Annual Report
2021

Colusa-Glenn
Farm Credit

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BOARD OF DIRECTORS

Michael Doherty
Chairman of the Board

Herb Holzapfel
Vice Chairman of the Board

Chris Bonacorsi
Vice Chairman of the Audit Committee

Craig Felix
Director

Francis Hickel
Chairman of the Enterprise Risk Management Committee

Matt LaGrande
Director

Susan LaGrande
Vice Chairman of the Enterprise Risk Management Committee

Gregg McCorkle
Director

Matt Southam
Director

Jeff Sutton
Chairman of the Audit Committee

EXECUTIVE OFFICERS

Tim Elrod
President and Chief Executive Officer

Rebecca Myers
Chief Administrative Officer and Executive Vice President

Luke Reimers
Chief Credit Officer

Amy Ceballos
Chief Financial Officer

MESSAGE

From the Chairman of the Board and Chief Executive Officer

We hope that our 2021 Annual Report finds you as well as your family, friends, and businesses healthy and sound. Farm Credit Services of Colusa-Glenn, ACA (Association), remains committed to supporting you, your families, and businesses as well as the rural communities we serve with reliable and consistent credit and financial services. As always, we strive to be the leader in our chartered territory, providing quality service at competitive interest rates to our Members.

On behalf of our Management Team and the Board of Directors, we are proud to share our 2021 Annual Report. As you will find in the following pages, we have continued to grow and diversify our loan portfolio, maintain good credit quality, effectively manage operating costs, and remain well capitalized through 2021, despite the continued challenges presented by COVID-19, commodity supply and demand volatility, and sustained drought conditions. Our success is due, in part, to our conservative lending approach, the financial stability and support of our member-base, proactive loan portfolio and interest rate risk management, and our commitment to providing excellent customer service. As we look to 2022 and the continued challenges we may face, including ongoing water availability concerns, we will continue to pursue opportunities that benefit our members and support them during difficult economic and environmental conditions, expanding the breadth of services offered at the lowest possible cost and continuing to provide a strong patronage payment. In that effort, we are pleased to share that we will be distributing $4.7 million in patronage on 2021 earnings in March 2022.

A major component of our mission is our commitment to providing opportunities to young, beginning and small farmers as well as advancing diversity and inclusion initiatives. Each year, the Association's Board of Directors creates programs and sets goals for community outreach. One example of this outreach is our Youth Loan Program which provides local youths with zero interest loans to finance the purchase of show livestock. Another example is our Young, Beginning and Small (YBS) Accessibility Program, which provides relaxed underwriting standards for farmers and ranchers just getting started. The Association also actively supports agricultural organizations and expositions as well as high school agriculture scholarship programs. We feel that our continued support of these programs is critical to the long-term viability of agriculture in the rural communities we serve.

Our 2021 Annual Report reviews the performance and financial condition of Farm Credit Services of Colusa-Glenn, ACA. Please refer to Management's Discussion and Analysis and other sections of this annual report for a complete discussion of financial performance. In the opinion of Management and the Board of Directors, the financial statements included in this report fairly present the financial position and results of operations for Farm Credit Services of Colusa-Glenn, ACA.

We thank you for the continued support of your Association and wish you a prosperous year in 2022!

Michael Doherty
Chairman of the Board

Tim Elrod
President and Chief Executive Officer

March 8, 2022

A GENERATIONAL ASSOCIATION

The Association has had the privilege of working with the Grimmer Family for generations. In the 1960's, the U.S. Sugar beet program had a quota acreage system. The Colusa County ASCS committee was given a limited amount of sugar beet acreage to be allotted to new growers. Fritz Grimmer was one of five growers that were awarded a contract to grow sugar beets for Spreckels Sugar. The contract was for 17 acres which, at that time, was a substantial amount. That same year, Fritz became a Member of Colusa-Glenn Farm Credit. For several years, Fritz and his wife, Betty Lou, grew sugar beets, corn, wheat, and dry beans, continuing to expand their farming operation. In 1981, they planted their first almond orchard and began growing for Blue Diamond Growers. Upon graduating from Cal Poly, their son Chuck began farming alongside Fritz. Chuck started leasing ground and developing his own orchards, becoming a Member of Colusa-Glenn Farm Credit in 1999. Like his father Fritz, Chuck hopes to someday pass his orchards on to his three sons. Our Association is proud is work with many multi-generational farming families like the Grimmers and remains dedicated to supporting future generations of farming and ranching families for many years to come.

MEET OUR PHOTOGRAPHER

Maureen LaGrande

Cal Poly San Luis Obispo

B.S. Agricultural Communications, 2021

M.S. Agricultural Education, 2022

"I found my love for photography in an agricultural communications class at Cal Poly. From there, I started taking my camera with me everywhere to snap shots of livestock, rice, and almonds. Some of my favorite pictures are from the branding pen."

- Maureen

Maureen is the daughter of Sid & Paige LaGrande and granddaughter of Maureen "Lady Bug" Doherty, both long-standing members of our community and of our Association.

COLUSA-GLENN FARM CREDIT DECLARES

$4,700,000

PATRONAGE PAYMENT

39.2%

2021 PATRONAGE-SOURCED NET INCOME

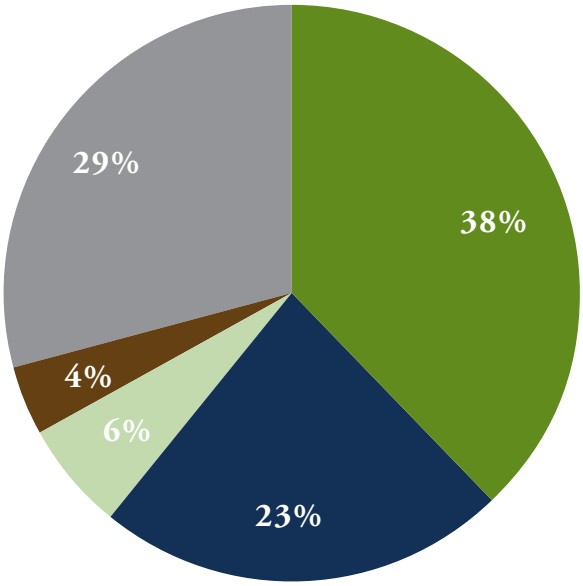
The Association is a cooperative and one of the most important financial benefits of doing business with a cooperative is that, as a Customer, you are also a Member/Owner. This entitles you to share in the Association's profits through patronage dividends declared by the Association's Board of Directors. Also, as a cooperative, the Association does not operate for the benefit of outside stockholders and does not pay dividends to investors, thus ensuring that any undistributed profits remain invested in serving our mission.

Following the most profitable year in Association history, we are pleased to share that we have declared $4.7 million in patronage dividends on 2021 eligible earnings which will be paid in March 2022. We feel that our continuous, proactive approach to interest rate spread management combined with a continued strong patronage payment ensures that we are providing you the lowest possible net interest rate, consistent with our mission. We also hope that this payment will support our Members as we enter what could possibly be another difficult year.

FINANCIAL HIGHLIGHTS

IN THOUSANDS	2021	2020	2019	2018	2017
Loans, Principal	$593,832	$534,356	$460,232	$417,227	$390,771
Loan Growth, Principal	11.13%	16.11%	10.31%	6.77%	6.59%
Net Income/Comprehensive Income	$12,021	$10,749	$9,485	$8,463	$7,087
Return on Average Assets	2.13%	2.07%	2.15%	2.13%	1.95%
Total Regulatory Capital Ratio	17.03%	18.40%	20.27%	21.40%	21.74%
Acceptable & OAEM Credit Quality	99.91%	99.70%	99.27%	98.56%	99.57%
Cash Patronage Declared	$4,700	$4,250	$3,750	$2,000	$1,000

Orchard Crops	$225,206	37.93%
Rice	134,374	22.63%
Landlords	38,239	6.44%
Row Crops	24,198	4.07%
Other	171,815	28.93%
Total	$593,832	100.00%



- Orchard Crops
- Rice
- Landlords
- Row Crops
- Other

COLUSA-GLENN FARM CREDIT

FARM CREDIT SERVICES OF COLUSA-GLENN, ACA
2970 Davison Court ◆ Colusa, California 95932 ◆ (530) 458-2163 ◆ (530) 458-2614 Fax
460 W. Sycamore Street ◆ Willows, California 95988 ◆ (530) 934-7086 ◆ (530) 934-2349 Fax
www.fcscolusaglenn.com

REPORT OF MANAGEMENT

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

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

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

The undersigned certify the Farm Credit Services of Colusa-Glenn, 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 Doherty
Chairman of the Board

Tim Elrod
President and Chief Executive Officer

Amy Ceballos
Chief Financial Officer

March 8, 2022

COLUSA-GLENN FARM CREDIT

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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes 5 members from the Board of Directors of Farm Credit Services of Colusa-Glenn, ACA (Association). In 2021, 5 Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2021.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2021 were $82,500 for audit services and $9,900 for tax services.

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

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

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

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

Jeff Sutton, Chairman of the Audit Committee

Audit Committee Members

Chris Bonacorsi
Matt Southam
Matt LaGrande
Craig Felix

March 8, 2022

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2021	2020	2019	2018	2017
Statement of Condition Data					
Loans	**$ 593,832**	$ 534,356	$ 460,232	$ 417,227	$ 390,771
Less allowance for loan losses	**1,857**	1,940	1,701	1,898	1,852
Net loans	**591,975**	532,416	458,531	415,329	388,919
Investment in CoBank, ACB	**14,853**	14,793	11,800	10,337	10,316
Accrued interest receivable	**5,363**	5,479	6,360	5,857	4,947
Other assets	**13,412**	12,814	11,258	5,594	8,771
Total assets	**$ 625,603**	$ 565,502	$ 487,949	$ 437,117	$ 412,953
Obligations (short term and long term)	**$ 495,837**	$ 443,043	$ 372,073	$ 326,985	$ 309,378
Reserve for unfunded commitments	**304**	321	266	247	135
Total liabilities	**496,141**	443,364	372,339	327,232	309,513
Capital stock	**538**	535	506	516	534
Unallocated retained earnings	**128,924**	121,603	115,104	109,369	102,906
Total shareholders' equity	**129,462**	122,138	115,610	109,885	103,440
Total liabilities and shareholders' equity	**$ 625,603**	$ 565,502	$ 487,949	$ 437,117	$ 412,953

	For the Year Ended December 31				
	2021	2020	2019	2018	2017
Statement of Income/(Expense) Data					
Net interest income	**$ 15,524**	$ 14,848	$ 13,317	$ 11,891	$ 10,224
Patronage distribution from Farm Credit institutions	**2,510**	1,953	1,492	1,551	1,116
Credit loss reversal/(Provision for credit losses)	**371**	(209)	292	(73)	387
Noninterest expense, net	**(6,403)**	(5,924)	(5,529)	(4,833)	(4,338)
Benefit from/(Provision for) income taxes	**19**	81	(87)	(73)	(302)
Net income/Comprehensive Income	**$ 12,021**	$ 10,749	$ 9,485	$ 8,463	$ 7,087
Key Financial Ratios					
For the Year					
Return on average assets	**2.13%**	2.07%	2.15%	2.13%	1.95%
Return on average shareholders' equity	**9.55%**	9.07%	8.37%	7.92%	7.05%
Net interest income as a percentage of average earning assets	**2.90%**	3.00%	3.17%	3.14%	2.94%
Net recoveries as a percentage of average net loans	**0.05%**	0.02%	0.03%	0.02%	0.01%
At Year End					
Shareholders' equity as a percentage of total assets	**20.69%**	21.60%	23.69%	25.14%	25.05%
Debt as a ratio to shareholders' equity	**3.83:1**	3.63:1	3.22:1	2.98:1	2.99:1
Allowance for loan losses as a percentage of loans	**0.31%**	0.36%	0.37%	0.45%	0.47%
Common equity tier 1 (CET1) capital ratio	**16.69%**	18.00%	19.88%	20.96%	21.30%
Tier 1 capital ratio	**16.69%**	18.00%	19.88%	20.96%	21.30%
Total regulatory capital ratio	**17.03%**	18.40%	20.27%	21.40%	21.74%
Tier 1 leverage ratio	**19.61%**	20.65%	22.54%	23.52%	24.30%
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	**20.74%**	21.38%	23.06%	24.09%	24.91%
Permanent capital ratio	**16.74%**	18.06%	19.95%	21.29%	21.76%
Net Income Distribution					
Cash patronage distributions paid	**$ 4,250**	$ 3,750	$ 2,000	$ 1,000	$ 840
Cash patronage declared	**$ 4,700**	$ 4,250	$ 3,750	$ 2,000	$ 1,000

Unaudited

Management's Discussion and Analysis

Introduction

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

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

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.fcscolusaglenn.com, or upon request. We are located at 2970 Davison Court, Colusa, CA 95932 or may be contacted by calling (530) 458-4978.

Business Overview

Farm Credit System Structure and Mission

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

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region in the California counties of Colusa and Glenn. 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 credit life insurance and advance conditional payment accounts. 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 2970 Davison Court, Colusa, CA 95932 or by calling (530) 458-4978. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

Unaudited

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

ECONOMIC OVERVIEW

We have continued to grow and diversify our loan portfolio, maintain good credit quality, effectively manage operating costs, and remain well capitalized through the year ended December 31, 2021. Our success is due, in part, to our conservative lending approach, the financial stability and support of our member-base, proactive portfolio risk management, and our commitment to providing excellent customer service.

There have been challenges that the Association and its members have had to overcome in the past few years including commodity price and supply instability, sustained drought conditions and limited water supplies, and interest rate volatility. Commodity prices across the United States have experienced significant volatility over the past ten years due to various factors including, but not limited to, the strength of the U.S. dollar and related decreased global demand for our exports, trade and tariff issues, deterioration and slowing of global economies, and various other factors specific to each commodity. Compounding this volatility, the impact of the COVID-19 pandemic continues to weigh on markets. Market prices generally returned to more profitable levels during 2021; however, rice, almond, and walnut prices continue to be volatile and sensitive to national and global economic conditions. Commodity supplies have also been volatile, as we have seen with rice growers forgoing planting due to lack of water and decreased yields on almonds and walnuts due to water stress or other environmental factors. Our members continue to be impacted by sustained drought conditions and limited water resources. Our primary concern with these factors is their impact on our members' working capital, overall financial position, and the collateral values supporting our loans. We continue to monitor changes in market conditions impacting the agricultural products we finance to ensure that we provide the best customer service to our members while operating in a safe and sound manner.

Climate risk has evolved over time along with many improvements made by the agriculture sector to combat the warming climate and the increasingly arid conditions. These improvements in farming practices, seed genetics and water efficiency have mitigated some of the impact of climate change throughout the agricultural sector. Agricultural producers continue to adjust to these conditions and have implemented additional practices of no-till planting, minimal till practices, cover crops and other water conservation technics to manage reduced amounts of rainfall and to keep their farmland in a state of sustainable production. Therefore, at the present time the impact has been manageable to credit risk and collateral values, as evidenced by strong real estate values across our territory. If further more severe climatic changes continue, there could be a negative effect upon real estate values.

The broader economy and marketplace continues to transition into another phase of the COVID-19 pandemic environment. As the Omicron variant surge and other pandemic issues subside, the U.S. economy remains healthy and continues to be driven by strong consumer spending. While higher consumer demand is beneficial to businesses, severe supply chain disruptions and labor shortages are adding significant costs to business operations and these costs are likely to be passed on to the consumer. Business operating costs are still rising faster than consumer prices, so elevated inflation remains a concern in 2022. From a monetary policy perspective, the Fed has announced plans to increase rates multiple times in 2022. Anticipation of tighter monetary policy is contributing to a stronger dollar and changes in the shape of the yield curve.

The U.S. government has continued to institute various programs in support of the COVID-19 recovery. In March 2021, Congress passed the $1.9 trillion American Rescue Plan Act designed to provide near-term help to those hurt by the pandemic. In December 2020, Congress passed the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, which, among other provisions, allocated additional funding for Paycheck Protection Program (PPP) loans and allows certain existing PPP borrowers to apply for additional loans or draws on existing loans. The Association obtained approval from the Small Business Administration (SBA) to participate as a lender in the PPP and continued to provide funds to eligible borrowers during the first quarter of 2021. As of December 31, 2021, the Association had no PPP loan volume. 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

Unaudited

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 $593.8 million at December 31, 2021, an increase of $59.4 million, or 11.1%, from loans at December 31, 2020 of $534.4 million, and an increase of $133.6 million, or 29.0%, from loans at December 31, 2019 of $460.2 million. The increase in loans was due to organic growth within our territory and increased participations purchased for diversification.

The types of loans outstanding at December 31 are reflected in the following table.

	2021		2020		2019	
(dollars in thousands)	**Volume**	**Percent**	Volume	Percent	Volume	Percent
Real estate mortgage	**$ 341,741**	**57.55%**	$ 302,580	56.63%	$ 264,191	57.40%
Production and intermediate-term	**121,302**	**20.43%**	119,228	22.31%	103,725	22.54%
Agribusiness	**91,739**	**15.45%**	80,839	15.13%	77,189	16.77%
Rural infrastructure	**34,050**	**5.73%**	26,709	5.00%	10,133	2.20%
Agricultural export finance	**5,000**	**0.84%**	5,000	0.93%	4,994	1.09%
Total	**$ 593,832**	**100.00%**	$ 534,356	100.00%	$ 460,232	100.00%

Real estate mortgage loans outstanding increased 12.9% to $341.7 million, compared with $302.6 million at year-end 2020, primarily due to increased originations to new and existing borrowers and increased participations purchased**.** 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 1.7% to $121.3 million, compared with 2020 loans of $119.2 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.

Increases were also noted in agribusiness and rural infrastructure loan volume, where the majority of loan volume was due to loan participations. Additionally, at December 31, 2021 approximately 65.3% of agribusiness and 100% of rural infrastructure and agricultural export finance volume were a result of loan participations purchased.

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 participations 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)	**2021**	2020	2019
Participations purchased	**$ 186,457**	$ 156,284	$ 108,103
Participations sold	**$ 80,725**	$ 65,994	$ 60,444

Unaudited

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

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

	2021	2020	2019
Colusa County	**49.65%**	48.81%	55.22%
Glenn County	**14.70%**	16.19%	12.59%
Other	**35.65%**	35.00%	32.19%
Total	**100.00%**	100.00%	100.00%

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					
	2021		2020		2019	
SIC Category	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Orchard Crops	**$ 225,206**	**37.93%**	$ 195,375	36.56%	$ 166,108	36.09%
Rice	**134,374**	**22.63%**	131,599	24.63%	121,232	26.34%
Landlords	**38,239**	**6.44%**	42,571	7.97%	44,716	9.72%
Row Crops	**24,198**	**4.07%**	23,051	4.31%	23,143	5.03%
Other	**171,815**	**28.93%**	141,760	26.53%	105,033	22.82%
Total	**$ 593,832**	**100.00%**	$ 534,356	100.00%	$ 460,232	100.00%

Our loan portfolio contains a concentration of orchard crops and rice producers due to the geographic restrictions in our territory. The concentration of landlords and row crops decreased from 2020 due to the increase in orchard crops, predominantly walnuts, and in participations purchased outside of our territory. The other category is comprised of several commodity groups primarily in our participation portfolio for diversification. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral, which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

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

The loans outstanding at December 31, 2021 for loans $250 thousand or less accounted for 8.0% of loan volume and 56.0% 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.

	2021		2020		2019	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 47,705**	**602**	$ 45,019	608	$ 45,089	606
$251 - $500	**60,417**	**167**	58,311	166	56,124	158
$501 - $1,000	**101,962**	**143**	102,815	142	86,425	125
$1,001 - $5,000	**342,848**	**156**	306,117	144	255,406	125
$5,001 - $25,000	**40,900**	**7**	22,094	4	17,188	3
Total	**$ 593,832**	**1,075**	$ 534,356	1,064	$ 460,232	1,017

As of December 31, 2021, approximately 14% of our loans outstanding is attributable to ten borrowers. 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.

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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. There were no loans subject to these Farmer Mac credit enhancements at December 31, 2021 and at December 31, 2020, compared with $6.6 million at December 31, 2019. Included in other operating expenses were fees paid for these Farmer Mac commitments totaling $25 thousand in 2020 and $31 thousand in 2019. There were no fees paid in 2021. Under the Farmer Mac long-term standby commitment to purchase agreements, we continue to hold the loans in our portfolio, and we pay commitment fees to Farmer Mac for the right to put a loan designated in these agreements to Farmer Mac at par in the event the loan becomes significantly delinquent (typically four months past due). If the borrower cures the default, we must repurchase the loan and the commitment remains in place. Farmer Mac long-term standby commitments to purchase agreements are further described in Note 3. Other than the contractual obligations arising from these business transactions with Farmer Mac, Farmer Mac is not liable for any debt or obligation of ours and we are not liable for any debt or obligation of Farmer Mac. For more information on Farmer Mac, refer to their website at www.farmermac.com.

Credit guarantees with government agencies of $2.2 million at year-end 2021, $4.7 million at year-end 2020 and $2.9 million at year-end 2019 were outstanding.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2021.

(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	$ 83,742	$ 97,475	$ 17,143	$ 31,686	$ 230,046
Standby letters of credit	205	230	–	–	435
Total commitments	$ 83,947	$ 97,705	$ 17,143	$ 31,686	$ 230,481

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. The Association had no high risk assets as of December 31, 2021 or December 31, 2020. At December 31, 2019, the Association's high risk assets included $1 thousand for a production and intermediate-term nonaccrual loan. High risk assets to total loans and to shareholders' equity were less than 0.01%.

We had no loans classified as restructured, no loans 90 days past due still accruing interest, and no other property owned for any of the years presented.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. There was no nonaccrual volume at December 31, 2021 or December 31, 2020 in comparison to $1 thousand at December 31, 2019. At year-end 2019, the nonaccrual balance of $1 thousand was current as to principal and interest. For the years presented, we had no cash basis nonaccrual loans and no restructured loans in nonaccrual status.

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High risk asset volume is anticipated to increase in the future as we continue to monitor loans that are showing signs of credit quality deterioration due to commodity price and supply volatility as well as potential adverse impacts from sustained drought conditions.

Credit Quality

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

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

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

	2021	2020	2019
Acceptable	**95.86%**	97.20%	96.83%
OAEM	**4.05%**	2.50%	2.44%
Substandard	**0.09%**	0.30%	0.73%
Total	**100.00%**	100.00%	100.00%

During 2021, overall credit quality improved. Loans classified as Acceptable and OAEM were 99.91% at December 31, 2021, 99.70% at December 31, 2020 and 99.27% at December 31, 2019. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. We had no loan delinquencies (accruing loans 30 days or more past due) as of December 31, 2021, 2020, or 2019.

Allowance for Loan Losses

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

(dollars in thousands)	**2021**	2020	2019
Balance at beginning of year	**$ 1,940**	$ 1,701	$ 1,898
Charge-offs:			
Production and intermediate-term	**–**	–	(18)
Recoveries:			
Production and intermediate-term	**271**	85	132
Net recoveries	**271**	85	114
(Loan loss reversal)/Provision for loan losses	**(354)**	154	(311)
Balance at December 31	**$ 1,857**	$ 1,940	$ 1,701
Net recoveries to average net loans	**(0.05%)**	(0.02%)	(0.03%)

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

Unaudited

(dollars in thousands)	**2021**	2020	2019
Real estate mortgage	**$ 291**	$ 312	$ 416
Production and intermediate-term	**1,226**	1,141	732
Agribusiness	**279**	411	511
Rural infrastructure	**55**	70	40
Agricultural export finance	**6**	6	2
Total	**$ 1,857**	$ 1,940	$ 1,701

The allowance for loan losses decreased $83 thousand from December 31, 2020, to $1.9 million at December 31, 2021. The decrease in allowance for loan losses was primarily due to the loan loss reversals totaling $354 thousand that were recorded due to reduced risk in the portfolio, partially offset by increased estimated losses for increased volume. Net recoveries of $271 thousand were recorded during 2021 for one real estate lessor loan. During 2020, our allowance for loan losses increased $239 thousand from 2019 primarily due to provision for loan losses totaling $154 thousand that was recorded due to increased loan volume and increased stress within our portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2021	2020	2019
Allowance for loan losses as a percentage of:			
Loans	**0.31%**	0.36%	0.37%
Impaired loans	–	–	170,100.00%
Nonaccrual loans	–	–	170,100.00%

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 commitments follows.

(dollars in thousands)	**2021**	2020	2019
Balance at beginning of year	**$ 321**	$ 266	$ 247
(Reversal of)/Provision for reserve for unfunded commitments	**(17)**	55	19
Total	**$ 304**	$ 321	$ 266

The decrease in provision for reserve for unfunded commitments in 2021 is due to improved credit quality partially offset by increased available 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. Our mission with respect to our YBS Program is to be the leading lender in our territory, now and in the future. We will make available financing and related financing programs to all eligible young, beginning, and small farmer/operators, plus develop loan and loan related programs/services specifically targeting the young and beginning sector in its chartered territory. 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.

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		December 31		
	USDA	**2021**	2020	2019
Young	13.51%	**13.89%**	13.51%	15.61%
Beginning	26.04%	**18.61%**	18.60%	20.13%
Small	65.18%	**20.46%**	19.68%	22.25%

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 related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;
- Take full advantage of opportunities for coordinating credit and services offered with other System institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and
- Implement effective outreach programs to attract YBS farmers and ranchers.

A major component of supporting our rural community is advancing YBS farmers and ensuring that there are opportunities for young people to get involved in agriculture early in life. In addition to our donations to the Colusa County Fair and Glenn County Fair, we support various agriculture education programs for our local youths, namely Future Farmers of America (FFA) and 4-H. FFA makes a positive difference in the lives of students by developing their potential for premier leadership, personal growth and career success through agricultural education. Similar to FFA, 4-H is the nation's largest positive youth development and youth mentoring organization, empowering nearly six million young people throughout the U.S. 4-H provides life changing programs that are research backed and available through 4-H clubs, camps, afterschool and school enrichment programs. Our close contact with agricultural departments at local schools enables us to support and participate in these programs. In addition to program support, we provide direct interest-free financing to local 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. We have developed quantitative targets to monitor our progress.

- Loan volume and loan number goals for YBS farmers and ranchers in our territory;
- Percentage goals representative of the demographics of YBS farmers and ranchers in our territory;
- Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in our territory; and
- Goals for capital committed to loans made to YBS farmers and ranchers in our territory.

	2022		2023		2024		2025	
	Number	Volume	Number	Volume	Number	Volume	Number	Volume
Young	15%	10%	15%	10%	15%	10%	15%	10%
Beginning	15%	10%	15%	10%	15%	10%	15%	10%
Small	15%	5%	15%	5%	15%	5%	15%	5%

	2021 Goal		2021 Actual		2021 Results	
	Number	Volume	Number	Volume	Number	Volume
Young	15%	10%	14%	8%	No	No
Beginning	15%	10%	18%	11%	Yes	Yes
Small	15%	5%	20%	7%	Yes	Yes

In 2021, we did not meet our loan volume and loan number goals for young farmers and ranchers in our territory. The COVID-19 crisis and California drought inhibited business to young farmers and ranchers in 2021, as many rice farmers did not plant due to lack of water. 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 and loan guarantee programs. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers.

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CREDIT RISK MANAGEMENT

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

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

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

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

By regulation, we cannot have loan commitments to one borrower for more than 15% of our lending and lease limit base. As of December 31, 2021, the lending and lease limit base was defined as permanent capital with any applicable adjustments related to preferred stock and any investment held in connection with the sale of loan participation interest. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established for individual loan size, commodity type, special lending programs and geographic concentrations. We have adopted an internal hold limit of 12% of the legal lending and lease limit base, which resets on the first day of each quarter.

We have established a Staff Loan Committee to control the loan approval process. Our most experienced and knowledgeable credit staff serve 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. 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 and calculation of the reserve for unfunded commitments.

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

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

Management provides for additional reserves within the calculation for the allowance for loan losses determined to have increased credit risk, namely our rice, orchard crops, landlord, and unsecured participations purchased

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portfolios. Utilizing the Model's 14 point PD and LGD scales, we apply stress assumptions to determine the level of reserves required to mitigate credit losses.

RESULTS OF OPERATIONS

Earnings Summary

In 2021, we recorded net income of $12.0 million, compared with $10.7 million in 2020, and $9.5 million in 2019. The increase in 2021 was primarily due to increased net interest income, decreased provision for credit losses, and increased noninterest income, offset by increased noninterest expense and provision for income taxes. The increase in 2020 was due to increased net interest income, increased noninterest income and increased benefit from income taxes, offset by increased provision for credit losses and increased noninterest expense. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2021 vs. 2020**	2020 vs. 2019
Net income, prior year	**$ 10,749**	$ 9,485
Increase/(Decrease) from changes in:		
Interest income	**(753)**	(2,679)
Interest expense	**1,429**	4,210
Net interest income	**676**	1,531
Provision for credit losses	**580**	(501)
Noninterest income	**522**	594
Noninterest expense	**(444)**	(528)
Provision for income taxes	**(62)**	168
Total increase in net income	**1,272**	1,264
Net income, current year	**$ 12,021**	$ 10,749

Return on average assets increased to 2.13% from 2.07% in 2020, and return on average shareholders' equity increased to 9.55% from 9.07% in 2020, primarily as a result of increased net earnings disproportionate to the increase in average assets and average shareholders' equity. Net income increased 11.8% compared to an increase of 8.7% in average assets and 6.2% in average shareholders' equity.

Net Interest Income

Net interest income for 2021 was $15.5 million compared with $14.8 million for 2020 and $13.3 million for 2019. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to increased loan volume, partially offset by decreased net interest margin, which was 2.90% in 2021 compared to 3.00% in 2020. The following table provides an analysis of the individual components of the change in net interest income during 2021 and 2020.

(dollars in thousands)	**2021 vs. 2020**	2020 vs. 2019
Net interest income, prior year	**$ 14,848**	$ 13,317
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned and paid	**(495)**	(559)
Volume of interest-bearing assets and liabilities	**1,182**	2,079
Interest income on nonaccrual loans	**(11)**	11
Increase in net interest income	**676**	1,531
Net interest income, current year	**$ 15,524**	$ 14,848

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

	For the Year Ended December 31		
	2021	2020	2019
Net interest margin	**2.90%**	3.00%	3.17%
Interest rate on:			
Average loan volume	**3.41%**	3.85%	5.16%
Average debt	**0.63%**	1.05%	2.59%
Interest rate spread	**2.78%**	2.80%	2.57%

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The decrease in interest rate spread resulted from a 44 basis point decrease in interest rates on average loan volume and a 42 basis point decrease in interest rates on average debt. The decrease in net interest margin in addition to the change in spread was due to lower earnings on our own capital.

Provision for Credit Losses/(Credit Loss Reversals)

We monitor our loan portfolio and unfunded commitments on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for loan losses or reserve for unfunded commitments is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio and unfunded commitments. We recorded net credit loss reversals of $371 thousand in 2021, compared with net provision for credit losses of $209 thousand in 2020 and net credit loss reversals of $292 thousand in 2019. The loan loss reversals of $354 thousand recorded during 2021 were primarily due to recoveries and decreased stress in the portfolio, partially offset by increased estimated losses for increased loan volume. The reversal of reserve for unfunded commitments of $17 thousand was recorded during 2021 due to improved credit quality, partially offset by increased unfunded commitments. The provision for loan losses of $154 thousand recorded during 2020 was primarily due to increased loan volume and increased stress within our portfolio to ensure that reserves reflect all probable losses. The loan loss reversals of $311 thousand recorded during 2019 were primarily due to recoveries and decreased risk exposure on certain loans, partially offset by increased estimated losses for increased loan volume. The provision for reserve for unfunded commitments of $55 thousand recorded during 2020 and $19 thousand recorded during 2019 was due to increased unfunded commitments.

Noninterest Income

During 2021, we recorded noninterest income of $2.8 million, compared with $2.3 million in 2020 and $1.7 million in 2019. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. The total patronage from CoBank is comprised of two sources: patronage based on our borrowing balance (direct note patronage) and patronage based on loans we originate and then sell a portion to them as a participant (sold volume patronage). Patronage earned from CoBank was $2.4 million in 2021, $1.9 million in 2020 and $1.4 million in 2019. Patronage income from CoBank includes special cash patronage distributions of $361 thousand for 2021 and $325 thousand for 2020 due to CoBank's strong capital levels and financial results. There was no special patronage distribution in 2019.

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

In 2021, we recorded a cash patronage of $15 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 $9 thousand recorded in 2020 and $8 thousand in 2019. The Association also recorded patronage income from other Farm Credit institutions related to participations of $106 thousand in 2021 compared with $62 thousand in 2020 and $64 thousand in 2019. Patronage from these entities and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received a refund of $82 thousand during 2020 and $78 thousand during 2019 from FCSIC. No such refund was received in 2021. The FCSIC refund is our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts.

We received mineral income of $2 thousand during 2021, which is distributed to us quarterly by CoBank. Mineral income decreased from $3 thousand in 2020 and 2019.

Noninterest income also includes financially related services income and other noninterest income. Other noninterest income was $324 thousand, an increase of $50 thousand, from 2020, primarily due to $155 thousand net gain recorded on disposal of fixed assets, which included the sale of our previous Willows office. This was partially offset by $32 thousand of decreased net loan fee income and $39 thousand of decreased SBA fee income. Other noninterest income in 2020 was $274 thousand, an increase of $131 thousand, from 2019, primarily due to $98 thousand of SBA fee income and $23 thousand increase in rental income.

Noninterest Expense

Noninterest expense for 2021 increased $444 thousand, or 7.1%, to $6.7 million compared with 2020 and $972 thousand, or 16.9% compared with 2019. Noninterest expense for each of the three years ended December 31 is summarized as follows:

				Percent of Change	
(dollars in thousands)	**2021**	2020	2019	**2021/2020**	2020/2019
Salaries & employee benefits	**$ 3,716**	$ 3,368	$ 2,997	**10.33%**	12.38%
Occupancy & equipment	**533**	531	318	**0.38%**	66.98%
Purchased services	**654**	950	936	**(31.16%)**	1.50%
Supervisory & examination costs	**217**	192	181	**13.02%**	6.08%
Data processing services	**1,188**	1,032	965	**15.12%**	6.94%
Other noninterest (income)/expense	**(188)**	(115)	63	**63.48%**	(282.54%)
Total operating expense	**6,120**	5,958	5,460	**2.72%**	9.12%
Farm Credit Insurance Fund premium	**600**	333	249	**80.18%**	33.73%
Prepayment expense	**15**	–	54	**100.00%**	(100.00%)
Total noninterest expense	**$ 6,735**	$ 6,291	$ 5,763	**7.06%**	9.16%

For the year ended December 31, 2021, total operating expense increased $162 thousand, or 2.7%, compared with the year ended December 31, 2020, primarily due to increased salaries and employee benefits, supervisory and examination costs and data processing services, partially offset by decreased purchased services and increased other noninterest income. Salaries and employee benefits expense increased $348 thousand from 2020 due to merit and cost of living adjustments, coupled with a change in mix of positions. Supervisory and examination costs increased $25 thousand from 2020 due to increased FCA assessments driven by an increase in risk-weighted assets due to loan growth. Data processing services increased $156 thousand from 2020 primarily due to increased fees charged by AgVantis, our service provider. Purchased services decreased $296 thousand from 2020 primarily due to less outsourced services for information technology and appraisals as these services are now primarily performed in-house by Association appraisal staff. Other noninterest expense decreased $73 thousand from 2020 primarily due to a $66 thousand decrease in office supplies expense, combined with an increase in our standard loan origination costs, driven by increased originations. Insurance Fund premium increased $267 thousand to $600 thousand for the year ended December 31, 2021 due to an increase in the premium rate and an increase in average net note payable, which has increased with loan volume. Additionally, we recorded prepayment fee expense of $15 thousand during 2021 due to prepayment fees charged by CoBank. These fees are primarily related to loan conversions that resulted from the current low interest rate environment in the wake of the COVID-19 pandemic.

For the year ended December 31, 2020, total operating expense increased $498 thousand, or 9.1%, compared with the year ended December 31, 2019, primarily due to increased salaries and benefits and occupancy and equipment expenses, partially offset by a decrease in other noninterest expense. Salaries and benefits expense increased $371 thousand from 2019 to 2020 due to merit increases, coupled with additional staffing. Occupancy and equipment increased $213 thousand due to increased utility costs, real estate taxes and depreciation for our new offices. Our Colusa branch office relocated in January 2020 followed by our Willows branch office in September 2020. Data processing services expense increased $67 thousand from 2019 to 2020 primarily due to increased fees charged by AgVantis. Other noninterest expense decreased $178 thousand from 2019 to 2020 primarily due to decreased director, training, and travel expenses resulting from travel restrictions in response to the COVID-19 pandemic and an increase in our standard loan origination costs, driven by increased originations.

Provision for income taxes/Benefit from income taxes

We recorded $19 thousand in benefit from income taxes during 2021, compared with $81 thousand in 2020 and provision for income taxes of $87 thousand in 2019. The decrease in the 2021 benefit was primarily due to a smaller decrease in our net deferred tax liability from 2020 to 2021 compared with the decrease from 2019 to 2020. The change in the net deferred tax liability is predominantly impacted by the change in our allowance for loan losses. The benefit from income taxes recorded in 2020 was also due to the decrease in or deferred tax liability due to the change in our allowance for loan losses. Tax expense was also impacted by our patronage refund program. 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,

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cash on hand and borrower loan repayments provide adequate liquidity to fund our on-going operations and other commitments.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank, which matures on December 31, 2022. The annual average principal balance of the note payable to CoBank was $398.4 million in 2021, $366.3 million in 2020 and $292.6 million in 2019.

We plan to continue to fund lending operations through the utilization of our funding arrangement with CoBank, retained earnings from current and prior years and from borrower stock investments. CoBank's primary source of funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Banks Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets experienced significant volatility in the last few years, we were able to obtain sufficient funding to meet the needs of our customers.

Interest Rate Risk

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

Funds Management

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

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

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

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2021 totaled $129.5 million, compared with $122.1 million at December 31, 2020 and $115.6 million at December 31, 2019. The increase of $7.4 million in shareholders' equity reflects net income and net stock issuances, partially offset by patronage distributions. Our capital position is reflected in the following ratio comparisons.

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	2021	2020	2019
Debt to shareholders' equity	**3.83:1**	3.63:1	3.22:1
Shareholders' equity as a percent of net loans	**21.87%**	22.94%	25.21%
Shareholders' equity as a percent of total assets	**20.69%**	21.60%	23.69%

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2020 primarily due to loan volume outpacing capital growth.

Retained Earnings

Our retained earnings increased $7.3 million to $128.9 million at December 31, 2021 from $121.6 million at December 31, 2020 and increased $13.8 million from $115.1 million at December 31, 2019. The increase in 2021 was a result of net income of $12.0 million, partially offset by $4.7 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 $4.3 million in 2021, $3.8 million in 2020 and $2.0 million in 2019. During 2021, we declared patronage distributions of $4.7 million to be paid in March 2022.

Stock

Our total stock and participation certificates increased $3 thousand to $538 thousand at December 31, 2021, from $535 thousand at December 31, 2020 and increased $32 thousand from $506 thousand at December 31, 2019. The increase during 2021 was due to $46 thousand of stock issuances, partially offset by $43 thousand of stock retirements. We require a stock investment for each borrower. We have a Borrower Level Stock Program which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s). Prior to 2014, the stock investment was the lesser of one thousand dollars or 2.00% of the amount of the loan. Loan level stock was retired in the amounts of $2 thousand in 2021, $1 thousand in 2020, and $3 thousand in 2019 as a result of implementation of this program.

Capital Plan and Regulatory Requirements

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

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

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

	2021	2020	2019	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	**16.69%**	18.00%	19.88%	7.00%
Tier 1 Capital ratio	**16.69%**	18.00%	19.88%	8.50%
Total Capital ratio	**17.03%**	18.40%	20.27%	10.50%
Tier 1 Leverage ratio	**19.61%**	20.65%	22.54%	5.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	**20.74%**	21.38%	23.06%	1.50%
Permanent capital ratio	**16.74%**	18.06%	19.95%	7.00%

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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, 2021, we have not met our goals due to greater than anticipated loan growth. We feel the current capital position and composition are in line with our long-term capital objectives. Our capital goals will continue to exceed regulatory requirements due to our approach to maintaining adequate capital in case of future, unplanned and adverse changes in the association.

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

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

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

REGULATORY MATTERS

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

GOVERNANCE

Board of Directors

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

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

Director Independence

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

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

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of five members of the Board of Directors. During 2021, five 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;

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- 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 three 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.

Enterprise Risk Management Committee

The Enterprise Risk Management Committee reports to the Board of Directors and is composed of five members of the Board of Directors. The Enterprise Risk Management Committee responsibilities generally include, but are not limited to:

- oversight of the Association's Enterprise Risk Management Program (ERM Program); including the division of specific responsibilities within the ERM Program among other committees of the Board;
- oversight of the work of the Staff Enterprise Risk Committee;
- ensure that Association management has identified and assessed all material risks that the Association faces and has established a risk management infrastructure capable of monitoring and addressing those risks;
- ensure that the ERM Program includes processes and reporting that will prepare the Association to reasonably anticipate and effectively respond to material adverse events – both short-term and long-term;
- ensure that the ERM Program is utilized to effectively manage risk and plan strategically to enhance the Association's long-term sustainability;
- in conjunction with the full Board, approve the Association's ERM Program; and
- ensure that the Association maintains an effective Stress Testing Program to evaluate risk exposures associated with major business segments and operational activities.

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 Chief Executive Officer, Chief Administrative Officer, 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 Administrative 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.

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Whistleblower Program

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

FORWARD-LOOKING INFORMATION

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses/Reserve for Unfunded Commitments

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

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

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

CUSTOMER PRIVACY

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

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Report of Independent Auditors

To the Board of Directors of Farm Credit Services of Colusa-Glenn, ACA,

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Other Information

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

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

PricewaterhouseCoopers LLP

Kansas City, Missouri
March 8, 2022

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2021	2020	2019
ASSETS			
Loans	**$ 593,832**	$ 534,356	$ 460,232
Less allowance for loan losses	**1,857**	1,940	1,701
Net loans	**591,975**	532,416	458,531
Cash	**2,443**	2,505	3,070
Accrued interest receivable	**5,363**	5,479	6,360
Investment in CoBank, ACB	**14,853**	14,793	11,800
Premises and equipment, net	**6,885**	7,147	5,759
Other assets	**4,084**	3,162	2,429
Total assets	**$ 625,603**	$ 565,502	$ 487,949
LIABILITIES			
Note payable to CoBank, ACB	**$ 465,195**	$ 412,797	$ 344,250
Advance conditional payments	**23,919**	21,979	16,774
Accrued interest (receivable)/payable	**(72)**	(193)	232
Patronage distributions payable	**4,700**	4,250	3,750
Accrued benefits liability	**97**	98	100
Deferred tax liability	**168**	193	282
Unfunded disbursements	**236**	2,432	536
Reserve for unfunded commitments	**304**	321	266
Other liabilities	**1,594**	1,487	6,149
Total liabilities	**496,141**	443,364	372,339
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Capital stock and participation certificates	**538**	535	506
Unallocated retained earnings	**128,924**	121,603	115,104
Total shareholders' equity	**129,462**	122,138	115,610
Total liabilities and shareholders' equity	**$ 625,603**	$ 565,502	$ 487,949

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		
	2021	2020	2019
INTEREST INCOME			
Loans	**$ 18,249**	$ 19,002	$ 21,681
Total interest income	**18,249**	19,002	21,681
INTEREST EXPENSE			
Note payable to CoBank, ACB	**2,632**	3,938	7,755
Other	**93**	216	609
Total interest expense	**2,725**	4,154	8,364
Net interest income	**15,524**	14,848	13,317
(Credit loss reversal)/Provision for credit losses	**(371)**	209	(292)
Net interest income after credit loss reversal/provision for credit losses	**15,895**	14,639	13,609
NONINTEREST INCOME			
Financially related services income	**6**	8	10
Patronage distribution from Farm Credit institutions	**2,510**	1,953	1,492
Farm Credit Insurance Fund distribution	**-**	82	78
Mineral income	**2**	3	3
Other noninterest income	**324**	274	143
Total noninterest income	**2,842**	2,320	1,726
NONINTEREST EXPENSE			
Salaries and employee benefits	**3,716**	3,368	2,997
Occupancy and equipment	**533**	531	318
Purchased services	**654**	950	936
Farm Credit Insurance Fund premium	**600**	333	249
Supervisory and examination costs	**217**	192	181
Prepayment expense	**15**	-	54
Data processing services	**1,188**	1,032	965
Other noninterest (income)/expense	**(188)**	(115)	63
Total noninterest expense	**6,735**	6,291	5,763
Income before income taxes	**12,002**	10,668	9,572
(Benefit from)/Provision for income taxes	**(19)**	(81)	87
Net income/Comprehensive Income	**$ 12,021**	$ 10,749	$ 9,485

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	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2018	$ 516	$ 109,369	$ 109,885
Net Income/Comprehensive income		9,485	9,485
Capital stock and participation certificates issued	50		50
Capital stock and participation certificates retired	(60)		(60)
Patronage distributions: Cash		(3,750)	(3,750)
Balance at December 31, 2019	506	115,104	115,610
Net Income/Comprehensive income		10,749	10,749
Capital stock and participation certificates issued	57		57
Capital stock and participation certificates retired	(28)		(28)
Patronage distributions: Cash		(4,250)	(4,250)
Balance at December 31, 2020	535	121,603	122,138
Net Income/Comprehensive income		12,021	12,021
Capital stock and participation certificates issued	46		46
Capital stock and participation certificates retired	(43)		(43)
Patronage distributions: Cash		(4,700)	(4,700)
Balance at December 31, 2021	**$ 538**	**$ 128,924**	**$ 129,462**

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		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 12,021**	$ 10,749	$ 9,485
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**318**	283	45
(Credit loss reversal)/Provision for credit losses	**(371)**	209	(292)
Patronage stock from CoBank, ACB	**(59)**	(60)	(55)
(Gains)/Losses on sales of premises and equipment	**(155)**	(13)	2
Change in assets and liabilities:			
Decrease/(Increase) in accrued interest receivable	**116**	881	(503)
Increase in other assets	**(923)**	(673)	(8)
(Decrease)/Increase in unfunded disbursements	**(2,196)**	1,896	(364)
Increase/(Decrease) in accrued interest payable	**121**	(425)	(72)
Decrease in accrued benefits liability	**(1)**	(2)	(1)
(Decrease)/Increase in deferred tax liability	**(25)**	(89)	140
Increase/(Decrease) in other liabilities	**107**	(4,662)	538
Total adjustments	**(3,068)**	(2,655)	(570)
Net cash provided by operating activities	**8,953**	8,094	8,915
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	**(59,205)**	(74,039)	(42,891)
Increase in investment in CoBank, ACB	**-**	(2,993)	(1,463)
Expenditures for premises and equipment	**(73)**	(1,683)	(5,284)
Proceeds from sales of premises and equipment	**172**	25	4
Net cash used in investing activities	**(59,106)**	(78,690)	(49,634)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank, ACB	**52,398**	68,547	48,096
Increase/(Decrease) in advance conditional payments	**1,940**	5,205	(4,999)
Capital stock and participation certificates retired	**(43)**	(28)	(60)
Capital stock and participation certificates issued	**46**	57	50
Cash patronage distributions paid	**(4,250)**	(3,750)	(2,000)
Net cash provided by financing activities	**50,091**	70,031	41,087
Net (decrease)/increase in cash	**(62)**	(565)	368
Cash at beginning of year	**2,505**	3,070	2,702
Cash at end of year	**$ 2,443**	$ 2,505	$ 3,070
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 2,604**	$ 4,579	$ 8,436
Income taxes	**$ 2**	$ -	$ 88
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Patronage stock from CoBank, ACB	**$ 59**	$ 60	$ 55
Net recoveries	**$ (271)**	$ (85)	$ (114)
Patronage distributions payable	**$ 4,700**	$ 4,250	$ 3,750

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

Notes To Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND OPERATIONS

A. Organization: Farm Credit Services of Colusa-Glenn, ACA and its subsidiaries, Farm Credit Services of Colusa-Glenn, FLCA, (Federal Land Credit Association (FLCA)) and Farm Credit Services of Colusa-Glenn, 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 Colusa and Glenn in the state of California.

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

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

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and 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 serves as an intermediary in offering credit life insurance and advance conditional payment accounts.

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 2970 Davison Court, Colusa, CA 95932 or by calling (530) 458-4978. 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 Farm Credit Services of Colusa-Glenn, PCA and Farm Credit Services of Colusa-Glenn, 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. The accounting and reporting policies of the Association conform to GAAP and prevailing practices within the banking industry.

Use of Estimates

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

Recently Issued Accounting Pronouncements

Adopted Guidance

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

Guidance Pending Adoption

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB approved deferral of the effective date for certain entities for this guidance by two years, which will result in the new credit loss standard becoming effective for interim and annual reporting periods beginning after December 15, 2022 with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

Summary of the Association's Significant Accounting Policies

A. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans made for agricultural production or operating purposes have maturities of fifteen 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.

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

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

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the Association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan. Certain loan modifications that resulted from circumstances related to COVID-19 are eligible under the FCA issued guidance and the Association is not required to report them as a TDR.

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

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. We adjust the PD factors in the combined System risk rating guidance to account for our 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. 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 and loans collectively evaluated for impairment. Generally, for loans individually evaluated, the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model as previously discussed.

B. Cash: Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.

C. Investment in CoBank: The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.00 percent of the prior five-year average direct loan volume. The investment in CoBank is comprised of patronage based stock and purchased stock. The requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the prior ten-year average of such participations sold to CoBank.

D. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful life for buildings ranges from 25 to 39 years, 15 years for land improvements and ranges from 5 to 10 years for furniture, equipment and 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 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.

H. Patronage Distribution from CoBank: Patronage distributions from CoBank are accrued by the Association in the year earned and are included in Other Assets on the Consolidated Statement of Condition.

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

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

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

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

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

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

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

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

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

the determination of fair value requires significant management judgment or estimation. Level 3 assets include other property owned.

The fair value disclosures are presented in Note 14.

K. 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)	**2021**	2020	2019
Real estate mortgage	**$ 341,741**	$ 302,580	$ 264,191
Production and intermediate-term	**121,302**	119,228	103,725
Agribusiness	**91,739**	80,839	77,189
Rural infrastructure	**34,050**	26,709	10,133
Agricultural export finance	**5,000**	5,000	4,994
Total loans	**$ 593,832**	$ 534,356	$ 460,232

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

	Other Farm Credit Institutions	
(dollars in thousands)	Purchased	Sold
Real estate mortgage	$ 61,801	$ 51,644
Production and intermediate-term	25,709	10,917
Agribusiness	59,897	18,164
Rural infrastructure	34,050	–
Agricultural export finance	5,000	–
Total	$186,457	$ 80,725

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 obtained credit enhancements by entering into Standby Commitment to Purchase Agreements (Agreements) with Federal Agricultural Mortgage Corporation (Farmer Mac). There were no loans that were covered with these enhancements at December 31, 2021 and December 31, 2020, compared with $6.6 million at December 31, 2019. 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. There were no such fees for 2021, $25 thousand for 2020 and $31 thousand for 2019 are reflected in noninterest expense.

In addition to Farmer Mac, credit enhancements with federal government agencies of $2.2 million at year-end 2021, $4.7 million at year-end 2020 and $2.9 million at year-end 2019 were outstanding. Farm Service Agency (FSA)

guarantees 90 percent of potential losses on guaranteed loans. During 2021, the Association also had loans guaranteed by the Small Business Administration (SBA), which guarantees 100 percent of potential losses on guaranteed loans.

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

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

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

	2021	2020	2019
Real estate mortgage			
Acceptable	**96.33%**	98.79%	98.87%
OAEM	**3.53%**	0.76%	0.36%
Substandard	**0.14%**	0.45%	0.77%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**92.80%**	92.39%	97.60%
OAEM	**7.16%**	7.41%	1.10%
Substandard	**0.04%**	0.20%	1.30%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**96.39%**	97.23%	90.63%
OAEM	**3.61%**	2.77%	9.37%
Total	**100.00%**	100.00%	100.00%
Rural infrastructure			
Acceptable	**100.00%**	100.00%	80.31%
OAEM	**–**	–	19.69%
Total	**100.00%**	100.00%	100.00%
Agricultural export finance			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**95.86%**	97.20%	96.83%
OAEM	**4.05%**	2.50%	2.44%
Substandard	**0.09%**	0.30%	0.73%
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)	**2021**	2020	2019
Nonaccrual loans:			
Current as to principal and interest	**$ –**	$ –	$ 1
Total nonaccrual loans	**–**	–	1
Total impaired loans	**$ –**	$ –	$ 1

The Association had no loans classified as accruing restructured or accruing loans 90 days or more past due for the years presented.

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)	**2021**	2020	2019
Nonaccrual loans			
Production and intermediate-term	**$ –**	$ –	$ 1
Total nonaccrual loans	**–**	–	1
Total high risk assets	**$ –**	$ –	$ 1

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

Additional impaired loan information is as follows:

(dollars in thousands)	Recorded Investment at 12/31/21	Unpaid Principal Balance*	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ –	$ –	$ 335	$ –
Production and intermediate-term	–	958	15	–
Total	$ –	$ 958	$ 350	$ –

(dollars in thousands)	Recorded Investment at 12/31/20	Unpaid Principal Balance*	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ –	$ –	$ 24	$ –
Production and intermediate-term	–	1,202	–	12
Total	$ –	$ 1,202	$ 24	$ 12

(dollars in thousands)	Recorded Investment at 12/31/19	Unpaid Principal Balance*	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Production and intermediate-term	$ 1	$ 1,268	$ 80	$ 4
Total	$ 1	$ 1,268	$ 80	$ 4

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

The Association had no impaired loans with a related allowance for any of the years presented.

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.

	For the Year Ended December 31		
(dollars in thousands)	**2021**	2020	2019
Interest income recognized on:			
Nonaccrual loans	**$ –**	$ 12	$ –
Accrual loans 90 days or more past due	**–**	–	4
Interest income recognized on impaired loans	**$ –**	$ 12	$ 4

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)	**2021**	2020	2019
Interest income which would have been recognized under the original loan terms	**$ 61**	$ 70	$ 102
Less: interest income recognized	**–**	12	–
Interest income not recognized	**$ 61**	$ 58	$ 102

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

	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	$ –	$ –	$ –	$ 345,803	$ 345,803	$ –
Production and intermediate-term	–	–	–	122,100	122,100	–
Agribusiness	–	–	–	92,163	92,163	–
Rural infrastructure	–	–	–	34,119	34,119	–
Agricultural export finance	–	–	–	5,010	5,010	–
Total	$ –	$ –	$ –	$ 599,195	$ 599,195	$ –

	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	$ –	$ –	$ –	$ 306,906	$ 306,906	$ –
Production and intermediate-term	–	–	–	119,957	119,957	–
Agribusiness	–	–	–	81,224	81,224	–
Rural infrastructure	–	–	–	26,738	26,738	–
Agricultural export finance	–	–	–	5,010	5,010	–
Total	$ –	$ –	$ –	$ 539,835	$ 539,835	$ –

	December 31, 2019					
(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	$ –	$ –	$ –	$ 269,180	$ 269,180	$ –
Production and intermediate-term	–	–	–	104,548	104,548	–
Agribusiness	–	–	–	77,710	77,710	–
Rural infrastructure	–	–	–	10,138	10,138	–
Agricultural export finance	–	–	–	5,016	5,016	–
Total	$ –	$ –	$ –	$ 466,592	$ 466,592	$ –

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 Association had no TDRs for the periods presented.

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, 2020	Charge-offs	Recoveries	Loan Loss Reversals	Balance at December 31, 2021
Real estate mortgage	$ 312	$ –	$ –	$ (21)	$ 291
Production and intermediate-term	1,141	–	271	(186)	1,226
Agribusiness	411	–	–	(132)	279
Rural infrastructure	70	–	–	(15)	55
Agricultural export finance	6	–	–	-	6
Total	$ 1,940	$ –	$ 271	$ (354)	$ 1,857

(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	$ 416	$ –	$ –	$ (104)	$ 312
Production and intermediate-term	732	–	85	324	1,141
Agribusiness	511	–	–	(100)	411
Rural infrastructure	40	–	–	30	70
Agricultural export finance	2	–	–	4	6
Total	$ 1,701	$ –	$ 85	$ 154	$ 1,940

(dollars in thousands)	Balance at December 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2019
Real estate mortgage	$ 465	$ –	$ –	$ (49)	$ 416
Production and intermediate-term	1,175	18	132	(557)	732
Agribusiness	225	–	–	286	511
Rural infrastructure	33	–	–	7	40
Agricultural export finance	–	–	–	2	2
Total	$ 1,898	$ 18	$ 132	$ (311)	$ 1,701

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)	**2021**	2020	2019
Balance at beginning of period	**$ 321**	$ 266	$ 247
(Reversal of)/Provision for reserve for unfunded commitments	**(17)**	55	19
Total	**$ 304**	$ 321	$ 266

Additional information on the allowance for loan losses follows.

	Allowance for Loan Losses Ending Balance at December 31, 2021		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2021	
(dollars in thousands)	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 291	$ –	$ 345,803
Production and intermediate-term	–	1,226	–	122,100
Agribusiness	–	279	–	92,163
Rural infrastructure	–	55	–	34,119
Agricultural export finance	–	6	–	5,010
Total	$ –	$ 1,857	$ –	$ 599,195

	Allowance for Loan Losses Ending Balance at December 31, 2020		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2020	
(dollars in thousands)	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 312	$ –	$ 306,906
Production and intermediate-term	–	1,141	–	119,957
Agribusiness	–	411	–	81,224
Rural infrastructure	–	70	–	26,738
Agricultural export finance	–	6	–	5,010
Total	$ –	$ 1,940	$ –	$ 539,835

	Allowance for Loan Losses Ending Balance at December 31, 2019		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2019	
(dollars in thousands)	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 416	$ –	$ 269,180
Production and intermediate-term	–	732	1	104,547
Agribusiness	–	511	–	77,710
Rural infrastructure	–	40	–	10,138
Agricultural export finance	–	2	–	5,016
Total	$ –	$ 1,701	$ 1	$ 466,591

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2021, the Association's investment in CoBank is in the form of Class A stock with a par value of $100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. As a result of changes in CoBank's capital plans during 2021, the requirement for

capitalizing the Association's direct loan from CoBank changed from 4.00 percent of the Association's prior one-year average direct loan balance to 4.00 percent of the prior five-year average direct loan balance. The current requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the Association's prior ten-year average balance of such participations sold to CoBank. Under the current CoBank capital plan, patronage from CoBank related to these participations sold is paid 75 percent cash and 25 percent Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

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

The Association owned 0.37 percent of the outstanding common stock of CoBank at December 31, 2021, compared with 0.38 percent in 2020 and 0.33 percent in 2019.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
(dollars in thousands)	**2021**	2020	2019
Land	**$ 550**	$ 552	$ 552
Buildings and improvements	**6,272**	6,372	957
Furniture, equipment, and automobiles	**740**	775	350
Construction in progress	**–**	–	4,315
	7,562	7,699	6,174
Less: accumulated depreciation	**677**	552	415
Total	**$ 6,885**	$ 7,147	$ 5,759

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 is subject to periodic renewals in the normal course of business. The GFA will mature on December 31, 2022. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2021. Substantially all borrower loans are match-funded with CoBank**.** Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing.

	December 31		
(dollars in thousands)	**2021**	2020	2019
Line of credit	**$ 490,000**	$ 450,000	$ 410,000
Outstanding principal and accrued interest balance	**$ 465,116**	$ 412,599	$ 344,444
Average outstanding principal balance under the line of credit	**$ 398,388**	$ 366,306	$ 292,601
Weighted average interest rate	**0.66%**	1.08%	2.65%

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

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

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

(dollars in thousands)	**2021**	2020	2019
Average committed funds	**$ 138,279**	$ 128,746	$ 128,748
Average rates	**0.99%**	1.47%	2.47%

Note 7 – Shareholders' Equity

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

A. Capital Stock and Participation Certificates

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

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00 percent to 7.00 percent of the borrower's combined loan volume. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. Currently, the Association has a stock requirement of the lesser of one thousand dollars or 2.00 percent of the amount of the borrower's combined loan volume.

B. Regulatory Capitalization Requirements and Restrictions

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

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

Ratio	Primary Components of Numerator	Denominator	2021	2020	2019	Minimum with Buffer	Minimum Requirement
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE) and common cooperative equities (qualifying capital stock and allocated equity)[1]	Risk-weighted assets	16.69%	18.00%	19.88%	7.0%	4.5%
Tier 1 Capital	CET1 Capital and non-cumulative perpetual preferred stock	Risk-weighted assets	16.69%	18.00%	19.88%	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	17.03%	18.40%	20.27%	10.5%	8.0%
Tier 1 Leverage	Tier 1 Capital (at least 1.5% must be URE and URE equivalents)	Total assets	19.61%	20.65%	22.54%	5.0%	4.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	20.74%	21.38%	23.06%	–	1.5%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-weighted assets	16.74%	18.06%	19.95%	–	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 Board of Directors has established, adopted and will maintain a formal written Capital Adequacy Plan to ensure the Association maintains compliance with capital adequacy regulations. The objectives in the plan are:

- Maintain Association capital at a level sufficient to meet all regulatory and System requirements;
- Provide protection against risk inherent in the Association's operation;
- Provide protection against unknown or unexpected risk;
- Provide sufficient capital for future asset growth;
- Allow the Association to operate profitably over the long-term;
- Maintain a competitive market positon; and,
- Increase Association surplus, thereby reducing reliance on borrower stock for capitalization needs.

Additionally, the Capital Adequacy Plan includes the capital targets necessary to achieve the Association's capital adequacy goals, as well as the minimum regulatory capital requirements.

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. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock. Transfers of stock are only allowed as long as the Association meets the regulatory minimum capital requirements. Refer to the Management's Discussion and Analysis (MDA) Capital Resources discussion for further information.

At December 31, 2021, the Association had the following classes of equity outstanding, all at a par value of $5.00 per share/unit:

Class	Number of Shares	Voting	Protected
C-common stock	99,934	Yes	No
F-Participation certificates	7,747	No	No

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.

Losses that result in impairment of capital stock and participation certificates will be allocated to the classes of equity described above on a pro-rata basis. Upon liquidation of the Association, any assets remaining after the settlement of all liabilities will be distributed first to redeem the par value of protected equities and then to redeem the par value of unprotected equities. Any assets remaining after such distribution will be shared, pro-rata, by all stock and certificate holders of record immediately before the liquidation distribution.

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

Shares in whole numbers	Capital
Shares outstanding at December 31, 2020	106,906
Issuances	9,338
Retirements	(8,563)
Shares outstanding at December 31, 2021	107,681

D. Patronage

The Association has 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. The Association made a cash

patronage distribution of $4.3 million in 2021, $3.8 million in 2020 and $2.0 million in 2019. In 2021, the Association declared a cash patronage distribution of $4.7 million to be paid in 2022.

At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage refund. For 2021, the Association allocated 39.2 percent of its patronage-sourced net income to its patrons.

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

(dollars in thousands)	**2021**	2020	2019
CoBank	**$ 2,389**	$ 1,882	$ 1,420
Farm Credit Foundations	**15**	9	8
Other	**106**	62	64
Total	**$ 2,510**	$ 1,953	$ 1,492

Patronage distributed from CoBank was in cash and stock. The amount earned in 2021 was accrued and will be paid by CoBank in March 2022. The Association received additional patronage distributions from CoBank of $361 thousand in 2021 and $325 thousand in 2020 due to CoBank's strong capital levels and financial results. No additional patronage was received in 2019. The amount earned and accrued in 2020 and 2019 was paid by CoBank in March of the following year.

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

Patronage distributions are also received from other Farm Credit institutions that the Association has sold loan participations to.

NOTE 9 – INCOME TAXES

The provision for/(benefit) from income taxes follows.

	Year Ended December 31		
(dollars in thousands)	**2021**	2020	2019
Current:			
Federal	**$ 5**	$ 5	$ (55)
State	**2**	2	2
Deferred:			
Federal	**(26)**	(88)	140
(Benefit from)/Provision for income taxes	**$ (19)**	$ (81)	$ 87

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)	**2021**	2020	2019
Federal tax at statutory rate	**$ 2,520**	$ 2,240	$ 2,010
State tax, net	**1**	1	1
Effect of non-taxable FLCA subsidiary	**(2,349)**	(2,120)	(1,707)
Patronage refunds to borrowers	**(192)**	(202)	(217)
Other	**1**	–	–
(Benefit from)/Provision for income taxes	**$ (19)**	$ (81)	$ 87

Deferred tax assets and liabilities are comprised of the following.

	December 31		
(dollars in thousands)	**2021**	2020	2019
Deferred income tax assets:			
Allowance for loan losses	**$ 316**	$ 305	$ 209
Interest on nonaccrual loans	**220**	207	194
Gross deferred tax assets	**536**	512	403
Deferred income tax liabilities:			
FCB stock patronage	**(618)**	(618)	(618)
Bank patronage allocations	**(86)**	(87)	(67)
Gross deferred tax liability	**(704)**	(705)	(685)
Net deferred tax liability	**$ (168)**	$ (193)	$ (282)

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

NOTE 10 – EMPLOYEE BENEFIT PLANS

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

The defined benefit pension plan reflects an unfunded liability totaling $7.8 million at December 31, 2021. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the plan was $298.8 million at December 31, 2021, $318.4 million at December 31, 2020 and $299.3 million at December 31, 2019. The fair value of the plan assets was $291.1 million at December 31, 2021, $271.7 million at December 31, 2020 and $228.4 million at December 31, 2019. 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. Total plan income for participating employers was $1.3 million in 2021, compared with expense of $1.3 million in 2020 and $3.6 million in 2019. The Association's allocated share included in salaries and employee benefits was income of $40 thousand in 2021, income of $6 thousand in 2020, and expense of $31 thousand in 2019. Participating employers contributed $23.0 million in 2021, $23.0 million in 2020 and $16.0 million in 2019 to the plan. The Association's allocated share of these pension contributions was $288 thousand in 2021, $304 thousand in 2020 and $140 thousand in 2019. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient

assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2022 is $23.0 million. The Association's allocated share of these pension contributions is expected to be $291 thousand. 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 $3 thousand in 2021, $2 thousand in 2020 and $2 thousand in 2019. The Association made cash contributions of $4 thousand in 2021, $4 thousand in 2020 and $4 thousand in 2019.

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 patronage 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 $220 thousand in 2021, $201 thousand in 2020 and $176 thousand in 2019.

NOTE 11 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans 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 information to related parties for the years ended December 31 is shown below.

(dollars in thousands)	**2021**	2020	2019
Beginning balance	**$ 83,664**	$ 81,541	$ 82,018
New loans	**65,718**	80,580	49,969
Repayments	**(59,274)**	(78,792)	(53,619)
Reclassifications*	**4,120**	335	3,173
Ending balance	**$ 94,228**	$ 83,664	$ 81,541

* 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 outstanding to officers and directors at December 31, 2021 involved more than a normal risk of collectability.

The Association also has business relationships with certain other System entities. The Association paid $1.2 million in 2021, $994 thousand in 2020 and $940 thousand in 2019 to AgVantis for technology services. One Association officer serves as an AgVantis' director. The Association paid $117 thousand in 2021, $109 thousand in 2020 and $102 thousand in 2019 to Foundations for human resource services and none in 2021, 14 thousand in 2020 and none in 2019 to CoBank for operational services. Refer to Note 4, "Investment in CoBank", and Note 6, "Note Payable to CoBank", for additional information on the Association's relationship with CoBank.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2021, $230.0 million of commitments to extend credit were outstanding.

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

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2021, $435 thousand of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2022 to 2024. The maximum potential amount of future payments the Association is required to make under the guarantees is $435 thousand. 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.

Assets measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized as follows:

	Fair Value Measurement Using						Total Fair	
(dollars in thousands)	Level 1		Level 2		Level 3		Value	
Assets held in nonqualified benefits trusts								
2021	**$**	**2**	**$**	**–**	**$**	**–**	**$**	**2**
2020	$	2	$	–	$	–	$	2
2019	$	1	$	–	$	–	$	1

The Association has no liabilities measured at fair value on a recurring basis for the periods presented.

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

Valuation Techniques

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

Assets Held in Non-Qualified Benefits Trusts

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

Loans

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

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

	2021				
(dollars in thousands)	**First**	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 3,595**	**$ 3,717**	**$ 4,185**	**$ 4,027**	**$ 15,524**
(Credit loss reversal)/Provision for credit losses	**(94)**	**(80)**	**183**	**(380)**	**(371)**
Noninterest expense, net	**1,177**	**930**	**1,107**	**660**	**3,874**
Net income	**$ 2,512**	**$ 2,867**	**$ 2,895**	**$ 3,747**	**$ 12,021**

	2020				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 3,373	$ 3,783	$ 3,893	$ 3,799	$ 14,848
Provision for credit losses/(Credit loss reversal)	168	391	(96)	(254)	209
Noninterest expense, net	944	1,025	1,051	870	3,890
Net income	$ 2,261	$ 2,367	$ 2,938	$ 3,183	$ 10,749

	2019				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 3,156	$ 3,228	$ 3,420	$ 3,513	$ 13,317
(Credit loss reversal)/Provision for credit losses	(178)	(52)	139	(201)	(292)
Noninterest expense, net	991	990	1,053	1,090	4,124
Net income	$ 2,343	$ 2,290	$ 2,228	$ 2,624	$ 9,485

NOTE 16 – SUBSEQUENT EVENTS

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

Disclosure Information Required By Farm Credit Administration Regulations

(Amounts in Whole Dollars)

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 conduct of 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” included in this annual report to shareholders.

Description of Property

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

Location	Description
2970 Davison Court Colusa, California	Owned Office Building
201-B North Tehama Street Willows, California	Jointly Owned Office Building*
450/460 West Sycamore Street & 108/116 South Lassen Street Willows, California	Owned Office Building

* Willows, California (50%) with Golden State Farm Credit, ACA. On December 22, 2021, the Association sold its 50% interest to Golden State Farm Credit, ACA.

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 contingent liabilities and obligations required to be disclosed in this section is incorporated herein by reference from Note 13 to the financial statements, “Commitments and Contingencies” included in this annual report to shareholders.

Selected Financial Data

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

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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 AND SENIOR OFFICERS

Farm Credit Administration (FCA) regulations require the disclosure of directors' business experience for the last five years, other entities on whose board the director serves, compensation received as an Association director, and certain other information.

The following represents these disclosures for the directors of the Farm Credit Services of Colusa-Glenn, ACA:

DIRECTORS

Michael Doherty, Chairman
Term of Office: 2020 - 2023
Committees: Enterprise Risk Management, Compensation (Chairman)
Board or Officer Experience: Colusa County Farm Supply (Director); Glenn County Farm Supply (Director); 44th District Agricultural Association (President and Director); Arbuckle-College City Fire Protection District (Chairman and Commissioner); Colusa County Fair Foundation (Director); Cortina Hulling & Shelling (Chairman and Director); Dunnigan Hills Hulling & Shelling (Chairman and Director); Grindstone Winery, LLC (Director); Cook Place Partners, LLC (Director); Chamisal Creek Ranch (Director); Myers Family Orchards (Director).

Mr. Doherty has been involved in farming for the past five years.

Herbert Holzapfel, Vice Chairman
Term of Office: 2019 - 2022
Committees: Enterprise Risk Management, Compensation (Vice Chairman)
Board or Officer Experience: Farm Credit Council (Director and Chairman of the PAC Committee).

Mr. Holzapfel has been involved in farming and ranching for the past five years.

Chris Bonacorsi, CPA, Outside Appointed Director
Term of Office: 2021 - 2024
Committees: Audit (Vice Chairman)
Board or Officer Experience: Current Director K-Coe Isom.

Mr. Bonacorsi has been employed as a Certified Public Accountant for K-Coe Isom for the past five years.

Craig Felix, Director
Term of Office: 2020 - 2023
Committees: Audit
Board or Officer Experience: USDA Farm Service Agency Colusa County (Vice Chairman and Director).

Mr. Felix has been involved in farming for the past five years.

Francis Hickel, Director
Term of Office: 2020 - 2023
Committees: Enterprise Risk Management (Chairman)
Board or Officer Experience: Colusa Rice Company (Owner, Board Member & CFO); Colusa Basin Drainage District (Director); Zumwalt Mutual Water District (Director); Colusa Rotary Committee (Member); Robert's Ditch (Director).

Mr. Hickel has been involved in farming, custom farming services and property management for the past five years.

Matt LaGrande, Director
Term of Office: 2019 - 2022
Committees: Audit
Board or Officer Experience: Colusa Groundwater Commission (Member); Dunnigan Hills Hulling & Shelling (Director); Cortina Hulling & Shelling (Director).

Mr. LaGrande has been involved in farming and ranching for the past five years.

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Susan LaGrande, Director
Term of Office: 2021 - 2024
Committees: Enterprise Risk Management (Vice Chairman)
Board or Officer Experience: CoBank Nominating Committee (Member).

Ms. LaGrande has been involved in farming for the past five years, served as the Deputy Director for Legislation, California Department of Fish and Wildlife for ten years and currently serves as Senior Policy Advisor for Smith Policy Groups.

Gregg McCorkle, Director
Term of office: 2021 - 2022
Committees: Enterprise Risk Management
Board or Officer Experience: 4M2G, Inc. (CFO); Black Rock Cattle (Managing Member); McCorkle Land Company (Managing Member); MAG Farms, Inc. (Director); Glenn Golf Club (President); Kirkwood Irrigation District (Director); McCorkle Farms, Inc. (Vice President).

Mr. McCorkle has been involved in farming for the past five years. Mr. McCorkle was appointed to the board in September 2021.

Matt Southam, Director
Term of office: 2021 - 2024
Committees: Audit
Board or Officer Experience: Omega Walnut, Inc. (Director); Central Valley Rice Cooperative (Vice Chairman and Director); Maxwell Irrigation District (Chairman and Director).

Mr. Southam has been involved in farming for the past five years.

Jeff Sutton, Outside Appointed Director
Term of Office: 2020 - 2023
Committees: Audit (Chairman)
Board or Officer Experience: Ridgetop Rice Dryer Advisory Committee (Member); Sites Joint Power Authority Board (Vice Chairman and Director); Family Farm Alliance Advisory (Director).

Mr. Sutton has been employed as an Attorney/General Manager for Tehama Colusa Canal Authority for the past five years.

John Amaro, Director
Term of Office: 2021 - 2024
Committees: Enterprise Risk Management, Compensation
Board or Officer Experience: Farmers' Rice Cooperative (Director); Tehama Colusa Canal Authority (Director); Glenn Colusa Irrigation District (Director).

Mr. Amaro has been involved in farming for the past five years and an owner in an auto parts store (sold in 2017). Mr. Amaro's term of office was scheduled to expire in 2024; however, he retired from the board in August 2021.

SENIOR OFFICERS

FCA regulations also require the following disclosure of the business experience for the last five years for each senior officer:

Timothy Elrod
Mr. Elrod has served as President and Chief Executive Officer since March 2019. Mr. Elrod served as Chief Operating Officer from November 2014 through April 2019. Mr. Elrod served as Chief Financial Officer from May 2016 through September 2017. Mr. Elrod began his employment with the Association in May 2014. Mr. Elrod is a graduate of St. Mary's College of California.

Rebecca Myers
Mrs. Myers has served as Executive Vice President for the Association since August 2014, and began her employment with the Association in November 2000. In March 2019, Mrs. Myers assumed the position of Chief Administrative Officer. Mrs. Myers is a graduate of California Polytechnic State University, San Luis Obispo.

Lucas Reimers
Mr. Reimers joined the Association as Chief Credit Officer in January 2017. Mr. Reimers has extensive experience in commercial banking, as well as in the Farm Credit System. Mr. Reimers was formerly with Wells Fargo Bank Middle

Unaudited

Market Banking. Mr. Reimers obtained his undergraduate degree from St. Mary's College of California and his master's degree from California State University, Chico.

Amy Ceballos, CPA
Mrs. Ceballos has served as Chief Financial Officer for the Association since October 2017, and began her employment with the Association in September 2016. Mrs. Ceballos is a CPA and spent seven years with K-Coe Isom, a regional accounting firm, prior to joining the Association. Mrs. Ceballos is a graduate of California State University, Chico.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Per the Association's Director Honoraria policy, during 2021, directors are compensated for their services based on the following daily honoraria:

	Rate
Board Meetings	
Board Chair	$ 750
Regular Member	$ 500
Audit and ERM Committee Meetings	
Audit Chair and ERM Chair	$ 750
Regular Member	$ 500
Meetings Less Than One Hour or Additional Training in Conjunction with a Board Meeting	
Board Chair, Audit Chair, and ERM Chair	$ 350
Regular Member	$ 250
Full Day of Training or Out of Town Meeting	
Board Chair, Audit Chair, and ERM Chair	$ 1,000
Regular Member	$ 750
Full Day of Virtual Training or Meeting	
All Members	$ 500

Directors are also reimbursed for mileage, as well as documented business expenses while serving in an official capacity. The total compensation paid to directors for 2021, as outlined above was $86,400. The Audit Committee and Enterprise Risk Management Committee (ERM) meetings are typically held in conjunction with regular board meetings, so no additional compensation was paid to the directors for those meetings. There were two Compensation Committee meetings in which compensation was paid to directors.

Additional information for each director is provided below:

Name	Number of Days Served at		Board Meetings and Other Official Duties Compensation	Compensation Committee	Total Compensation Paid During 2021
	Board Meetings	Other Official Activities			
Michael Doherty	13.0	9.0	$ 14,700	$ 700	$ 15,400
Herbert Holzapfel	13.0	4.0	6,750	500	7,250
Chris Bonacorsi	12.0	6.0	9,750	–	9,750
Craig Felix	12.0	1.0	6,000	–	6,000
Francis Hickel	13.0	4.0	8,750	–	8,750
Matthew LaGrande	11.0	4.0	5,750	500	6,250
Susan LaGrande	12.0	6.0	9,500	–	9,500
Gregg McCorkle	4.0	–	2,000	–	2,000
Matthew Southam	12.0	3.0	6,750	–	6,750
Jeff Sutton	13.0	6.0	11,750	–	11,750
John Amaro	6.0	1.0	3,000	–	3,000
Total Compensation			$ 84,700	$ 1,700	$ 86,400

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The Association has adopted a policy concerning travel, subsistence and other related expenses as they apply to directors and senior officers. A copy of this policy is available to shareholders upon request. Reimbursement for travel, subsistence and related expenses for all directors as a group amounted to $12,151 in 2021, $11,873 in 2020 and $37,829 in 2019. The total compensation and reimbursement for travel paid to directors for 2021, as described above, amounted to $98,551.

Required senior officer compensation information is included in the Association's Annual Meeting Information Statement (AMIS) mailed to all shareholders. The AMIS is available for public inspection at the Association office. 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 senior 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.

No loans to directors or senior officers, their immediate families, and affiliated organizations involved more than a normal risk of collectability during 2021.

INVOLVEMENT OF DIRECTORS AND OFFICERS IN CERTAIN LEGAL PROCEEDINGS

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

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.

BORROWER PRIVACY

Your privacy is important to us. We want you to know that we hold your financial and other personal information in strict confidence. Since 1972, Farm Credit Administration regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without your consent. We do not sell or trade our customers' personal information to marketing companies or information brokers.

FCA rules allow us to disclose customer information to others only in these situations:

- We may give it to another Farm Credit institution that you do business with.
- We can be a credit reference for you with other lenders and provide information to a credit bureau or other consumer reporting agency.
- We can provide information in certain types of legal or law enforcement proceedings.
- We may provide information to auditors for the purpose of confirming loan balances and terms.
- FCA and other third-party examiners may review loan files during regular examinations of our association.
- If one of our employees applies to become a licensed real estate appraiser, we may give copies of real estate appraisal reports to the State agency that licenses appraisers when required. We will first remove as much personal information from the appraisal report as possible.

As a member/owner of this institution, your privacy and the security of your personal information are vital to our continued ability to serve your ongoing credit needs.

FINANCIAL STATEMENTS

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

RELATIONSHIP WITH COBANK, ACB (COBANK)

The Association's statutory obligation to borrow from CoBank is discussed in Note 6. CoBank's ability to access the capital of the Association is discussed in Note 7. CoBank's role in mitigating the Association's exposure to interest rate risk is described in the Liquidity and Funding Sources section of "Management's Discussion and Analysis."

Unaudited

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.

COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The stockholder's investment in the Association is materially affected by the financial condition and the results of operation of CoBank. Upon request, Association shareholders will be provided with a copy of the CoBank Annual and Quarterly Reports, which includes the combined financial statements of CoBank and its related Associations, and AgVantis. The CoBank Annual Report discusses the material aspects of CoBank's financial condition, changes in financial condition, and results of operations. In addition, the CoBank's Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation.

CoBank District 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 2970 Davison Court, Colusa, CA 95932 or calling (530) 458-4978. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

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BOARD OF DIRECTORS

Chris Bonacorsi
Vice Chairman of the Audit Committee
Appointed Director

Michael Doherty
Chairman of the Board
Williams-Arbuckle-Grimes

Craig Felix
Director
Maxwell-Delevan-Princeton

Francis Hickel
Chairman of the Enterprise Risk Management Committee
Colusa

Herb Holzapfel
Vice Chairman of the Board
Willows-Bayliss-Artois

Matt LaGrande
Director
Williams-Arbuckle-Grimes

Susan LaGrande
Vice Chairman of the Enterprise Risk Management Committee
Colusa

Gregg McCorkle
Director
Willows-Bayliss-Artois

Matt Southam
Director
Maxwell-Delevan-Princeton

Jeff Sutton
Chairman of the Audit Committee
Appointed Director

NOMINATING COMMITTEE

REGULAR MEMBERS

Chelsea Dirks
Maxwell-Delevan-Princeton

Jared Gross
Colusa

Alex Struckmeyer
Williams-Arbuckle-Grimes

Casey Thurman
Willows-Bayliss-Artois

ALTERNATE MEMBERS

Adam Boles
Willows-Bayliss-Artois

Brandon Ottenwalter
Colusa

Andrew Wallace
Williams-Arbuckle-Grimes

ADMINISTRATIVE STAFF

Karen Cabral
Executive Operations Manager

Amy Ceballos
Chief Financial Officer

Tim Elrod
President and Chief Executive Officer

Anthony Gonzales
Information Security Officer

Rebecca Myers
Chief Administrative Officer and Executive Vice President

Luke Reimers
Chief Credit Officer

COLUSA STAFF

Jim Abel
Appraisal Manager

Julie Blacklock
Loan Officer

Jennifer Bowen
Vice President of Capital Markets

Jes Contreras
Capital Markets Credit Analyst

Katrina Hartman
Capital Markets Loan Accounting Specialist

Nita Lang
Senior Loan Documentation Specialist

Krystle Lolmaugh
Accounting Manager

Davin Lower
Loan Officer

Brian Mecham
Loan Officer

Tara Ortiz
Administrative Specialist

Jillian Pearson
Credit Analyst

Destiny Perry
Accounting Specialist

Taylor Perry
Credit Analyst

Sue Wells
Accounting Specialist

Vincent Wurm
Vice President of Lending

WILLOWS STAFF

Brad Eidman
Senior Loan Officer

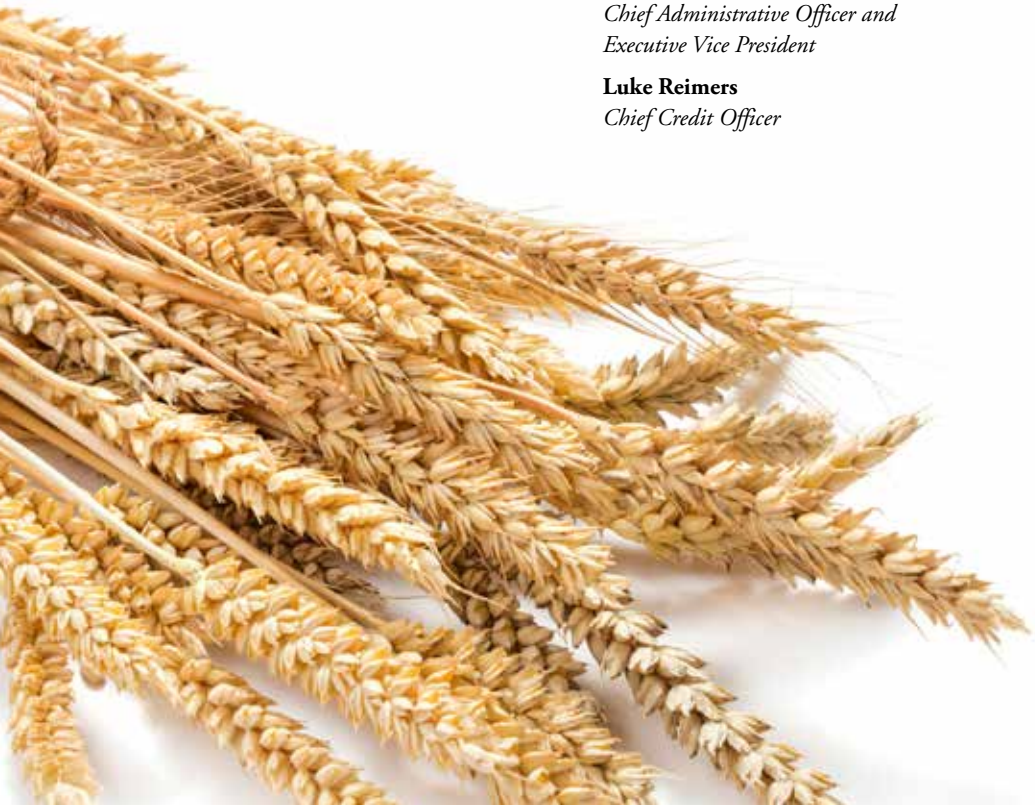
Brooke Endres
Loan Officer

Sandra Martin
Operations Specialist

Anthony Miranda
Credit & Appraisal Analyst

Stacy Pearson
Vice President of Credit

Sarah van Tol
Credit Analyst



FARM CREDIT SERVICES OF COLUSA-GLENN, ACA

2970 Davison Court
Colusa, California 95932
- (530) 458-2163
- (530) 458-2614 Fax

460 W. Sycamore Street
Willows, California 95988
- (530) 934-7086
- (530) 934-2349 Fax

www.fcscolusaglenn.com