –	$ 217	$ 546
Net amount recognized	$ –	$ 217	$ 546

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

(dollars in thousands)	2022	2021	2020
Net actuarial gain	$ 59	$ 65	$ 55
Total amount recognized in AOCI	$ 59	$ 65	$ 55

An estimated net actuarial gain of $19 thousand for the Pension Restoration Plan will be amortized into income over the next year.

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

(dollars in thousands)	2022	2021	2020
Accumulated benefit obligation	$ –	$ 217	$ 546
Fair value of plan assets	$ –	$ –	$ –

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

(dollars in thousands)	2022	2021	2020
Projected benefit obligation	$ –	$ 217	$ 546
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.

(dollars in thousands)	2022	2021	2020
Components of net periodic benefit cost			
Interest cost	$ 4	$ 6	$ 15
Net amortization and deferral	(10)	10	(1)
Net periodic benefit (income)/cost	$ (6)	$ 16	$ 14

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

(dollars in thousands)	2022	2021	2020
Current year net actuarial gain	$ 4	$ –	$ 5
Amortization of net actuarial loss	10	10	(1)
Total recognized in other comprehensive income/(loss)	$ 6	$ 10	$ 4

Actuarial gains/losses in 2022, 2021, and 2020 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:

	2022	2021	2020
Ninth Plan			
Discount rate	4.57%	2.14%	1.65%
Rate of compensation increase	7.10%	5.40%	5.40%
Interest crediting rate	5.00%	5.00%	5.00%
Eleventh Plan			
Discount rate	–	1.54%	1.03%
Rate of compensation increase	–	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:

	2022	2021	2020
Ninth Plan			
Discount rate			
Projected benefit obligation	2.14%	1.65%	2.59%
Service cost	2.38%	1.36%	2.69%
Interest cost	2.00%	1.45%	2.49%
Rate of compensation increase	5.40%	5.40%	5.40%
Interest crediting rate	5.00%	5.00%	5.00%
Eleventh Plan			
Discount rate			
Projected benefit obligation	–	1.03%	2.35%
Service cost	–	1.25%	2.48%
Interest cost	–	0.83%	2.23%
Rate of compensation increase	–	4.60%	4.60%
Interest crediting rate	N/A	N/A	N/A

At December 31, 2022, the Association has no future benefit payments for the pension restoration plan.

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 $805 thousand in 2022, $792 thousand in 2021, and $843 thousand in 2020.

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.

(dollars in thousands)	2022	2021	2020
Beginning balance	$ 226,934	$ 148,042	$ 137,127
New loans	161,442	178,856	63,514
Repayments	(108,601)	(101,695)	(53,036)
Reclassifications*	(57,828)	1,731	437
Ending balance	$ 221,947	$ 226,934	$ 148,042

* 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, 2022 involved more than a normal risk of collectability.

The Association also has business relationships with certain other System entities. The Association paid $2.8 million in 2022, $2.4 million in 2021, and $2.1 million in 2020 to AgVantis for technology services. One Association officer serves as an AgVantis director. The Association paid $212 thousand in 2022, $193 thousand in 2021, and $178 thousand in 2020 to Foundations for human resource services and $30 thousand in 2022, $20 thousand in 2021, and $16 thousand in 2020 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, 2022, 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, 2022, $598.5 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, 2022, $4.1 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2023 to 2024. The maximum potential amount of future payments the Association is required to make under the guarantees is $4.1 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 $98 thousand at December 31, 2022, $60 thousand at December 31, 2021, and $47 thousand at December 31, 2020. The Association has no liabilities measured at fair value on a recurring basis for the periods presented.

The Association has loans measured at fair value on a non-recurring basis that are determined to be Level 3 of $2.8 million at December 31, 2022, compared with none at December 31, 2021, and $723 thousand at December 31, 2020.

The Association had 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, 2022, 2021, and 2020 follow.

	2022				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 13,334	$ 13,713	$ 15,394	$ 16,070	$ 58,511
(Credit loss reversal)/Provision for credit losses	(667)	352	1,256	(157)	784
Noninterest expense, net	2,067	2,573	2,817	(499)	6,958
Net income	$ 11,934	$ 10,788	$ 11,321	$ 16,726	$ 50,769

	2021				
(dollars in thousands)	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

	2020				
(dollars in thousands)	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

NOTE 16 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 9, 2023, 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 & Chico Branch
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

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

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, 2022, 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

Directors, see page 3

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 17 years with 14 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.

Compensation of Directors and Senior Officers

January 1 through December 31, 2022, per the Association's Director Honoraria policy, directors were paid a monthly retainer of $500 as well as a per diem of $750 based on attendance at meetings and/or trainings. The Board Chairman and Audit Committee Chairman were paid a monthly retainer of $2,000 and the Compensation Committee Chairman was 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 were paid a monthly retainer of $667. Of our 2 outside directors, the director who was not chairing a committee, was paid a monthly retainer of $1,667. 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.

	Number of Days Served at		Compensation for			
Name	Board Meetings	Other Official Duties	Board Meetings And Official Duties	Audit Committee	Compensation Committee	Total Compensation Paid During 2022
Michael Fry	11	2	$ 37,000	$ –	$ 2,000	$ 39,000
Gregory W. Long	11	5	20,004	1,500	1,500	23,004
Michael Andersen	9	4	15,750	3,750	1,500	21,000
Jim Bates	11	4	19,254	4,500	3,750	27,504
Stephen Brown	11	2	16,752	–	4,500	21,252
Michael R. Chambers	10	–	13,500	4,500	–	18,000
Pete Knight	9	6	17,250	750	2,250	20,250
Dan Mattos	8	4	26,420	3,000	–	29,420
George R. Nicolaus	10	7	19,919	750	4,500	25,169
Robbie Rocha	6	2	9,000	2,250	750	12,000
Terri West	11	3	38,000	7,000	–	45,000
Casey Jones	3	–	5,250	3,000	–	8,250
Vernon Peterson	11	4	24,996	–	6,000	30,996
Total Compensation			$263,095	$ 31,000	$ 26,750	$ 320,845

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 $23,839 in 2022, $16,820 in 2021, and $8,147 in 2020. There was no noncash compensation paid to directors in 2022.

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 9, 2023, 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 2022 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) 895-8698. 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.

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SILVER DOLLAR FAIR
JUNIOR LIVESTOCK AUCTION
I am a Buyer!
Thank you for your Support!
Buyer
olden State Farm Credit
2022
Seller
Asher Rollin
Shasta 4-H


The Future is Happening Now!
Brody Brewer
Exhibitor
Golden State Farm Credit

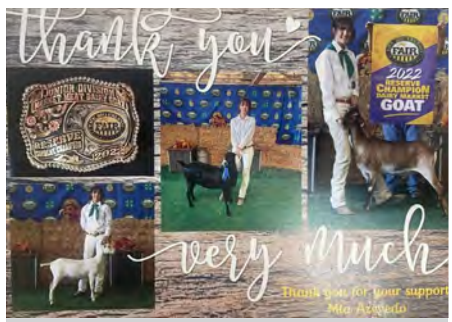

2022
CALIFORNIA
YOUTH AG EXPO
SPONSOR
The Youth of Today. The Leaders of Tomorrow.


GLENN COUNTY
Fair
Sponsored By
Nutrien


thank you
Thank you so much for your generous support of my 4-H projects.
With love, Jacob


SILVER DOLLAR FAIR
JUNIOR LIVESTOCK AUCTION
I am a Buyer!
Thank you for your Support!
Buyer
lden State Farm
2022
Seller
Hunter Adam
Shasta 4H


IN APPRECIATION
59th Annual
Replacement Heifer Sale
LAUREN LAZZARETTO
ORLAND FFA


thank you
2022
RESERVE CHAMPION
GOAT
very much
Thank you for your support
Mia Acevedo


The Future is Happening Now!
Taylor Turner
Exhibitor


THANKS
Thank you for all of your support.
Sincerely,


WESTERN CLASSIC
Thank you for your support!


IN APPRECIATION
59th Annual
Replacement Heifer Sale
TRISTA THOMAS
WILLOWS FFA


Sponsored By
Nutrien
Isaac Alcantra


SILVER DOLLAR FAIR
JUNIOR LIVESTOCK AUCTION
I am a Buyer!
Thank you for your Support!
Buyer
olden State
arm Credit
2022
Seller
Hunter Turnqu
Lone Pine


THANK YOU SO MUCH
Darrin VanderMeulen




www.goldenstatefarmcredit.com