# 2021

# ANNUAL REPORT

YOUR PARTNER IN AGRICULTURE.

FARM CREDIT
OF SOUTHERN COLORADO

FARM CREDIT
OF SOUTHERN COLORADO

Jeremy M. Anderson
*President & CEO*

To our customers and shareholders,

This past year was a year of strength and growth for our Association as we adapted to the continued challenges of the COVID-19 pandemic. Our customers and employees showed great flexibility and resilience throughout the year. The Association experienced another strong financial performance in 2021, despite the many obstacles and disruptions affecting our business and our country.

We had strong operating results with net earnings in excess of $20.0 million, which allows the Association to return $8.5 million in cash patronage in the spring of 2022, to you, our shareholders. Strong credit facility demand from new and existing customers was driven by the low interest rate environment, demand for long term real estate financing and favorable conditions for most segments of agriculture we serve. Total loans outstanding at December 31, 2021 were $1.38 billion, an increase of $198.1 million, or 16.8%, from loans of $1.18 billion at December 31, 2020.

Additional Association highlights for 2021 included:

### Company Culture

Over the past year, we focused on our company culture and have fully adopted the core values of Fun, Integrity, Respect, Service and Trust. You will likely see the FIRST values present in many of our materials and in our interactions with all of our shareholders and employees. In addition, we embraced the future of remote work, with over 40% of our workforce now working remotely or in some form of a hybrid work arrangement. The Association was recognized as one of the best workplaces in 2021 by the Colorado Springs Gazette.

### Young, Beginning and Small Farmer Program

The Young, Beginning, and Small Farmer program at the Association continues to be a high priority; the program shows strong business growth in commitments and loans. At December 31, 2021, total loan and commitment volume made to young farmers and ranchers and beginning farmers and ranchers increased over 18.2% and 32.5%, respectively, from December 31, 2020. In addition, we exceeded our overall goals of 300 new loans and new volume $18.0 million.

### Related Services

We enjoyed a successful year of partnering with our customers to increase our multi-peril and hail insurance service business. The reinvestment in this offering allows us to assist our customers with their risk management strategies.

### Other Items

Given our philosophy with embracing the future of remote work, noted above, created office space availability. We executed leases on our Colorado Springs administrative office allowing us to better utilize the space within that building.

At Farm Credit of Southern Colorado, we understand that our customers expect competitively priced products and services, exceptional customer service, convenient credit delivery, knowledgeable staff and a dedicated management team. It is a pleasure to serve, you, our member owners. We are proud to present our 2021 Farm Credit of Southern Colorado Annual Report of Financial Condition.

As a mission based cooperative, we look forward to enriching the lives of our customers, employees and the communities we serve. Thank you for your business and continued support.

Jeremy M Anderson

Jeremy M Anderson
President & CEO

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# OUR BOARD OF DIRECTORS

**Mark Peterson**

Monte Vista, CO
Chairman

**Mike Shields**

Westcliffe, CO
Vice Chairman

**Kent Price**

Monte Vista, CO

**Whitney Hansen**

Burlington, CO

**Steve Betts**

Centennial, CO
Appointed Director

**Sid Yoder**

Karval, CO

**Ryan Britten**

Haswell, CO

**Colin Durham**

Yoder, CO

**Dale Willhite**

Holly, CO

**Cole James**

Karval, CO

**Gary Pautler**

Stratton, CO

**Mary-Margaret Henke**

Denver, CO
Appointed Director

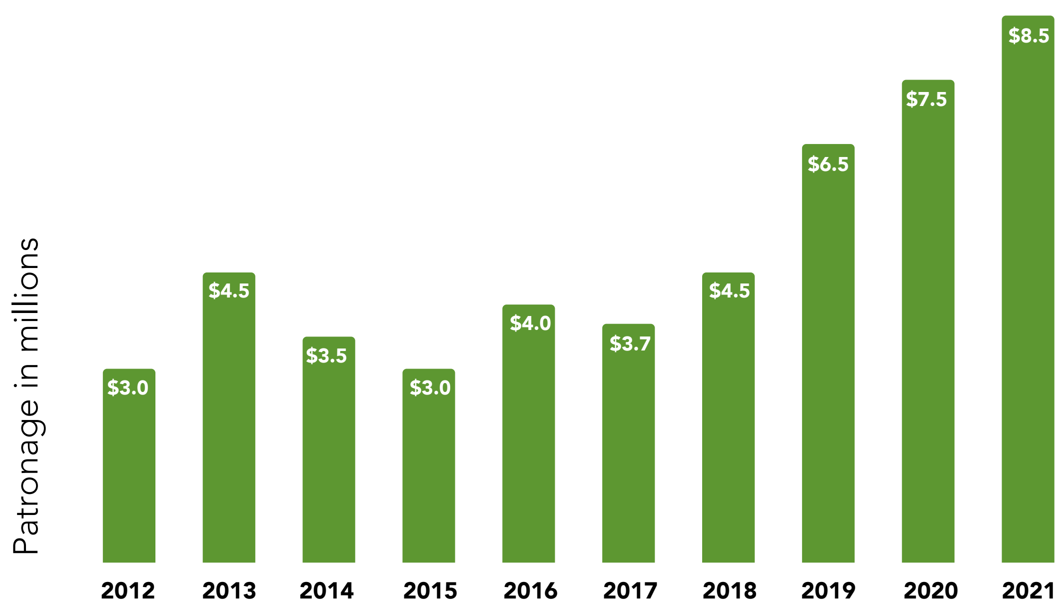
# PATRONAGE

**The Board of Directors of Farm Credit of Southern Colorado declared a record cash patronage dividend of $8.5 Million for 2021**

The Board of Directors declared a record cash patronage dividend of $8.5 million dollars. This represents over 40% of Farm Credit of Southern Colorado's net earnings going back to farmers and ranchers across southern and eastern Colorado to invest in their operations, families and rural communities. Since 2012, Farm Credit of Southern Colorado has returned nearly $49 million to eligible customer-owners.

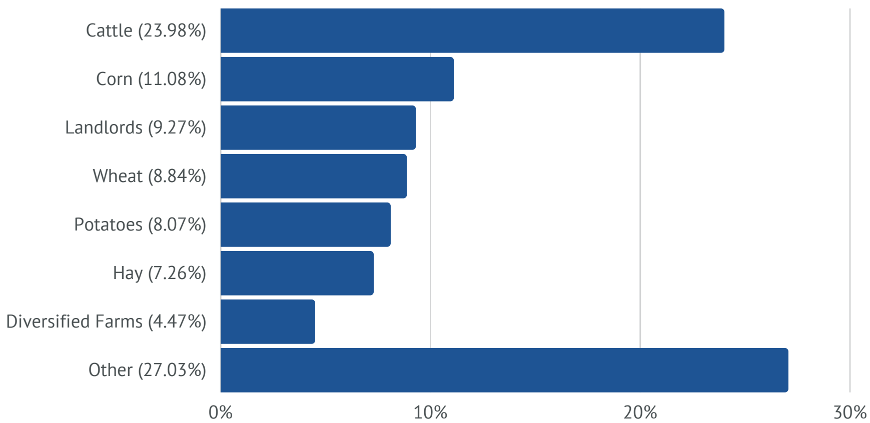
## PATRONAGE DECLARED IN 2021

# $8.5 MILLION



# PORTFOLIO BREAKDOWN

**Our association loan volume by borrower primary commodity as of December 31, 2021.**




# KEY NUMBERS

(IN THOUSANDS)

TOTAL ASSETS

**$1,455,495**

NET INCOME

**$20,014**

TOTAL SHAREHOLDERS' EQUITY

**$277,135**

TOTAL 2021 PATRONAGE DECLARED

**$8,500**

## Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

| | December 31 | | | | |
|---|---|---|---|---|---|
| | **2021** | 2020 | 2019 | 2018 | 2017 |
| **Statement of Condition Data** | | | | | |
| Loans | **$ 1,375,787** | $ 1,177,690 | $ 1,036,258 | $ 1,028,163 | $ 981,997 |
| Less allowance for loan losses | **3,100** | 3,826 | 3,440 | 2,863 | 2,261 |
| Net loans | **1,372,687** | 1,173,864 | 1,032,818 | 1,025,300 | 979,736 |
| Investment in CoBank, ACB | **35,248** | 35,213 | 32,839 | 32,435 | 31,487 |
| Other property owned | **-** | - | - | - | 2,378 |
| Other assets | **47,560** | 44,231 | 42,443 | 45,062 | 41,236 |
| **Total assets** | **$ 1,455,495** | $ 1,253,308 | $ 1,108,100 | $ 1,102,797 | $ 1,054,837 |
| Obligations with maturities of one year or less | **$ 26,496** | $ 27,203 | $ 21,433 | $ 19,075 | $ 14,943 |
| Obligations with maturities longer than one year | **1,151,296** | 959,973 | 825,222 | 829,974 | 798,183 |
| Reserve for unfunded commitments | **568** | 476 | 437 | 411 | 382 |
| **Total liabilities** | **1,178,360** | 987,652 | 847,092 | 849,460 | 813,508 |
| Preferred stock | **776** | 953 | 2,557 | 2,826 | 2,619 |
| Capital stock | **1,777** | 1,635 | 1,487 | 1,454 | 1,410 |
| Unallocated retained earnings | **274,582** | 263,068 | 257,254 | 249,624 | 238,141 |
| Accumulated other comprehensive income/(loss) | **-** | - | (290) | (567) | (841) |
| **Total shareholders' equity** | **277,135** | 265,656 | 261,008 | 253,337 | 241,329 |
| **Total liabilities and shareholders' equity** | **$ 1,455,495** | $ 1,253,308 | $ 1,108,100 | $ 1,102,797 | $ 1,054,837 |

| | For the Year Ended December 31 | | | | |
|---|---|---|---|---|---|
| | **2021** | 2020 | 2019 | 2018 | 2017 |
| **Statement of Income/(Expense) Data** | | | | | |
| Net interest income | **$ 32,078** | $ 29,356 | $ 29,417 | $ 27,805 | $ 26,678 |
| Patronage distribution from Farm Credit institutions | **5,572** | 3,850 | 3,275 | 4,105 | 3,541 |
| Credit loss reversal/(Provision for credit losses) | **643** | (391) | (699) | (494) | (822) |
| Noninterest expense, net | **(18,268)** | (19,482) | (17,803) | (15,393) | (15,662) |
| Provision for income taxes | **(11)** | (9) | (4) | (6) | (5) |
| **Net income** | **$ 20,014** | $ 13,324 | $ 14,186 | $ 16,017 | $ 13,730 |
| **Comprehensive income** | **$ 20,014** | $ 13,614 | $ 14,463 | $ 16,291 | $ 12,889 |
| | | | | | |
| **Key Financial Ratios** | | | | | |
| **For the Year** | | | | | |
| Return on average assets | **1.50%** | 1.15% | 1.30% | 1.50% | 1.33% |
| Return on average shareholders' equity | **7.28%** | 4.98% | 5.42% | 6.41% | 5.74% |
| Net interest income as a percentage of average earning assets | **2.55%** | 2.69% | 2.87% | 2.78% | 2.77% |
| Net (recoveries)/charge-offs as a percentage of average net loans | **<(0.01)%** | <(0.01%) | 0.01% | (0.01%) | <(0.01%) |
| **At Year End** | | | | | |
| Shareholders' equity as a percentage of total assets | **19.04%** | 21.20% | 23.55% | 22.97% | 22.88% |
| Debt as a ratio to shareholders' equity | **4.25:1** | 3.72:1 | 3.25:1 | 3.35:1 | 3.37:1 |
| Allowance for loan losses as a percentage of loans | **0.23%** | 0.32% | 0.33% | 0.28% | 0.23% |
| Common equity tier 1 (CET1) capital ratio | **16.57%** | 18.83% | 20.36% | 19.68% | 19.52% |
| Tier 1 capital ratio | **16.57%** | 18.83% | 20.36% | 19.68% | 19.52% |
| Total regulatory capital ratio | **16.82%** | 19.20% | 20.70% | 19.94% | 19.74% |
| Tier 1 leverage ratio | **17.36%** | 19.65% | 21.47% | 20.78% | 20.35% |
| Unallocated retained earnings and URE equivalents (UREE) leverage ratio | **18.06%** | 20.31% | 22.18% | 21.41% | 20.94% |
| Permanent capital ratio | **16.66%** | 18.97% | 20.65% | 19.98% | 19.81% |
| **Net Income Distribution** | | | | | |
| Cash patronage distributions paid | **$ 7,500** | $ 6,500 | $ 4,500 | $ 3,750 | $ 4,000 |
| Cash patronage declared | **$ 8,500** | $ 7,500 | $ 6,500 | $ 4,500 | $ 3,750 |
| Stock dividends paid | **$ 1** | $ 20 | $ 57 | $ 28 | $ 14 |
| Stock dividends declared | **$ -** | $ 10 | $ 56 | $ 16 | $ 16 |

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit of Southern Colorado, 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
- Patron's Consent to Take Patronage Distribution into Income

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.aglending.com, or upon request. We are located at 5110 Edison Avenue, Colorado Springs, Colorado 80915 or may be contacted by calling (800) 815-8559 or (719) 570-1087.

## 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 accomplished 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 of southern and eastern Colorado. The counties in our territory are listed in Note 1 of the accompanying consolidated financial statements. 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, multi-peril insurance, crop hail insurance, revenue protection for cattle, leasing, fee appraisals, advance conditional payment accounts and an investment stock program. 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 5110 Edison Avenue, Colorado Springs, Colorado 80915 or by calling (800) 815-8559 or (719) 570-1087. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. We entered into a new agreement effective January 1, 2020, which was to expire on December 31, 2022. However, in December 2021, we signed a one-year extension to the service agreement which expires 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

Our lending territory spans over a very diverse region of southern and eastern Colorado through the southern front range and into the San Luis Valley. Cattle, corn, wheat, potatoes and hay represent the top five commodity concentrations in our association. Cattle is our largest commodity made up primarily of cow/calf, fed cattle and stockers. Prices for various classes of beef cattle improved over the course of the year. Spot market live cattle prices are up about $25 from $111 to $136/cwt at year end. Feeder cattle futures prices were also up about $23/cwt over the same period. Improved live cattle and feeder cattle futures prices translate into stronger prices for calves at the ranch. Corn futures markets have strengthened over the course of 2021. At year end, the March delivery contract closed at $5.93/bu, up $1.09/bu from the previous year end. There were opportunities in 2021 to contract corn at prices over $7/bu, up over $2.35/bu from the previous year end. Local basis continues to be strong but has weakened from mid-year highs. Wheat markets rallied over the year providing profitable marketing opportunities from harvest through the end of the year. The July 2022 delivery of Kansas City Wheat rallied to $8.71/bu in November, up $2.70/bu from the previous year end before closing the year at $7.97, down $0.74 from the market high. Producers have had opportunities to price all grains at profitable levels throughout 2021. Hay prices have remained strong throughout the year, supported by tight supplies across the country. Average to above average yields for most of the grain crops with historically strong prices in our territory will support profitability for most producers.

Drought conditions throughout our territory were volatile throughout the year. In the first half of the year, storms provided ample moisture relieving drought conditions. United States Department of Agriculture (USDA) drought designations were lowered by mid-year. These storms provided soil with ample moisture to support both crops and rangeland. In the second half of the year, drought conditions returned throughout our territory. At the end of 2021, the USDA U.S. Drought Monitor designated the majority of our territory as experiencing Severe Drought (D2). Some areas in the northern and southern reaches of our territory were designated as Extreme Drought (D3) conditions. Overall, USDA drought designations at the end 2021 were improved over the same period in 2020.

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

As mentioned above, the top five commodities produced or raised in our territory are cattle, corn, wheat, potatoes, and hay. Below, is a discussion of these commodities in our territory throughout 2021.

Beef producers in our territory experienced profitability in 2021. Storms in the second quarter allowed for ample forage and acceptable gains on grass through the summer. Calves weaned at normal weights and the market for feeder calves remained strong throughout the fall. The biggest challenge for cattlemen at year end is another dry fall that may limit forage availability over the winter and result in increased winter feed costs.

In 2021, corn yields in our territory were below average for dry land acres and in line with historical average for irrigated acres. Markets continue to provide profitable pricing opportunities for both the 2021 crop as well as the 2022 crop. The corn markets are supporting pricing points for other cash grains grown in our territory as well.

USDA National Ag Statistics Service (NASS) reports that winter wheat in Colorado is in 25% good condition, 42% fair condition, 22% poor condition and 11% very poor condition. Planting conditions in our territory were dry, emergence was spotty, and the overall crop in our territory appears to be in mostly fair condition at this point. The wheat crop will need moisture over the winter and early spring to maintain yields. The futures price for winter wheat offers profitable marketing opportunities. Additionally, the projected price for wheat insurance is at a level that will protect the higher input costs that producers realized this fall.

Potatoes are primarily grown in the San Luis valley, which is in the southwest region of our territory. During 2021, yields for potatoes were in line with historical average. Pricing opportunities for potatoes were supported by drought conditions and tighter supplies in other potato growing regions of the country. Demand challenges caused some volatility in the San Luis Valley potato market stemming from trucking shortages and supply chain disruptions. All things considered, potato producers experienced a profitable year.

Alfalfa is grown in the San Luis Valley, which is in the southwest region of our territory as well as in counties along Arkansas River throughout Southeastern Colorado. USDA NASS shows that hay prices in our territory are holding strong based on tighter supplies.

Demand for rural properties remains strong while supply is limited, particularly for recreational properties. These properties are very limited in supply and close rapidly when offered for sale. The market supports strong price points for recreational real estate. Demand for appraisals is high and can generate challenges to complete appraisals when financing these properties. Demand for rural property remains strong on all classes of real estate in our territory. Auction and private party sales continue to support values for all land classes. An increasing price trend for all classes of real estate in our territory has been observed. The projected increase in interest rates may impact demand for rural properties in 2022.

During 2021, the association benefited from a historically low cost of funds. The short-term and long-term rates remained at historically low levels throughout the year and was a benefit to the association and our borrowers. In part due to historically low borrowing costs, the association experienced record originations for long term real estate loans.

The broader economy and marketplace continue 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 will remain a concern well into 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.

In our territory, the biggest economic challenge caused by COVID-19 is the effect on the supply chain. Producers and suppliers are struggling to find various inputs including chemical, fertilizer, tires, and other parts to complete repairs. In addition, tight supplies on new and used equipment have been observed. We are expecting some challenges as we enter 2022 with sourcing inputs for next year’s crops. Prices for fertilizer, chemical and seed have increased significantly from 2020.

The U.S. government has continued to institute various programs in support of the COVID-19 recovery. In March 2021, Congress passed the $1.9 trillion American Rescue Plan Act designed to provide near-term help to those hurt by the pandemic. In December 2020, Congress passed the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, which, among other provisions, allocated additional funding for Paycheck Protection Program (PPP) loans and allows certain existing PPP borrowers to apply for additional loans or draws on existing loans. The Association obtained approval to participate as a lender in the PPP and successfully processed PPP loans for customers before the initial round of funding for the program was depleted. As of December 31, 2021, we have worked with our customers to complete the forgiveness process for all of the PPP loans obtained through the initial round of funding for the program. In our continued effort to support producers through this challenging time, the Association engaged World Trade Finance as a third-party provider of PPP loans. World Trade Finance served our customers directly, underwriting and booking round two PPP loans along with helping customers navigate the forgiveness process. The second round of PPP funds were depleted by the end of the third quarter. In March 2021, the current presidential administration also proposed the $2.3 trillion American Jobs Plan intended to create jobs and rebuild the country’s infrastructure.

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

## LOAN PORTFOLIO

Total loans outstanding were $1.38 billion at December 31, 2021, an increase of $198.1 million, or 16.8%, from loans at December 31, 2020 of $1.18 billion and an increase of $339.5 million, or 32.8%, from loans at December 31, 2019 of $1.04 billion. The increase in loans was primarily due to an increase in our core portfolio, predominately in our real estate mortgage loans as well as our production and intermediate-term loans that resulted from the favorable interest rate environment as well as increased marketing efforts, especially in certain areas of our territory. 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 loans | **$ 884,391** | **64.3%** | $ 717,970 | 60.9% | $ 614,626 | 59.3% |
| Production and intermediate-term loans | **240,148** | **17.5%** | 204,402 | 17.4% | 185,943 | 17.9% |
| Agribusiness loans | **171,148** | **12.4%** | 171,557 | 14.6% | 152,092 | 14.7% |
| Rural infrastructure loans | **70,827** | **5.1%** | 72,769 | 6.2% | 74,130 | 7.2% |
| Agricultural export finance loans | **8,512** | **0.6%** | 10,140 | 0.8% | 8,517 | 0.8% |
| Rural residential real estate loans | **23** | **–** | 27 | – | 30 | – |
| Mission-related loans | **738** | **0.1%** | 825 | 0.1% | 920 | 0.1% |
| Total | **$ 1,375,787** | **100.0%** | $ 1,177,690 | 100.0% | $ 1,036,258 | 100.0% |

Real estate mortgage loans outstanding increased 23.2% to $884.4 million, compared with $718.0 million at year-end 2020, primarily due to the low interest rate environment. In addition, older farmers and ranchers exited their land holdings creating supply for purchases. 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 17.5% to $240.1 million, compared with 2020 loans of $204.4 million, primarily due to an increase in our core loan portfolio as a result of our marketing strategies and focused effort to increase production loans. 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. Production 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.

Agribusiness loans decreased 0.2% to $171.1 million, compared with 2020 loans of $171.6 million, due to decreased purchased participations. Agribusiness loans consist of loans to farm related businesses, cooperatives, and process and marketing businesses.

A decrease was noted in rural infrastructure loan volume, where 100% of the loan volume was due to loan participations in communication, energy and water/wastewater. Additionally, at December 31, 2021, 100% of agricultural export finance volume was 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 from other System and non-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 with other Farm Credit institutions | **$ 323,885** | $ 316,135 | $ 293,142 |
| Participations purchased with non-Farm Credit institutions | **796** | 1,413 | 1,746 |
| Total participations purchased | **$ 324,681** | $ 317,548 | $ 294,888 |
| Participations sold to other Farm Credit institutions | **57,109** | 64,106 | 35,713 |
| Total participations sold | **$ 57,109** | $ 64,106 | $ 35,713 |

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 |
|---|---|---|---|
| Alamosa | **4.40 %** | 3.11% | 2.51% |
| Arapahoe | **2.29%** | 2.53% | 3.19% |
| Baca | **2.22%** | 2.41% | 3.12% |
| Bent | **0.96%** | 1.13% | 1.05% |
| Cheyenne | **4.26%** | 4.20% | 4.15% |
| Conejos | **1.00%** | 1.11% | 1.18% |
| Costilla | **0.66%** | 0.58% | 0.47% |
| Custer | **0.76%** | 0.75% | 0.39% |
| Douglas | **1.52%** | 1.50% | 1.63% |
| El Paso | **1.24%** | 1.30% | 1.32% |
| Elbert | **3.22%** | 2.99% | 3.21% |
| Huerfano | **0.62%** | 0.24% | 0.13% |
| Jefferson | **0.87%** | 0.58% | 0.68% |
| Kiowa | **1.58%** | 1.45% | 1.27% |
| Kit Carson | **16.92%** | 17.62% | 18.92% |
| Las Animas | **0.83%** | 0.88% | 0.79% |
| Lincoln | **2.91%** | 3.23% | 3.30% |
| Otero | **1.72%** | 1.72% | 1.76% |
| Prowers | **2.11%** | 2.46% | 2.08% |
| Pueblo | **0.55%** | 0.58% | 0.60% |
| Rio Grande | **4.97%** | 4.08% | 3.76% |
| Saguache | **1.52%** | 1.47% | 1.68% |
| Other – Colorado | **12.36%** | 13.18% | 11.05% |
| Other | **30.51%** | 30.90% | 31.76% |
| Total | **100.00%** | 100.00% | 100.00% |

We are party to a Territorial Approval Agreement (Agreement) with two other associations in the states of Colorado and Kansas. The Agreement eliminates territorial restrictions and allows associations that are a party to the Agreement to make loans in any other association's territory regardless of a borrower's place of residence, location of operations, location of loan security or location of headquarters. This Agreement can be terminated upon the earlier to occur of:

1) the time when all but one association has withdrawn as a party to the Agreement; or
2) when requested by FCA.

We are a party to an Agreement Providing Territorial Concurrence (Agreement) with Farm Credit Services of America. This Agreement eliminates territorial restrictions and allows either party to make loans through its dealer network in the other's territory for a fee.

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

| | **December 31** | | |
|---|---|---|---|
| **SIC Category** | **2021** | 2020 | 2019 |
| Cattle | **23.98%** | 24.92% | 23.67% |
| Corn | **11.08%** | 11.93% | 12.72% |
| Landlords | **9.27%** | 8.10% | 8.54% |
| Wheat | **8.84%** | 10.08% | 8.78% |
| Potatoes | **8.07%** | 6.28% | 6.18% |
| Hay | **7.26%** | 7.13% | 5.85% |
| Diversified Farms | **4.47%** | 2.42% | 3.12% |
| Other | **27.03%** | 29.14% | 31.14% |
| Total | **100.00%** | 100.00% | 100.00% |

Our loan portfolio contains a concentration of cattle, corn, landlords, wheat and potatoes. The majority of our cattle producers fall into one of three categories: cow/calf producers, grazing stockers and fed cattle. Each has a distinct risk profile which provides diversity. As of December 31, 2021, borrowers with cow/calf producers as their primary product represented 14.82% of the portfolio, fed cattle and stockers represented 5.20% and 2.05%, respectively. Cattle producers that did not fall into one of these subcategories represented 1.91% of the portfolio. Our concentration of corn and wheat producers decreased to 11.08% and 8.84%, respectively. These decreases were due to the overall loan portfolio growing at a faster pace than loans to customers with these commodities as their primary business. Our concentration of borrowers whose primary commodity is landlord income increased to 9.27% primarily due to new business to new customers. Our concentration of borrowers whose primary commodity is potatoes increased to 8.07% due to increased marketing efforts in specific regions of our territory. Our concentration of borrowers whose primary commodity is diversified farms increased to 4.47% primarily due to new loans to one customer. The other category represents 27.03% of the loan volume and is comprised of more than 75 categories, the largest of these is 1.71%.

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 15.1% of loan volume and 70.6% 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 - $250 | **$ 207,601** | **2,722** | $ 198,344 | 2,709 | $ 193,174 | 2,449 |
| $251 - $500 | **177,794** | **498** | 162,448 | 460 | 150,086 | 421 |
| $501 - $1,000 | **222,008** | **324** | 196,925 | 285 | 206,030 | 296 |
| $1,001 - $5,000 | **596,790** | **293** | 491,352 | 248 | 405,962 | 210 |
| $5,001 - $25,000 | **145,460** | **17** | 101,868 | 13 | 55,148 | 8 |
| $25,001 - $100,000 | **26,134** | **1** | 26,753 | 1 | 25,858 | 1 |
| Total | **$1,375,787** | **3,855** | $1,177,690 | 3,716 | $ 1,036,258 | 3,385 |

As of December 31, 2021, approximately 13% 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.

Credit guarantees with government agencies of $20.6 million at year-end 2021, $22.6 million at year-end 2020 and $20.0 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 | $ 57,602 | $ 128,515 | $ 83,435 | $ 35,625 | $ 305,177 |
| Standby letters of credit | 3,577 | 399 | 34 | 9 | 4,019 |
| Total commitments | $ 61,179 | $ 128,914 | $ 83,469 | $ 35,634 | $ 309,196 |

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

***High Risk Assets***

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

| *(dollars in thousands)* | **2021** | 2020 | 2019 |
|---|---|---|---|
| Nonaccrual loans: | | | |
| Real estate mortgage | **$ 5,982** | $ 6,741 | $ 8,136 |
| Production and intermediate-term | **–** | 2 | 97 |
| Agribusiness | **–** | – | 3 |
| Mission-related | **–** | 825 | 920 |
| Total nonaccrual loans | **5,982** | 7,568 | 9,156 |
| Accruing restructured loans: | | | |
| Real estate mortgage | **392** | 403 | 403 |
| Production and intermediate-term | **20** | 50 | 804 |
| Total accruing restructured loans | **412** | 453 | 1,207 |
| Accruing loans 90 days past due: | | | |
| Real estate mortgage | **–** | – | 1,458 |
| Total accruing loans 90 days past due | **–** | – | 1,458 |
| Total high risk assets | **$ 6,394** | $ 8,021 | $ 11,821 |
| Nonaccrual loans to total loans | **0.43%** | 0.64% | 0.88% |
| High risk assets to total loans | **0.46%** | 0.68% | 1.14% |
| High risk assets to total shareholders' equity | **2.31%** | 3.02% | 4.53% |

We had no other property owned for the years presented.

Total high risk assets decreased $1.6 million, or 20.3%, to $6.39 million at December 31, 2021, compared with year-end 2020. The reduction in high risk assets was due to decreases in nonaccrual and accruing restructured loans.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased $1.6 million compared with December 31, 2020 due to the return of one customer to accrual status contributing $830 thousand, paydowns of $730 thousand and $41 thousand in payoffs. Nonaccrual volume decreased $3.2 million from December 31, 2019 due to $1.3 million in paydowns, $944 thousand in payoffs and one customer returning to accrual contributing $926 thousand. Three customers comprise approximately 92% of total nonaccrual volume. The following table provides additional information on nonaccrual loans as of December 31 for the last three fiscal years.

| *(dollars in thousands)* | **2021** | 2020 | 2019 |
|---|---|---|---|
| Nonaccrual loans current as to principal and interest | **$ 5,982** | $ 7,529 | $ 8,886 |

For the years presented, we had no cash basis nonaccrual loans and no restructured loans in nonaccrual status.

Accruing restructured loans including related accrued interest decreased $41 thousand during 2021 primarily as a result of repayments. The accruing restructured loans include only the year-end balances of loans and related accrued interest on which monetary concessions have been granted to borrowers and that are in accrual status. Accruing restructured loans do not include loans on which monetary concessions have been granted but which remain in nonaccrual status.

At the end of 2021 and 2020, there were no loans 90 days past due and still accruing interest. At the end of 2019, there were two loans 90 days past due and still accruing interest. The decrease is due to both loans paying off and closing in 2020.

High risk asset volume is anticipated to decrease in the future as a result of the continued improvement of the future financial outlook for farmers and ranchers.

***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 | **95.08%** | 91.85% | 90.47% |
| OAEM | **2.42%** | 5.56% | 5.46% |
| Substandard | **2.46%** | 2.54% | 4.01% |
| Doubtful | **0.04%** | 0.05% | 0.06% |
| Total | **100.00%** | 100.00% | 100.00% |

During 2021, overall credit quality improved. Loans classified as Acceptable and OAEM were 97.50% at December 31, 2021, 97.41% at December 31, 2020 and 95.93% at December 31, 2019. We had no loans classified as 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 and the new volume added in 2021 was acceptable. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans remained at a low level of 0.21% at December 31, 2021 and December 31, 2020 compared to 0.20% at December 31, 2019.

### *Allowance for Loan Losses*

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

| *(dollars in thousands)* | **2021** | 2020 | 2019 |
|---|---|---|---|
| Balance at beginning of year | **$ 3,826** | $ 3,440 | $ 2,863 |
| Charge-offs: | | | |
| Production and intermediate-term | **–** | – | 2 |
| Agribusiness | **–** | – | 117 |
| Total charge-offs | **–** | – | 119 |
| Recoveries: | | | |
| Production and intermediate-term | **–** | – | 1 |
| Agribusiness | **9** | 34 | 22 |
| Total recoveries | **9** | 34 | 23 |
| Net (recoveries)/charge-offs | **(9)** | (34) | 96 |
| (Loan loss reversal)/Provision for loan losses | **(735)** | 352 | 673 |
| Balance at December 31 | **$ 3,100** | $ 3,826 | $ 3,440 |
| Net (recoveries)/charge-offs to average net loans | **<(0.01%)** | <(0.01%) | 0.01% |

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

| *(dollars in thousands)* | **2021** | 2020 | 2019 |
|---|---|---|---|
| Real estate mortgage | **$ 943** | $ 1,074 | $ 861 |
| Production and intermediate-term | **997** | 857 | 629 |
| Agribusiness | **800** | 1,021 | 912 |
| Rural Infrastructure | **240** | 265 | 481 |
| Agricultural export finance | **5** | 9 | 7 |
| Mission-related | **115** | 600 | 550 |
| Total | **$ 3,100** | $ 3,826 | $ 3,440 |

The allowance for loan losses decreased $726 thousand from December 31, 2020, to $3.1 million at December 31, 2021. The decrease in allowance for loan losses was primarily due to the loan loss reversals totaling $735 thousand that was recorded due to a decrease in the management reserve as a result of improved drought and COVID-19 conditions. In addition, the removal of specific reserves for two loans contributed to the decrease in allowance for loan loss, these decreases were partially offset by an increase in the general reserve. Net recoveries of $9 thousand were recorded during 2021. Overall, charge-off activity remains low relative to the size of our loan portfolio. During 2020, our allowance for loan losses increased $386 thousand from 2019 primarily due to an increase in general reserves driven by growth in the loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Allowance for loan losses as a percentage of: | | | |
| Loans | **0.23%** | 0.32% | 0.33% |
| Impaired loans | **48.48%** | 47.70% | 29.10% |
| Nonaccrual loans | **51.82%** | 50.55% | 37.57% |

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 | **$ 476** | $ 437 | $ 411 |
| Provision for reserve for unfunded commitments | **92** | 39 | 26 |
| Total | **$ 568** | $ 476 | $ 437 |

The increase in provision for reserve for unfunded commitments in 2021 is due to overall growth in unfunded 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 is to provide a program for YBS farmers and ranchers that provides access to credit and educational resources to help producers start their business, sustain growth and achieve long-term viability. The FCA regulatory definitions for YBS farmers and ranchers are shown below.

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

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

| | | **December 31** | | |
|---|---|---|---|---|
| | USDA | **2021** | 2020 | 2019 |
| Young | 7.95% | **17.54%** | 17.31% | 17.57% |
| Beginning | 29.89% | **28.12%** | 25.07% | 23.16% |
| Small | 91.99% | **20.88%** | 35.27% | 33.88% |

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 exists, the information is the best comparative information available.

Quarterly reports are provided to our Board of Directors detailing the number and volume of our YBS customers. We have developed quantitative targets to monitor our progress.

During 2021, our focus was on outreach efforts to ensure that we are reaching the YBS farmers and ranchers in our territory. As such, the goals were based on new loans made to YBS customers as a whole, rather than on the number of young, beginning, or small farmer and rancher loans in the portfolio. For 2021, the goal was to originate 300 or more new loans to YBS customers for $18.0 million or greater. Actual results were 498 new loans, for a total of $125.1 million to customers meeting at least one of the three YBS criteria.

Additionally, we set portfolio goals with the following results:

| New Loans | Number Goal | Number Results | Volume Goal | Volume Results |
|---|---|---|---|---|
| Young | N/A | 196 | N/A | $ 51,636 |
| Beginning | N/A | 379 | N/A | $ 119,807 |
| Small | N/A | 92 | N/A | $ 59,644 |
| **Existing Loans** | | | | |
| Young | 900 | 696 | $ 164,000 | $ 179,263 |
| Beginning | 1,040 | 1,116 | $ 231,000 | $ 323,944 |
| Small | 1,430 | 284 | $ 199,000 | $ 210,474 |

Our YBS program has a committee structure, per its charter, the committee is to be comprised of an odd number of persons, at least one of whom must be a member of the Board, at least two of whom must be employees of the Association and at least two of whom must be borrowers of the Association who qualify as young, beginning and small bona fide farmers and ranchers and producers and harvesters of aquatic products for any agricultural or aquatic purpose and for other credit needs. For 2022, the Committee has set the following quantitative objectives for loans that meet the definition of lending to a young, beginning, and/or small farmer or rancher (YBS customers) as follows:

| | 2022 | 2023 | 2024 |
|---|---|---|---|
| # of New Loans | 325 | 350 | 375 |
| Volume of New Loans | $19.0 million | $20.0 million | $21.0 million |

Over the planning period, the goal is to have total loans in each category of YBS customers as follows:

| | 2022 | | 2023 | | 2024 | |
|---|---|---|---|---|---|---|
| | # of Loan | Volume | # of Loan | Volume | # of Loan | Volume |
| Young | 732 | $ 179,275 | 783 | $ 191,825 | 838 | $ 205,252 |
| Beginning | 1,178 | $ 334,631 | 1,261 | $ 358,055 | 1,349 | $ 383,119 |
| Small | 1,562 | $ 346,553 | 1,672 | $ 370,812 | 1,789 | $ 396,769 |

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize customized loan underwriting standards, loan guarantee programs, fee waiver programs, or other credit enhancement programs. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers.

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.

As part of our marketing strategy, we utilize FSA and other loan guarantee programs whenever it is advantageous to a YBS customer. Additionally, we host outreach functions targeted at YBS customers in our territory. Due to COVID-19 in 2021, goals to host career days in our local offices shifted to individuals from our lending team attending a variety of Future Farmers of America (FFA) chapter event and sponsoring the annual Colorado FFA BIG (Being Involved as a Greenhand) Conference targeting first year FFA members. Our YBS program offered three hallmark events; the Market Update: Controlling the Uncontrollable, Leaving a Lasting Legacy (estate and succession planning) and the Agricultural Economic Outlook. In addition, we developed four infographic flyers that will be shared on our website and social media in the coming year.

Our qualitative goals for 2022 include:

- Provide quarterly educational seminars delivered either in person or via electronic media.
- Coordinate with the Colorado FFA Foundation and Colorado 4-H council to support youth agricultural education and leadership programs in our territory.

- Recruit additional YBS borrower members and prospective customers to join the YBS committee to enhance and improve the Association's YBS program offerings.
- Coordinate with local high school and college agricultural education programs to provide information about career opportunities within our association and the Farm Credit System.
- Distribute fact sheets and infographics to our member borrowers and prospective customers via social media and our website.
- Build upon our existing scholarship and internship programs to engage past recipients as prospective customers and/or employees.
- Coordinate with industry experts to provide legislative updates to our member borrowers.

## 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, 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 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 on a loan-by-loan basis for all customer complexes that exceed 5% of our lending limit base. We utilize a tool that considers factors such as probability of default, enterprise concentrations and collateral.

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

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

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

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

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

There are a few differences in the credit risk management practices of our purchased participation loans portfolio. Like core credit, underwriting standards are utilized to determine an applicant's operational, financial, and managerial resources available for repayment of debt; however, due to the unique industries financed in the capital markets arena, this segment of our portfolio has a different set of underwriting standards that apply to the specific industries in which we lend. Also, like core credit, we cannot have commitments to one borrower for more than 15% of our lending limit base. Within the purchased participations portfolio, specific hold limits have been established based on Probability of Default and industry. Additionally, the participations purchased portfolio contains loans to borrowers that are considered similar entities, and by regulation must be in compliance with specific limits outlined in our Association policy.

## RESULTS OF OPERATIONS

### *Earnings Summary*

In 2021, we recorded net income of $20.0 million, compared with $13.3 million in 2020, and $14.2 million in 2019. The increase in 2021 was primarily due to the increase in net interest income, noninterest income and the reversal of the provision for credit losses. The decrease in 2020 was due to an increase in 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 | **$ 13,324** | $ 14,186 |
| Increase/(Decrease) from changes in: | | |
| Interest income | **980** | (5,983) |
| Interest expense | **1,742** | 5,922 |
| Net interest income | **2,722** | (61) |
| Provision for credit losses | **1,034** | 308 |
| Noninterest income | **1,931** | 250 |
| Noninterest expense | **1,005** | (1,354) |
| Provision for income taxes | **(2)** | (5) |
| Total increase/(decrease) in net income | **6,690** | (862) |
| Net income, current year | **$ 20,014** | $ 13,324 |

Return on average assets increased to 1.50% from 1.15% in 2020 and return on average shareholders' equity increased to 7.28% from 4.98% in 2020, primarily as a result of an increase in net income.

### *Net Interest Income*

Net interest income for 2021 was $32.1 million compared with $29.4 million for 2020 and $29.4 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 an increase in average loan volume, partially offset by the decrease in spread between the yield on assets and cost of debt.

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 | **$ 29,356** | $ 29,417 |
| Increase/(Decrease) in net interest income from changes in: | | |
| Interest rates earned | **(5,393)** | (8,729) |
| Interest rates paid | **4,338** | 7,194 |
| Volume of interest-bearing assets and liabilities | **3,890** | 1,634 |
| Interest income on nonaccrual loans | **(113)** | (160) |
| Increase/(Decrease) in net interest income | **2,722** | (61) |
| Net interest income, current year | **$ 32,078** | $ 29,356 |

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 | **2.55%** | 2.69% | 2.87% |
| Interest rate on: | | | |
| Average loan volume | **3.86%** | 4.37% | 5.24% |
| Average debt | **1.58%** | 2.07% | 2.94% |
| Interest rate spread | **2.28%** | 2.30% | 2.30% |

The decrease in interest rate spread resulted from a 51 basis point decrease in interest rates on average loan volume and a 49 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 $643 thousand in 2021, compared with net provision for credit losses of $391 thousand in 2020 and $699 thousand in 2019. The loan loss reversals of $735 thousand recorded during 2021 were primarily due to improved drought and COVID-19 conditions. In addition, the specific reserves for two loans were removed as a result of upgrades in credit quality, these decreases were partially offset by an increase in the provision for the general reserve due to growth in loan volume. The provision for loan losses of $352 thousand recorded during 2020 was primarily due to an increase in loan volume. The provision for loan losses of $673 thousand recorded during 2019 was primarily due to loan downgrades during the year and a large increase in specific reserve as the result of a loan being identified as impaired and requiring a large specific reserve.

The provision for reserve for unfunded commitments of $92 thousand was recorded during 2021 due to overall growth in commitments. The provision for reserve for unfunded commitments of $39 thousand was recorded during 2020 due to the change in PD factors utilized in the calculation of the reserve for unfunded commitments as a result of the newly implemented 20-month default horizon. The provision for reserve for unfunded commitments of $26 thousand was recorded during 2019 due to an increase in the average loss percentages due to downgrades during the year.

### *Noninterest Income*

During 2021, we recorded noninterest income of $7.2 million, compared with $5.3 million in 2020 and $5.1 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 $5.6 million in 2021, $3.8 million in 2020 and $3.3 million in 2019. Patronage income from CoBank includes special cash patronage distributions of $873 thousand for 2021 and $685 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 remain at 45 basis points over the next three years.

We recorded a cash patronage of $24 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 $13 thousand recorded in 2020 and $11 thousand in 2019. Patronage from Farm Credit Foundations and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received a refund of $227 thousand during 2020 and $224 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 $794 thousand during 2021, which is distributed to us quarterly by CoBank. Mineral income increased from $536 thousand in 2020 and decreased from $798 thousand in 2019. The increase in 2021 is reflective of the higher oil and gas commodity prices paid on production during the year.

Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees in 2021 were $438 thousand, an increase of $23 thousand, from 2020, primarily due to an increase in non-deferrable fees earned on our participation purchased loans. Loan fees in 2020 were $415 thousand, a decrease of $93 thousand, from 2019, primarily due to a decrease in non-deferrable fees earned on both our core and our participation purchased loans. Other noninterest income increased $161 thousand to $312 thousand primarily due to lease income from Colorado Springs building and recorded patronage from AgDirect LLP (AgDirect), partially offset by a decrease in the gain on sales of fixed assets.

### *Noninterest Expense*

Noninterest expense for 2021 decreased $1.0 million, or 4.8%, to $19.9 million compared with 2020 and increased $349 thousand, or 1.8% 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 | **$ 10,655** | $ 10,080 | $ 11,782 | **5.70%** | (14.45%) |
| Occupancy & equipment | **1,246** | 1,261 | 1,309 | **(1.19%)** | (3.67%) |
| Purchased services from AgVantis | **2,529** | 2,282 | 2,144 | **10.82%** | 6.44% |
| Supervisory & examination costs | **404** | 421 | 460 | **(4.04%)** | (8.48%) |
| Other | **3,551** | 3,684 | 3,205 | **(3.61%)** | 14.95% |
| Total operating expense | **18,385** | 17,728 | 18,900 | **3.71%** | (6.20%) |
| Farm Credit Insurance Fund premium | **1,555** | 783 | 691 | **98.60%** | 13.31% |
| Prepayment expense | **–** | 2,434 | – | **(100.00%)** | 100.00% |
| Total noninterest expense | **$ 19,940** | $ 20,945 | $ 19,591 | **(4.80%)** | 6.91% |

For the year ended December 31, 2021, total operating expense increased $657 thousand, or 3.7%, compared with the year ended December 31, 2020, primarily due to the increase in salaries and employee benefits. The increase in salaries and benefits expense is due to an increase in staff, increased incentive expense, partially offset by lower pension expense. Salaries and employee benefits expense decreased $1.1 million, or 9.6% compared with the year ended December 31, 2019 primarily due to decreased severance expense along with an increase in deferred salaries and benefits. These are partially offset by an increase in incentive expense and pension expense. Insurance Fund premium increased $772 thousand to $1.6 million at December 31, 2021 due to an increase in the premium rate and an increase in our average loan volume. Additionally, we recorded prepayment fee expense of $2.4 million in 2020 due to prepayment fees charged by CoBank, no such fees were recorded in 2021. These fees are primarily related to loan conversions that resulted from the current low interest rate environment in the wake of the COVID-19 pandemic.

### *Provision for income taxes/Benefit from income taxes*

We recorded $11 thousand in provision for income taxes during 2021, compared with $9 thousand in 2020 and $4 thousand in 2019. The increase in 2021 was due to an increase in non-patronage sourced income. 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, 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 $1.03 billion in 2021, $874.0 million in 2020, and $814.7 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). Beginning July 1, 2021, we also committed excess loanable funds with CoBank on a pro-rata basis. This program utilizes a percentage of our equity to fund each new loan’s cash flow throughout the life of the loan. 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 Asset Liability Committee with oversight from 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.

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.

We have a relationship with CoBank and PNC Bank (PNC) to offer a purchase card program to commercial customers. The purchase cards are similar to credit cards and allow customers to make agricultural-related purchases, which are then automatically posted to the customer’s loan on a monthly basis. All transactions through the purchase card program are processed using the Association's account with CoBank.

## 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 $277.1 million, compared with $265.7 million at December 31, 2020 and $261.0 million at December 31, 2019. The increase of $11.5 million in shareholders' equity reflects net income, partially offset by patronage refunds and net stock retirements. Our capital position is reflected in the following ratio comparisons.

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Debt to shareholders' equity | **4.25:1** | 3.72:1 | 3.25:1 |
| Shareholders' equity as a percent of net loans | **20.19%** | 22.63% | 25.27% |
| Shareholders' equity as a percent of total assets | **19.04%** | 21.20% | 23.55% |

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2020 primarily due to increase in loan volume and the corresponding increase in our note payable to CoBank.

***Retained Earnings***

Our retained earnings increased $11.5 million to $274.6 million at December 31, 2021 from $263.1 million at December 31, 2020 and increased $17.3 million from $257.3 million at December 31, 2019. The increase in 2021 was a result of net income of $20.0 million, partially offset by $8.5 million of patronage distributions declared.

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 $7.5 million in 2021, $6.5 million in 2020 and $4.5 million in 2019. During 2021, we declared patronage distributions of $8.5 million to be paid in April 2022.

***Stock***

Our total stock decreased $35 thousand to $2.6 million at December 31, 2021, from $2.6 million at December 31, 2020 and decreased from $4.0 million at December 31, 2019. The decrease during 2021 was due to $369 thousand of stock retirements, partially offset by $334 thousand of stock issuances including $1 thousand of preferred stock issued from dividends. 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).

Preferred stock is a one cent, at risk, investment stock that can only be purchased by owners of any class of common stock. Dividends are declared and paid at the discretion of the Board of Directors. Dividends accrue daily at a set investment rate and are declared and paid quarterly by purchase of additional preferred stock in the owner's name.

***Accumulated Other Comprehensive Income or Loss***

We had no accumulated other comprehensive income at December 31, 2021 and at year-end 2020, compared with accumulated other comprehensive loss of $290 thousand at year-end 2019. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Accounting guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income/loss.

***Capital Plan and Regulatory Requirements***

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

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

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

| | **2021** | 2020 | 2019 | Minimum Requirement with Buffer |
|---|---|---|---|---|
| Common Equity Tier 1 Capital ratio | **16.57%** | 18.83% | 20.36% | 7.00% |
| Tier 1 Capital ratio | **16.57%** | 18.83% | 20.36% | 8.50% |
| Total Capital ratio | **16.82%** | 19.20% | 20.70% | 10.50% |
| Tier 1 Leverage ratio | **17.36%** | 19.65% | 21.47% | 5.00% |
| Unallocated Retained Earnings and URE Equivalents (UREE) Leverage ratio | **18.06%** | 20.31% | 22.18% | 1.50% |
| Permanent capital ratio | **16.66%** | 18.97% | 20.65% | 7.00% |

The minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2021, we have exceeded our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

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

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

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

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

### *Director Independence*

All directors must exercise sound judgment in deciding matters in our interest. All of 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. At December 31, 2021, the Audit Committee was composed of five members of the Board of Directors. During 2021, seven meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

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

***Risk Committee***

The primary function of the Risk Committee is to assist the Board in the oversight of the enterprise risk management (ERM) program of the Association, including strategies, policies, procedures, and systems established by management to identify, assess, measure, monitor, and manage the key risks confronting the Association. The Committee shall also assist the Board and the committees of the Board that oversee specific risk-related issues and serve as a resource to the Board, other committees of the Board, and management by overseeing risk across the entire Association and across all risk types and by enhancing the Board's understanding of the Association's overall risk appetite and ERM activities and effectiveness. The Risk Committee consists of five members of the Board of Directors and held five meetings during 2021.

***Compensation Committee***

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of four members of our Board of Directors and held three meetings during 2021. The Committee annually reviews, evaluates and approves the compensation policies, programs and plans for senior officers and employees including benefits programs.

***Scholarship Committee***

The Scholarship Committee oversees and promotes the Association's scholarship program, which currently offers twelve scholarships to graduating high school seniors in our territory. The Committee originated in 2019 and held one meeting in 2021. The Committee consists of three directors and one Association employee.

Students submit applications online. Scholarship candidates are evaluated on their academic aptitude, vocational promise, personal attributes and proven leadership. Association employees determine the finalists and the Scholarship Committee directors determine who will receive the grand prize. We provided twelve scholarships to graduating high school seniors in our territory. One grand prize recipient was awarded an additional $1,500 scholarship. In 2021, we launched a new $2,500 YBS scholarship awarded to a college junior with the intent to pursue a farming, ranching or agricultural career.

For 2022, we are awarding a total of $21,500 in scholarships for the Fall 2022 semester. The Association will award twelve $1,500 scholarships and one individual will be selected as our grand prize recipient and will receive an additional $1,000 scholarship. In 2022, we will continue awarding one $2,500 YBS scholarship to a college junior with intent to pursue a farming, ranching or agriculture career.

***YBS Committee***

The purpose of the YBS program is to provide educational opportunities, information and outreach to young, beginning and small farmers in our territory. By providing incentives such as rate reduction, special pricing and underwriting consideration, the program strives to reach potential customers that fall into these unique categories. Our YBS program has a committee structure, per its charter, the committee is to be comprised of an odd number of persons, at least one of whom must be a member of the Board, at least two of who must be employees of the Association and at least two of whom must be borrowers of the Association who qualify as young, beginning and small bona fide farmers and ranchers and producers and harvesters of aquatic products for any agricultural or aquatic purpose and for other credit needs. This Committee had a total of ten meetings during the year.

***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 all of our employees and directors;
- 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 all employees 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 and certifies compliance with our Code of Ethics.

***Whistleblower Program***

We maintain a program for anyone to report complaints related to accounting, financial reporting, internal accounting controls, or auditing matters and all other incidents of misconduct such as theft, harassment, discrimination or collusion. This program allows the submission of confidential, anonymous concerns regarding accounting, financial reporting, internal accounting controls, fraud or auditing matters and all other incidents of misconduct such as theft, harassment, discrimination or collusion 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 considering 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 must 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, considering 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.

## PATRON'S CONSENT TO TAKE PATRONAGE DISTRIBUTION INTO INCOME

Our Bylaws under Section 735.6 states that each holder of our stock consent to take into account, as income, at its stated dollar amount as provided in 26 U.S.C. Section 1385, the amount of his or her respective distribution paid as qualified written notice of allocation, which may include stock, allocated surplus, and/or the amount of any distribution that has been applied to the patron's indebtedness as provided in Section 735.4 and 735.5 of our Bylaws.

Consent under this section shall be continuing in effect, provided that consent pursuant to the first paragraph of this section shall cease to be effective with respect to patronage of a distributee occurring after the distributee has ceased to hold stock in us. Consent obtained under this section may be revoked in writing, provided that such revocation shall become effective only with respect to patronage occurring on or after the first day of our first fiscal year beginning after the revocation is filed with us.

FARM CREDIT
OF SOUTHERN COLORADO

# Report of Management

The consolidated financial statements of Farm Credit of Southern Colorado, 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 of Southern Colorado 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.

**Mark Peterson**
Chairman of the Board

**Jeremy M. Anderson**
President and Chief Executive Officer

**Shawna R. Neppl**
**Chief Financial Officer**

March 8, 2022

5110 Edison Avenue, Colorado Springs, CO 80915
Office: 1-800-815-8559 | aglending.com

FARM CREDIT
OF SOUTHERN COLORADO

# Report on Internal Control Over Financial Reporting

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

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

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

**Jeremy M. Anderson**
President and Chief Executive Officer

**Shawna R. Neppl**
Chief Financial Officer

March 8, 2022

**5110 Edison Avenue, Colorado Springs, CO 80915**
**Office: 1-800-815-8559 | aglending.com**

FARM CREDIT
OF SOUTHERN COLORADO

# AUDIT COMMITTEE REPORT

As of the date of this report, the Audit Committee (Committee) includes four members from the Board of Directors of Farm Credit of Southern Colorado (Association). In 2021, seven 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 $81,800 for audit services and $9,700 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.

Steven J. Betts

Steven J. Betts, Chairman of the Audit Committee

Audit Committee Members

Steven Betts, Colin Durham, Mike Livingston, Mark Peterson

March 8, 2022

5110 Edison Avenue, Colorado Springs, CO 80915
Office: 1-800-815-8559 | aglending.com

## Report of Independent Auditors

To the Board of Directors of Farm Credit of Southern Colorado, ACA,

### *Opinion*

We have audited the accompanying consolidated financial statements of Farm Credit of Southern Colorado, 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 | **$ 1,375,787** | $ 1,177,690 | $ 1,036,258 |
| Less allowance for loan losses | **3,100** | 3,826 | 3,440 |
| Net loans | **1,372,687** | 1,173,864 | 1,032,818 |
| Cash | **3,507** | 4,615 | 5,283 |
| Accrued interest receivable | **16,904** | 15,925 | 16,370 |
| Investment in CoBank, ACB | **35,248** | 35,213 | 32,839 |
| Investment in AgDirect | **1,621** | 963 | 632 |
| Premises and equipment, net | **12,398** | 12,934 | 11,919 |
| Prepaid benefit expense | **5,821** | 4,491 | 3,598 |
| Other assets | **7,309** | 5,303 | 4,641 |
| **Total assets** | **$ 1,455,495** | $ 1,253,308 | $ 1,108,100 |
| **LIABILITIES** | | | |
| Note payable to CoBank, ACB | **$ 1,150,045** | $ 958,757 | $ 823,591 |
| Advance conditional payments | **11,902** | 15,047 | 9,334 |
| Accrued interest payable | **1,251** | 1,216 | 1,631 |
| Patronage distributions payable | **8,500** | 7,500 | 6,500 |
| Accrued benefits liability | **146** | 153 | 450 |
| Reserve for unfunded commitments | **568** | 476 | 437 |
| Other liabilities | **5,948** | 4,503 | 5,149 |
| **Total liabilities** | **$ 1,178,360** | $ 987,652 | $ 847,092 |
| **Commitments and Contingencies (See Note 13)** | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Preferred stock | **776** | 953 | 2,557 |
| Capital stock | **1,777** | 1,635 | 1,487 |
| Unallocated retained earnings | **274,582** | 263,068 | 257,254 |
| Accumulated other comprehensive income/(loss) | **-** | - | (290) |
| **Total shareholders' equity** | **277,135** | 265,656 | 261,008 |
| **Total liabilities and shareholders' equity** | **$ 1,455,495** | $ 1,253,308 | $ 1,108,100 |

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 | **$ 48,690** | $ 47,710 | $ 53,693 |
| **Total interest income** | **48,690** | 47,710 | 53,693 |
| **INTEREST EXPENSE** | | | |
| Note payable to CoBank, ACB | **16,602** | 18,311 | 24,098 |
| Other | **10** | 43 | 178 |
| **Total interest expense** | **16,612** | 18,354 | 24,276 |
| Net interest income | **32,078** | 29,356 | 29,417 |
| (Credit loss reversals)/Provision for credit losses | **(643)** | 391 | 699 |
| Net interest income after provision for credit losses | **32,721** | 28,965 | 28,718 |
| **NONINTEREST INCOME** | | | |
| Financially related services income | **128** | 134 | 144 |
| Loan fees | **438** | 415 | 508 |
| Patronage distribution from Farm Credit institutions | **5,572** | 3,850 | 3,275 |
| Farm Credit Insurance Fund distribution | **-** | 227 | 247 |
| Mineral income | **794** | 536 | 798 |
| Other noninterest income | **312** | 151 | 91 |
| **Total noninterest income** | **7,244** | 5,313 | 5,063 |
| **NONINTEREST EXPENSE** | | | |
| Salaries and employee benefits | **10,655** | 10,080 | 11,782 |
| Occupancy and equipment | **1,246** | 1,261 | 1,309 |
| Purchased services from AgVantis, Inc. | **2,529** | 2,282 | 2,144 |
| Farm Credit Insurance Fund premium | **1,555** | 783 | 691 |
| Supervisory and examination costs | **404** | 421 | 460 |
| Prepayment expense | **-** | 2,434 | - |
| Other noninterest expense | **3,551** | 3,684 | 3,205 |
| **Total noninterest expense** | **19,940** | 20,945 | 19,591 |
| Income before income taxes | **20,025** | 13,333 | 14,190 |
| Provision for income taxes | **11** | 9 | 4 |
| **Net income** | **20,014** | 13,324 | 14,186 |
| **COMPREHENSIVE INCOME** | | | |
| Amortization of retirement costs | **-** | 283 | 269 |
| Actuarial gain in retirement obligation | **-** | 7 | 8 |
| **Total comprehensive income** | **$ 20,014** | $ 13,614 | $ 14,463 |

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

# Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

| | Preferred Stock | Capital Stock | Unallocated Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|
| **Balance at December 31, 2018** | $ 2,826 | $ 1,454 | $ 249,624 | $ (567) | $ 253,337 |
| Comprehensive income | | | 14,186 | 277 | 14,463 |
| Stock issued | 1,170 | 164 | | | 1,334 |
| Stock retired | (1,496) | (131) | | | (1,627) |
| Preferred stock dividends | 57 | | (56) | | 1 |
| Patronage distributions: Cash | | | (6,500) | | (6,500) |
| **Balance at December 31, 2019** | 2,557 | 1,487 | 257,254 | (290) | 261,008 |
| Comprehensive income | | | 13,324 | 290 | 13,614 |
| Stock issued | 19 | 299 | | | 318 |
| Stock retired | (1,643) | (151) | | | (1,794) |
| Preferred stock dividends | 20 | | (10) | | 10 |
| Patronage distributions: Cash | | | (7,500) | | (7,500) |
| **Balance at December 31, 2020** | 953 | 1,635 | 263,068 | - | 265,656 |
| Comprehensive income | | | 20,014 | - | 20,014 |
| Stock issued | - | 333 | | | 333 |
| Stock retired | (178) | (191) | | | (369) |
| Preferred stock dividends | 1 | | - | | 1 |
| Patronage distributions: Cash | | | (8,500) | | (8,500) |
| **Balance at December 31, 2021** | **$ 776** | **$ 1,777** | **$ 274,582** | **$ -** | **$ 277,135** |

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 | **$ 20,014** | $ 13,324 | $ 14,186 |
| Adjustments to reconcile net income to net cash provided by/(used in) operating activities: | | | |
| Depreciation | **745** | 705 | 757 |
| (Credit loss reversal)/Provision for credit losses | **(643)** | 391 | 699 |
| Patronage stock from CoBank, ACB | **(63)** | (35) | (6) |
| Gains on sales of premises and equipment | **(31)** | (115) | (11) |
| Change in assets and liabilities: | | | |
| (Increase)/Decrease in accrued interest receivable | **(979)** | 445 | 161 |
| Increase in prepaid benefit expense | **(1,330)** | (893) | (1,189) |
| (Increase)/Decrease in other assets | **(1,978)** | (627) | 396 |
| Increase/(Decrease) in accrued interest payable | **35** | (415) | (253) |
| Decrease in accrued benefits liability | **(7)** | (7) | (8) |
| Increase/(Decrease) in other liabilities | **1,446** | (636) | 1,957 |
| Total adjustments | **(2,805)** | (1,187) | 2,503 |
| Net cash provided by operating activities | **17,209** | 12,137 | 16,689 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Increase in loans, net | **(198,088)** | (141,398) | (8,191) |
| Increase in investment in CoBank, ACB | **-** | (2,374) | (404) |
| Increase in investment in AgDirect | **(658)** | (331) | (495) |
| Expenditures for premises and equipment | **(215)** | (1,827) | (800) |
| Proceeds from sales of premises and equipment | **37** | 222 | 74 |
| Net cash used in investing activities | **(198,924)** | (145,708) | (9,816) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Net draw on/(repayment of) note payable to CoBank, ACB | **191,288** | 135,166 | (4,499) |
| (Decrease)/Increase in advance conditional payments | **(3,145)** | 5,713 | (1,313) |
| Preferred stock retired | **(178)** | (1,643) | (1,496) |
| Preferred stock issued | **-** | 19 | 1,170 |
| Capital stock retired | **(191)** | (151) | (131) |
| Capital stock issued | **333** | 299 | 164 |
| Cash patronage distributions paid | **(7,500)** | (6,500) | (4,500) |
| Net cash provided by/(used in) financing activities | **180,607** | 132,903 | (10,605) |
| Net decrease in cash | **(1,108)** | (668) | (3,732) |
| Cash at beginning of year | **4,615** | 5,283 | 9,015 |
| Cash at end of year | **$ 3,507** | $ 4,615 | $ 5,283 |
| **SUPPLEMENTAL CASH INFORMATION:** | | | |
| Cash paid during the year for: | | | |
| Interest | **$ 16,577** | $ 18,769 | $ 24,529 |
| Income taxes | **$ 8** | $ 8 | $ 4 |
| **SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:** | | | |
| Patronage stock from CoBank, ACB | **$ 63** | $ 35 | $ 6 |
| Net (recoveries)/charge-offs | **$ (9)** | $ (34) | $ 96 |
| Patronage distributions payable | **$ 8,500** | $ 7,500 | $ 6,500 |
| Stock dividends paid | **$ 1** | $ 20 | $ 57 |
| Stock dividends declared | **$ -** | $ 10 | $ 56 |
| Change in accumulated other comprehensive income/(loss) | **$ -** | $ 290 | $ 277 |

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 of Southern Colorado, ACA (Agricultural Credit Association (ACA)) and its subsidiaries, Farm Credit of Southern Colorado, FLCA, (Federal Land Credit Association (FLCA)) and Farm Credit of Southern Colorado, 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 Alamosa, Arapahoe, Archuleta, Baca, Bent, Chaffee, Cheyenne, Conejos, Costilla, Crowley, Custer, Douglas, El Paso, Elbert, Fremont, Hinsdale, Huerfano, Kiowa, Kit Carson, Lake, Las Animas, Lincoln, Mineral, Otero, Park, Prowers, Pueblo, Rio Grande, Saguache, Teller, and the southern half of Jefferson in the state of Colorado.

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 ACA’s, which each have two wholly owned subsidiaries, (a FLCA and a PCA) and AgVantis.

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

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

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

B. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents and farm-related businesses.

The Association also serves as an intermediary in offering credit life insurance, multi-peril and crop hail insurance, revenue protection for cattle, advance conditional payment accounts, leasing and provides additional services to borrowers such as fee appraisals and an investment stock program.

Farm Credit of Southern Colorado participates in AgDirect, LLP, a trade credit financing program that includes originations and re-financing of agricultural equipment loans through independent equipment dealers. AgDirect is an entity created by Farm Credit Services of America, (FCSA), which is responsible for the marketing, operation, and implementation of the program. FCSA serves as the master servicer for the program assets and provides periodic reporting to investor associations. At December 31, 2021, the Association's investment in AgDirect, which is included in the Consolidated Statement of Condition, was $1.6 million, representing a 0.45% ownership in the partnership.

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 5110 Edison Avenue, Colorado Springs, Colorado 80915, or at PO Box 75640, Colorado Springs, Colorado 80970-5640 or by calling (800) 815-8559 or (719) 570-1087. 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 of Southern Colorado, PCA and Farm Credit of Southern Colorado, FLCA and reflect the investments in and allocated earnings of the service organizations in which the Association has partial ownership interests. Inter-company transactions have been eliminated in consolidation.

***Use of Estimates***

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

***Recently Issued Accounting Pronouncements***

**Adopted Guidance**

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

**Guidance Pending Adoption**

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

***Summary of the Association's Significant Accounting Policies***

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

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

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

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

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

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

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

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

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

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations and appraisals to change over time. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment 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 ranges from 20 to 40 years for buildings, 1 to 10 years for furniture and equipment and 1 to 5 years for automobiles. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed and improvements above certain thresholds are capitalized. The institution purchases certain software to enhance or perform internal business functions. Software development costs, as well as costs for software that is part of a cloud computing arrangement incurred in the preliminary and post-implementation project stages are charged to noninterest expense. Costs associated with designing software configuration, installation, coding programs and testing systems are capitalized and amortized using the straight-line method over 3 to 5 years.

   The Association acts as a lessor in certain contractual arrangements. The contracts relate to office space in an owned property and are considered operating leases. Generally, leases are for terms of three to seven years and may include options to extend or terminate the arrangements. The leases provide for minimum annual rentals that are typically subject to annual increases. Lease income is recognized on a straight-line basis over the lease term. Any initial direct costs are deferred and recognized as an expense over the lease term on the same basis as lease income. Revenue from leases is included in other noninterest income in the Consolidated Statement of Comprehensive Income.

E. Other Assets and Other Liabilities: Other assets are comprised primarily of accounts receivable, lease receivable, prepaid expenses, and investment in Farm Credit institutions other than CoBank. Significant components of other liabilities primarily include accounts payable and employee benefits.

F. Advance Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advance conditional payments are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in liabilities. Restricted advance conditional payments are primarily associated with mortgage loans, while unrestricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.

G. Employee Benefit Plans: Substantially all employees of the Association participate in the Ninth Farm Credit District Pension Plan (Pension Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan). The Pension Plan is a non-contributory defined benefit 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 Pension Plan was closed to employees beginning January 1, 2007.

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

The Association also participates in the Farm Credit Foundations Retiree Medical Plan. These postretirement benefits (other than pensions) are provided to eligible retired employees of the Association. The anticipated costs of these benefits were accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

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

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

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

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

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

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings.

J. Other Comprehensive Income/Loss: Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the balance of these transactions. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan. See Note 7 for further information.

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

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

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

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

The fair value disclosures are presented in Note 14.

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

## NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

| | December 31 | | |
|---|---|---|---|
| *(dollars in thousands)* | **2021** | 2020 | 2019 |
| Real estate mortgage | **$ 884,391** | $ 717,970 | $ 614,626 |
| Production and intermediate-term | **240,148** | 204,402 | 185,943 |
| Agribusiness | **171,148** | 171,557 | 152,092 |
| Rural infrastructure | **70,827** | 72,769 | 74,130 |
| Agricultural export finance | **8,512** | 10,140 | 8,517 |
| Rural residential real estate | **23** | 27 | 30 |
| Mission-related | **738** | 825 | 920 |
| Total loans | **$ 1,375,787** | $ 1,177,690 | $ 1,036,258 |

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

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Purchased | Sold | Purchased | Sold | Purchased | Sold |
| Real estate mortgage | $ 41,094 | $ 57,109 | $ 796 | $ – | $ 41,890 | $ 57,109 |
| Production and intermediate-term | 37,795 | – | – | – | 37,795 | – |
| Agribusiness | 165,657 | – | – | – | 165,657 | – |
| Rural infrastructure | 70,827 | – | – | – | 70,827 | – |
| Agricultural export finance | 8,512 | – | – | – | 8,512 | – |
| Total | $ 323,885 | $ 57,109 | $ 796 | $ – | $ 324,681 | $ 57,109 |

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.

Credit enhancements with federal government agencies of $20.6 million at year-end 2021, $22.6 million at year-end 2020 and $20.0 million at year-end 2019 were outstanding. These credit enhancements consist primarily of loans in the USDA FSA Guaranteed Loan Program. To incent the Association to make certain loans we could not normally underwrite, the USDA typically will guarantee 90% of the loss on the debt. This program is a valuable tool used to manage credit to young/beginning/small borrowers, as well as high risk credit groups. Using the program creates constructive credit for both the borrower and the lender. During 2020 and 2021, the Association's credit enhancements with federal government agencies also included loans guaranteed at 100% by the Small Business Administration (SBA).

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

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

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Real estate mortgage | | | |
| Acceptable | **94.23%** | 89.55% | 88.56% |
| OAEM | **2.97%** | 7.18% | 6.49% |
| Substandard | **2.74%** | 3.19% | 4.85% |
| Doubtful | **0.06%** | 0.08% | 0.10% |
| Total | **100.00%** | 100.00% | 100.00% |
| Production and intermediate-term | | | |
| Acceptable | **95.64%** | 94.13% | 93.98% |
| OAEM | **1.06%** | 3.47% | 3.00% |
| Substandard | **3.30%** | 2.40% | 3.02% |
| Total | **100.00%** | 100.00% | 100.00% |
| Agribusiness | | | |
| Acceptable | **97.98%** | 95.67% | 93.81% |
| OAEM | **1.45%** | 3.63% | 4.42% |
| Substandard | **0.57%** | 0.70% | 1.77% |
| Total | **100.00%** | 100.00% | 100.00% |
| Rural infrastructure | | | |
| Acceptable | **97.34%** | 99.27% | 90.70% |
| OAEM | **2.66%** | 0.73% | 6.00% |
| Substandard | **–** | – | 3.30% |
| Total | **100.00%** | 100.00% | 100.00% |
| Agricultural export finance | | | |
| Acceptable | **100.00%** | 100.00% | 100.00% |
| Total | **100.00%** | 100.00% | 100.00% |
| Rural residential real estate | | | |
| Acceptable | **100.00%** | 100.00% | 100.00% |
| Total | **100.00%** | 100.00% | 100.00% |
| Mission related | | | |
| Substandard | **100.00%** | 100.00% | 100.00% |
| Total | **100.00%** | 100.00% | 100.00% |
| Total Loans | | | |
| Acceptable | **95.08%** | 91.85% | 90.47% |
| OAEM | **2.42%** | 5.56% | 5.46% |
| Substandard | **2.46%** | 2.54% | 4.01% |
| Doubtful | **0.04%** | 0.05% | 0.06% |
| 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 | **$ 5,982** | $ 7,529 | $ 8,886 |
| Past due | **–** | 39 | 270 |
| Total nonaccrual loans | **5,982** | 7,568 | 9,156 |
| Impaired accrual loans: | | | |
| Restructured | **412** | 453 | 1,207 |
| Accrual loans 90 days or more past due | **–** | – | 1,458 |
| Total impaired accrual loans | **412** | 453 | 2,665 |
| Total impaired loans | **$ 6,394** | $ 8,021 | $ 11,821 |

Commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2021 totaled $1.2 million. These commitments were considered when establishing the reserve for unfunded commitments, which is recorded in liabilities.

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 | | | |
| Real estate mortgage | **$ 5,982** | $ 6,741 | $ 8,136 |
| Production and intermediate-term | **–** | 2 | 97 |
| Agribusiness | **–** | – | 3 |
| Mission related | **–** | 825 | 920 |
| Total nonaccrual loans | **5,982** | 7,568 | 9,156 |
| Accruing restructured loans | | | |
| Real estate mortgage | **392** | 403 | 403 |
| Production and intermediate-term | **20** | 50 | 804 |
| Total accruing restructured loans | **412** | 453 | 1,207 |
| Accruing loans 90 days past due | | | |
| Real estate mortgage | **–** | – | 1,458 |
| Total accruing loans 90 days past due | **–** | – | 1,458 |
| Total impaired loans | **$ 6,394** | $ 8,021 | $ 11,821 |

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* | Related Allowance | Average Impaired Loans | Interest Income Recognized |
|---|---|---|---|---|---|
| Impaired loans with a related allowance for credit losses: | | | | | |
| Real estate mortgage | $ – | $ – | $ – | $ 274 | $ – |
| Mission-related | – | – | – | 582 | – |
| Total | $ – | $ – | $ – | $ 856 | $ – |
| Impaired loans with no related allowance for credit losses: | | | | | |
| Real estate mortgage | $ 6,374 | 8,640 | | 6,645 | $ 35 |
| Production and intermediate-term | 20 | 8 | | 301 | 15 |
| Agribusiness | – | 110 | | – | – |
| Mission-related | – | – | | 2 | – |
| Total | $ 6,394 | $ 8,758 | | $ 6,948 | $ 50 |
| Total impaired loans: | | | | | |
| Real estate mortgage | $ 6,374 | $ 8,640 | $ – | $ 6,919 | $ 35 |
| Production and intermediate-term | 20 | 8 | – | 301 | 15 |
| Agribusiness | – | 110 | – | – | – |
| Mission-related | – | – | – | 584 | – |
| Total | $ 6,394 | $ 8,758 | $ – | $ 7,804 | $ 50 |

| *(dollars in thousands)* | Recorded Investment at 12/31/20 | Unpaid Principal Balance* | Related Allowance | Average Impaired Loans | Interest Income Recognized |
|---|---|---|---|---|---|
| Impaired loans with a related allowance for credit losses: | | | | | |
| Real estate mortgage | $ 555 | $ 620 | $ 1 | $ 592 | $ – |
| Mission-related | 825 | 931 | 600 | 882 | – |
| Total | $ 1,380 | $ 1,551 | $ 601 | $ 1,474 | $ – |
| Impaired loans with no related allowance for credit losses: | | | | | |
| Real estate mortgage | $ 6,589 | $ 8,241 | | $ 7,987 | $ 137 |
| Production and intermediate-term | 52 | 49 | | 362 | 26 |
| Agribusiness | – | 119 | | – | – |
| Total | $ 6,641 | $ 8,409 | | $ 8,349 | $ 163 |
| Total impaired loans: | | | | | |
| Real estate mortgage | $ 7,144 | $ 8,861 | $ 1 | $ 8,579 | $ 137 |
| Production and intermediate-term | 52 | 49 | – | 362 | 26 |
| Agribusiness | – | 119 | – | – | – |
| Mission-related | 825 | 931 | 600 | 882 | – |
| Total | $ 8,021 | $ 9,960 | $ 601 | $ 9,823 | $ 163 |

| *(dollars in thousands)* | Recorded Investment at 12/31/19 | Unpaid Principal Balance* | Related Allowance | Average Impaired Loans | Interest Income Recognized |
|---|---|---|---|---|---|
| Impaired loans with a related allowance for credit losses: | | | | | |
| Real estate mortgage | $ 603 | $ 623 | $ 1 | $ 639 | $ – |
| Production and intermediate-term | – | – | – | 173 | 4 |
| Agribusiness | 3 | 45 | 3 | 182 | – |
| Mission-related | 920 | 982 | 550 | 792 | – |
| Total | $ 1,526 | $ 1,650 | $ 554 | $ 1,786 | $ 4 |
| Impaired loans with no related allowance for credit losses: | | | | | |
| Real estate mortgage | $ 9,395 | $10,868 | | $ 9,731 | $ 275 |
| Production and intermediate-term | 900 | 862 | | 907 | 114 |
| Agribusiness | – | 96 | | 30 | 1 |
| Total | $ 10,295 | $11,826 | | $ 10,668 | $ 390 |
| Total impaired loans: | | | | | |
| Real estate mortgage | $ 9,998 | $11,491 | $ 1 | $ 10,370 | $ 275 |
| Production and intermediate-term | 900 | 862 | – | 1,080 | 118 |
| Agribusiness | 3 | 141 | 3 | 212 | 1 |
| Mission-related | 920 | 982 | 550 | 792 | – |
| Total | $ 11,821 | $13,476 | $ 554 | $ 12,454 | $ 394 |

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

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

| | **Year Ended December 31** | | |
|---|---|---|---|
| *(dollars in thousands)* | **2021** | 2020 | 2019 |
| Interest income recognized on: | | | |
| Nonaccrual loans | **$ 5** | $ 118 | $ 278 |
| Restructured accrual loans | **33** | 37 | 73 |
| Accrual loans 90 days or more past due | **12** | 8 | 43 |
| Interest income recognized on impaired loans | **$ 50** | $ 163 | $ 394 |

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

| *(dollars in thousands)* | **Year Ended December 31** **2021** | 2020 | 2019 |
|---|---|---|---|
| Interest income which would have been recognized under the original loan terms | **$ 665** | $ 848 | $ 936 |
| Less: interest income recognized | **38** | 155 | 351 |
| Interest income not recognized | **$ 627** | $ 693 | $ 585 |

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 | $ 786 | $ – | $ 786 | $ 896,023 | $ 896,809 | $ – |
| Production and intermediate-term | 2,148 | – | 2,148 | 241,897 | 244,045 | – |
| Agribusiness | – | – | – | 171,638 | 171,638 | – |
| Rural infrastructure | – | – | – | 70,911 | 70,911 | – |
| Agricultural export finance | – | – | – | 8,525 | 8,525 | – |
| Rural residential real estate | – | – | – | 23 | 23 | – |
| Mission-related | – | – | – | 740 | 740 | – |
| Total | $ 2,934 | $ – | $ 2,934 | $1,389,757 | $ 1,392,691 | $ – |

| | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or less than 30 Days Past Due | Recorded Investment in Loans Outstanding | Recorded Investment > 90 Days and Accruing |
| Real estate mortgage | $ 1,732 | $ 39 | $ 1,771 | $ 728,471 | $ 730,242 | $ – |
| Production and intermediate-term | 596 | – | 596 | 206,770 | 207,366 | – |
| Agribusiness | 150 | – | 150 | 171,925 | 172,075 | – |
| Rural infrastructure | – | – | – | 72,927 | 72,927 | – |
| Agricultural export finance | – | – | – | 10,153 | 10,153 | – |
| Rural residential real estate | – | – | – | 27 | 27 | – |
| Mission-related | – | – | – | 825 | 825 | – |
| Total | $ 2,478 | $ 39 | $ 2,517 | $1,191,098 | $ 1,193,615 | $ – |

| | 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 | $ 41 | $ 1,725 | $ 1,766 | $ 623,978 | $ 625,744 | $ 1,458 |
| Production and intermediate-term | 568 | – | 568 | 189,814 | 190,382 | – |
| Agribusiness | – | 3 | 3 | 152,649 | 152,652 | – |
| Rural infrastructure | – | – | – | 74,360 | 74,360 | – |
| Agricultural export finance | – | – | – | 8,539 | 8,539 | – |
| Rural residential real estate | – | – | – | 31 | 31 | – |
| Mission-related | – | – | – | 920 | 920 | – |
| Total | $ 609 | $ 1,728 | $ 2,337 | $1,050,291 | $ 1,052,628 | $ 1,458 |

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 new TDRs occurring during the periods presented.

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

| | Loans modified as TDRs | | | TDRs in Nonaccrual Status* | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 |
| Real estate mortgage | **$ 392** | $ 403 | $ 403 | **$ –** | $ – | $ – |
| Production and intermediate-term | **20** | 50 | 804 | **–** | – | – |
| Total | **$ 412** | $ 453 | $ 1,207 | **$ –** | $ – | $ – |

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

Additional commitments to lend to borrowers whose loans have been modified in TDRs were $1.2 million at December 31, 2021, $1.2 million at December 31, 2020, and $471 thousand at December 31, 2019.

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 | Provision for Loan Losses/ (Loan Loss Reversals) | Balance at December 31, 2021 |
|---|---|---|---|---|---|
| Real estate mortgage | $ 1,074 | $ – | $ – | $ (131) | $ 943 |
| Production and intermediate-term | 857 | – | – | 140 | 997 |
| Agribusiness | 1,021 | – | 9 | (230) | 800 |
| Rural infrastructure | 265 | – | – | (25) | 240 |
| Agricultural export finance | 9 | – | – | (4) | 5 |
| Mission-related | 600 | – | – | (485) | 115 |
| Total | $ 3,826 | $ – | $ 9 | $ (735) | $ 3,100 |

| *(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 | $ 861 | $ – | $ – | $ 213 | $ 1,074 |
| Production and intermediate-term | 629 | – | – | 228 | 857 |
| Agribusiness | 912 | – | 34 | 75 | 1,021 |
| Rural infrastructure | 481 | – | – | (216) | 265 |
| Agricultural export finance | 7 | – | – | 2 | 9 |
| Mission-related | 550 | – | – | 50 | 600 |
| Total | $ 3,440 | $ – | $ 34 | $ 352 | $ 3,826 |

| *(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 | $ 710 | $ – | $ – | $ 151 | $ 861 |
| Production and intermediate-term | 668 | 2 | 1 | (38) | 629 |
| Agribusiness | 932 | 117 | 22 | 75 | 912 |
| Rural infrastructure | 330 | – | – | 151 | 481 |
| Agricultural export finance | 7 | – | – | – | 7 |
| Mission-related | 216 | – | – | 334 | 550 |
| Total | $ 2,863 | $ 119 | $ 23 | $ 673 | $ 3,440 |

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:

| | **Year Ended December 31** | | |
|---|---|---|---|
| *(dollars in thousands)* | **2021** | 2020 | 2019 |
| Balance at beginning of period | **$ 476** | $ 437 | $ 411 |
| Provision for reserve for unfunded commitments | **92** | 39 | 26 |
| Total | **$ 568** | $ 476 | $ 437 |

Additional information on the allowance for loan losses follows:

| | Allowance for Loan Losses Ending Balance at December 31, 2021 | | Recorded Investment 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 | $ – | $ 943 | $ 6,374 | $ 890,435 |
| Production and intermediate-term | – | 997 | 20 | 244,025 |
| Agribusiness | – | 800 | – | 171,638 |
| Rural infrastructure | – | 240 | – | 70,911 |
| Agricultural export finance | – | 5 | – | 8,525 |
| Rural residential real estate | – | – | – | 23 |
| Mission-related | – | 115 | – | 740 |
| Total | $ – | $ 3,100 | $ 6,394 | $ 1,386,297 |

| | Allowance for Loan Losses Ending Balance at December 31, 2020 | | Recorded Investment 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 | $ 1 | $ 1,073 | $ 7,144 | $ 723,098 |
| Production and intermediate-term | – | 857 | 52 | 207,314 |
| Agribusiness | – | 1,021 | – | 172,075 |
| Rural infrastructure | – | 265 | – | 72,927 |
| Agricultural export finance | – | 9 | – | 10,153 |
| Rural residential real estate | – | – | – | 27 |
| Mission-related | 600 | – | 825 | – |
| Total | $ 601 | $ 3,225 | $ 8,021 | $ 1,185,594 |

| | Allowance for Loan Losses Ending Balance at December 31, 2019 | | Recorded Investment 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 | $ 1 | $ 860 | $ 9,998 | $ 615,746 |
| Production and intermediate-term | – | 629 | 900 | 189,482 |
| Agribusiness | 3 | 909 | 3 | 152,649 |
| Rural infrastructure | – | 481 | – | 74,360 |
| Agricultural export finance | – | 7 | – | 8,539 |
| Rural residential real estate | – | – | – | 31 |
| Mission-related | 550 | – | 920 | – |
| Total | $ 554 | $ 2,886 | $ 11,821 | $ 1,040,807 |

## 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 0.88 percent of the outstanding common stock of CoBank at December 31, 2021, compared with 0.90 percent in 2020 and 0.91 percent in 2019.

## NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

| | December 31 | | |
|---|---|---|---|
| *(dollars in thousands)* | **2021** | 2020 | 2019 |
| Land | **$ 1,139** | $ 1,139 | $ 1,153 |
| Buildings | **13,799** | 13,744 | 12,429 |
| Furniture, equipment and automobiles | **3,292** | 3,333 | 3,225 |
| Construction in progress | **–** | – | 73 |
| | **18,230** | 18,216 | 16,880 |
| Less: accumulated depreciation | **5,832** | 5,282 | 4,961 |
| Total | **$ 12,398** | $ 12,934 | $ 11,919 |

## 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 | **$ 1,300,000** | $ 1,075,000 | $ 975,000 |
| Outstanding principal and accrued interest balance | **$ 1,151,295** | $ 959,972 | $ 825,214 |
| Average outstanding principal balance under the line of credit | **$ 1,034,549** | $ 873,988 | $ 814,698 |
| Weighted average interest rate | **1.60%** | 2.10% | 2.96% |

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 | **$ 231,551** | $ 222,261 | $ 214,914 |
| Average rates | **0.40%** | 0.92% | 2.08% |

## NOTE 7 – SHAREHOLDERS' EQUITY

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

A. Protected Borrower Stock

Protection of certain stock is provided under the Farm Credit Act which requires the Association, when retiring protected stock, to retire it at par or stated value regardless of its book value. Protected stock includes stock and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988.

B. Capital Stock

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 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 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. Our bylaws generally permit stock 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.

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00 percent to 10.00 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.

C. 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 | 16.57% | 18.83% | 20.36% | 7.0% | 4.5% |
| Tier 1 Capital | CET1 Capital and non-cumulative perpetual preferred stock | Risk-weighted assets | 16.57% | 18.83% | 20.36% | 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 | 16.82% | 19.20% | 20.70% | 10.5% | 8.0% |
| Tier 1 Leverage | Tier 1 Capital (at least 1.5% must be URE and URE equivalents) | Total assets | 17.36% | 19.65% | 21.47% | 5.0% | 4.0% |
| Unallocated Retained Earnings and URE Equivalents (UREE) Leverage | URE and URE Equivalents | Total assets | 18.06% | 20.31% | 22.18% | – | 1.5% |
| Permanent Capital | Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits | Risk-weighted assets | 16.66% | 18.97% | 20.65% | – | 7.0% |

1 Equities subject to a minimum redemption or revolvement period of 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 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, District and System requirements;
- Provide protection against risk inherent in the Association's operations;
- Provide protection against unknown or unexpected risks;
- Provide sufficient capital for future asset growth;
- Allow the Association to operate profitably over the long-term;
- Maintain a competitive market position; 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.

D. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicates the number of shares outstanding at December 31, 2021. Unless otherwise indicated, all classes of stock have a par value of $5.00. All classes of stock are transferrable to other customers who are eligible to hold such class of stock. Transfers of stock are only allowed as long as the Association meets the regulatory minimum capital requirements.

Class A Common Stock (Nonvoting, at-risk, no shares outstanding) – Issued in exchange for Class B Common Stock or Class C Common Stock; as a patronage refund; as a dividend; or in exchange for allocated surplus. Retirement is at the sole discretion of the Board of Directors.

Class B Common Stock (Voting, at-risk, 353,447 shares outstanding) – Issued solely to, and shall be acquired by, borrowers and other applicants who are farmers, ranchers, or producers or harvesters of aquatic products and who are eligible to vote. Class B Common Stock may also be held by those borrowers who exchanged one share of Class F Common Stock for one share of Class B Common Stock. Each Class B Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class B Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

Class C Common Stock (Nonvoting, at-risk, 2,000 shares outstanding) – Class C Common Stock may be issued to borrowers or applicants who are: (a) rural residents, including persons eligible to hold voting stock, to capitalize rural housing loans; (b) persons or organizations furnishing farm-related services; (c) other persons or organizations who are eligible to borrow from or participate with the Association but who are not eligible to hold voting stock. Class C Common Stock may be issued to any person who is not a shareholder but who is eligible to borrow from the Association for the purpose of qualifying such person for technical assistance, financially related services and leasing services offered by the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class C Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

Class D Common Stock (Nonvoting, at-risk, no shares outstanding, par value of one thousand dollars) – Issued to CoBank or to any person through direct sale.

Class E Preferred Stock (Nonvoting, at-risk, no shares outstanding, par value as may be determined by any agreement of financial assistance between the Association and CoBank) - Issued only to CoBank in consideration of financial assistance to the Association from CoBank. Retirement is at the sole discretion of the Board of Directors.

Class F Common Stock (Voting, protected, no shares outstanding) – Shall be issued to those individuals and entities who held the same class of stock in a predecessor to the Association. The Association shall not issue any additional Class F Common Stock. Each Class F Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class F Common Stock shall be converted to Class G Common Stock. Retirement is at the sole discretion of the Board of Directors.

Class G Common Stock (Nonvoting, protected, no shares outstanding) – Issued only to those individuals and entities who held the same class of stock in a predecessor to the Association and as necessary for conversions from Class F Common Stock. No further shares of Class G Common Stock will be issued. It must be retired upon repayment of the loan.

Class H Preferred Stock (Nonvoting, at-risk, 77,638,441 shares outstanding, par value of one cent) – Issued to and may be acquired only by owners of any class of Common Stock and who have an outstanding loan with the Association.

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

| *Shares in whole numbers* | Preferred | Capital |
|---|---|---|
| Shares outstanding at December 31, 2020 | 95,343,113 | 326,968 |
| Issuances | 67,199 | 66,628 |
| Retirements | (17,771,871) | (38,149) |
| Shares outstanding at December 31, 2021 | 77,638,441 | 355,447 |

E. Patronage and/or Dividends

Dividends may be declared and paid to holders of Class H Stock on a quarterly basis based on a dividend rate determined by the Board of Directors. Dividends paid on the stock will be applied towards the purchase of additional shares of the stock at par value.

Dividends may be declared or patronage distributions allocated to holders of Class B, C, F and G Stock out of the whole or any part of net earnings which remain at the end of the fiscal year, as the Board of Directors may determine, in accordance with the regulations for banks and associations of the System. Additionally, patronage distributions may be allocated to System institutions, with or for whom the Association conducts specified business transactions. However, distributions and retirements are precluded by regulation until the minimum capital adequacy standards have been attained. Amounts not distributed are retained as unallocated retained earnings. The Association made a cash patronage distribution of $7.5 million in 2021, $6.5 million in 2020 and $4.5 million in 2019. The Association declared an $8.5 million cash patronage to be distributed in 2022.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: First, to the holders of all classes of Class E Preferred Stock (if any) until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders; second, to the holders of all classes of Class H Preferred Stock until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders; third, to the holders, pro rata, of all classes of common stock, until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders; fourth, any remaining assets of the Association after such distributions shall be distributed to present and former members and other patrons on a patronage basis, to the extent practicable.

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 42.54 percent of its patronage-sourced net income to its patrons.

F. Accumulated Other Comprehensive Income/Loss

The Association reports accumulated other comprehensive income/loss in its Consolidated Statement of Changes in Shareholders' Equity. As more fully described in Note 2, accumulated other comprehensive income/loss results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits. The Association has no accumulated other comprehensive loss in 2021 or 2020, compared with $290 thousand in 2019. There were no other items affecting comprehensive income or loss.

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

| *(dollars in thousands)* | **2021** | 2020 | 2019 |
|---|---|---|---|
| Pension and other benefit plans: | | | |
| Beginning balance | **$ –** | $ (290) | $ (567) |
| Other comprehensive income before reclassifications | **–** | 7 | 8 |
| Amounts reclassified from accumulated other comprehensive loss | **–** | 283 | 269 |
| Net current period other comprehensive income | **–** | 290 | 277 |
| Year-end balance | **$ –** | $ – | $ (290) |

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

| | Amount Reclassified from Accumulated Other Comprehensive Income/(Loss) December 31 | | | Location of Loss Recognized in Statement of Income |
|---|---|---|---|---|
| *(dollars in thousands)* | **2021** | 2020 | 2019 | |
| Pension and other benefit plans: Net actuarial loss | **$ –** | $ 283 | $ 269 | Salaries and employee benefits |
| Total reclassifications | **$ –** | $ 283 | $ 269 | |

## 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 | **$ 5,548** | $ 3,837 | $ 3,264 |
| Farm Credit Foundations | **24** | 13 | 11 |
| Total | **$ 5,572** | $ 3,850 | $ 3,275 |

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 $873 thousand in 2021 and $685 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.

## NOTE 9 – INCOME TAXES

The provision for income taxes follows.

| | **Year Ended December 31** | | |
|---|---|---|---|
| *(dollars in thousands)* | **2021** | 2020 | 2019 |
| Current: | | | |
| Federal | **$ 9** | $ 7 | $ 3 |
| State | **2** | 2 | 1 |
| Provision for income taxes | **$ 11** | $ 9 | $ 4 |

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 | **$ 4,205** | $ 2,800 | $ 2,980 |
| State tax, net | **2** | 1 | 1 |
| Effect of non-taxable FLCA subsidiary | **(4,449)** | (3,387) | (3,504) |
| Change in valuation allowance | **251** | 601 | 527 |
| Other | **2** | (6) | – |
| Provision for income taxes | **$ 11** | $ 9 | $ 4 |

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 | **$ 232** | $ 218 | $ 164 |
| Nonaccrual loan interest | **–** | – | 2 |
| Net operating loss carryforward | **4,329** | 3,999 | 3,355 |
| Charitable contribution carryover | **2** | 2 | 2 |
| Depreciation | **9** | 8 | – |
| Gross deferred tax assets | **4,572** | 4,227 | 3,523 |
| Deferred tax asset valuation allowance | **(4,356)** | (4,062) | (3,358) |
| Deferred income tax liabilities: | | | |
| Depreciation | **–** | – | (8) |
| Bank patronage allocation | **(215)** | (164) | (155) |
| Sale of fixed assets | **–** | – | (1) |
| Gain on installment sales | **(1)** | (1) | (1) |
| Gross deferred tax liability | **(216)** | (165) | (165) |
| Net deferred tax asset | **$ –** | $ – | $ – |

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

The Association recorded a valuation allowance of $4.4 million in 2021, $4.1 million in 2020 and $3.4 million in 2019. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. The Association's federal and state net operating losses of $11.6 million have an indefinite carryforward period and $6.0 million that expire from 2032 to 2037.

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

## NOTE 10 – EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth 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 $5.4 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 $347.3 million at December 31, 2021, $359.9 million at December 31, 2020 and $333.7 million at December 31, 2019. The fair value of the plan assets was $341.9 million at December 31, 2021, $302.5 million at December 31, 2020 and $252.5 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 expense for participating employers was $13.7 million in 2021, $19.5 million in 2020 and $6.8 million in 2019. The Association's allocated share of plan expenses included in salaries and employee benefits was $1.1 million in 2021, 1.7 million in 2020, and $613 thousand in 2019. Participating employers contributed $30.0 million in 2021, $30.0 million in 2020 and $20.0 million in 2019 to the plan. The Association's allocated share of these pension contributions was $2.4 million in 2021, $2.6 million in 2020 and $1.8 million 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 $30.0 million. The Association's allocated share of these pension contributions is expected to be $2.6 million. 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 provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits (primarily health care benefits) included in salaries and employee benefits were income of $1 thousand in 2021, $1 thousand in 2020 and $3 thousand in 2019. The Association made cash contributions of $5 thousand in 2021, $5 thousand in 2020 and $5 thousand in 2019.

In 2020 and 2019, the Association participated in a non-qualified defined benefit Pension Restoration Plan that is unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. Pension Restoration Plan expenses included in salaries and employee benefits were $290 thousand in both, 2020 and 2019.

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

| | Nonqualified Pension Restoration Benefits | |
|---|---|---|
| *(dollars in thousands)* | 2020 | 2019 |
| **Change in benefit obligation:** | | |
| Benefit obligation at the beginning of the period | $ 290 | $ 567 |
| Interest cost | 7 | 21 |
| Actuarial gain | (7) | (8) |
| Benefits Paid | (290) | (290) |
| Benefit obligation at the end of the period | $ – | $ 290 |
| **Change in plan assets:** | | |
| Company contributions | $ 290 | $ 290 |
| Benefits paid | (290) | (290) |
| Fair value of plan assets at the end of the period | $ – | $ – |
| Funded status of the plan | $ – | $ (290) |
| **Amounts recognized in the Consolidated Statement of Condition consist of:** | | |
| Liabilities | $ – | $ 290 |
| Net amount recognized | $ – | $ 290 |

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

| *(dollars in thousands)* | 2020 | 2019 |
|---|---|---|
| Net actuarial loss | $ – | $ (290) |
| Total amount recognized in AOCI/(loss) | $ – | $ (290) |

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

| *(dollars in thousands)* | 2020 | 2019 |
|---|---|---|
| Accumulated benefit obligation | $ – | $ 290 |
| Fair value of plan assets | $ – | $ – |

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

| *(dollars in thousands)* | 2020 | 2019 |
|---|---|---|
| Projected benefit obligation | $ – | $ 290 |
| Fair value of plan assets | $ – | $ – |

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

| | Nonqualified Pension Restoration Benefits | |
|---|---|---|
| *(dollars in thousands)* | 2020 | 2019 |
| **Components of net periodic benefit cost/(income)** | | |
| Interest cost | $ 7 | $ 21 |
| Net amortization and deferral | 283 | 269 |
| Net periodic benefit cost | $ 290 | $ 290 |

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

| *(dollars in thousands)* | 2020 | 2019 |
|---|---|---|
| Current year net actuarial gain | $ 7 | $ 8 |
| Amortization of net actuarial loss | 283 | 269 |
| Total recognized in other comprehensive income/(loss) | $ 290 | $ 277 |

Actuarial gains in the two years presented were primarily due to changes in plan experience, discount rate and the plan demographics.

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

| | Nonqualified Pension Restoration Benefits | |
|---|---|---|
| | 2020 | 2019 |
| Discount rate | 1.65% | 2.59% |
| Rate of compensation increase | 5.40% | 5.40% |
| Interest crediting rate | 5.00% | 5.00% |

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

| | Nonqualified Pension Restoration Benefits | |
|---|---|---|
| | 2020 | 2019 |
| Discount rate | | |
| Projected benefit obligation | 2.59% | 4.06% |
| Service Cost | 2.69% | 4.11% |
| Interest Cost | 2.49% | 3.93% |
| Rate of compensation increase | 5.40% | 5.00% |
| Interest crediting rate | 5.00% | 5.00% |

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions to the plan. Employer contributions to the Contribution Plan were $672 thousand in 2021, $545 thousand in 2020 and $563 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.

Association loans made, endorsed, or guaranteed by directors, director candidates, and employees of the Association are required to be maintained at an Acceptable or OAEM classification at all times. Additionally, scheduled repayment should be made on or before the installment or maturity dates identified in the note. If any loan made by the Association to a director, director candidate, or employee of the Association at any time becomes classified below the OAEM credit classification or if any such loan becomes delinquent for more than 30 days, then the Association will terminate the director's, director candidate's, or employee's service, candidacy, or employment with the Association.

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

| *(dollars in thousands)* | **2021** | 2020 | 2019 |
|---|---|---|---|
| Beginning balance | **$ 19,856** | $ 16,671 | $ 16,947 |
| New loans and advances | **21,205** | 14,494 | 11,959 |
| Repayments | **(16,778)** | (14,963) | (11,284) |
| Reclassifications* | **(6,710)** | 3,654 | (951) |
| Ending balance | **$ 17,573** | $ 19,856 | $ 16,671 |

* 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 $2.5 million in 2021, $2.3 million in 2020 and $2.1 million in 2019 to AgVantis for technology services and $35 thousand in 2021, $32 thousand in 2020 and $16 thousand in 2019 to CoBank for operational services. One Association officer serves as an AgVantis' director. The Association paid $189 thousand in 2021, $163 thousand in 2020, and $149 thousand in 2019 to Foundations for human resource 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, $305.2 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 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, $4.0 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2022 to 2027. The maximum potential amount of future payments the Association is required to make under the guarantees is $4.0 million.

The credit risk association with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers. Management applies the same credit policies to these instruments. Upon fully funding an instrument, the credit risk amounts are equal to the contract amounts and the potential for loss from such transactions is subject to borrower repayment or the value of collateral securing the loan (if any). The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. The Association maintains a contingency reserve for unfunded commitments, which reflect management's best estimate of losses inherent in lending commitments made to customers but not yet disbursed upon.

## 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** | **$ 81** | **$ –** | **$ –** | **$ 81** |
| 2020 | $ 40 | $ – | $ – | $ 40 |
| 2019 | $ 15 | $ – | $ – | $ 15 |

The Association has no liabilities measured at fair value on a recurring basis for the periods presented. Assets measured at fair value on a non-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: | | | | |
| **2021** | | | | |
| **Loans** | **$ –** | **$ –** | **$ –** | **$ –** |
| 2020 | | | | |
| Loans | $ – | $ – | $ 782 | $ 782 |
| 2019 | | | | |
| Loans | $ – | $ – | $ 978 | $ 978 |

The Association has no 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 no purchases or issuances.

### *Valuation Techniques*

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

*Assets Held in Non-Qualified Benefits Trusts*

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

*Loans*

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

## NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

| | **2021** | | | | |
|---|---|---|---|---|---|
| ***(dollars in thousands)*** | **First** | **Second** | **Third** | **Fourth** | **Total** |
| **Net interest income** | **$ 7,474** | **$ 7,713** | **$ 8,169** | **$ 8,722** | **$ 32,078** |
| **Provision for credit losses/(Credit loss reversal)** | **141** | **(553)** | **(259)** | **28** | **(643)** |
| **Noninterest expense, net** | **3,437** | **2,926** | **3,149** | **3,195** | **12,707** |
| **Net income** | **$ 3,896** | **$ 5,340** | **$ 5,279** | **$ 5,499** | **$ 20,014** |

| | 2020 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | First | Second | Third | Fourth | Total |
| Net interest income | $ 7,308 | $ 7,120 | $ 7,357 | $ 7,571 | $ 29,356 |
| Provision for credit losses/(Credit loss reversal) | 129 | 76 | 441 | (255) | 391 |
| Noninterest expense, net | 3,106 | 3,544 | 5,580 | 3,411 | 15,641 |
| Net income | $ 4,073 | $ 3,500 | $ 1,336 | $ 4,415 | $ 13,324 |

| | 2019 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | First | Second | Third | Fourth | Total |
| Net interest income | $ 7,317 | $ 7,465 | $ 7,368 | $ 7,267 | $ 29,417 |
| Provision for credit losses/(Credit loss reversal) | 422 | 605 | (309) | (19) | 699 |
| Noninterest expense, net | 2,934 | 3,341 | 3,144 | 5,113 | 14,532 |
| Net income | $ 3,961 | $ 3,519 | $ 4,533 | $ 2,173 | $ 14,186 |

## 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 conducting the business, seasonal characteristics, and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from "Management's Discussion and Analysis" (MD&A) included in this annual report to shareholders.

## DESCRIPTION OF PROPERTY

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

| Location | Description | Form of Ownership |
|---|---|---|
| 5110 Edison Avenue<br>Colorado Springs, Colorado | Administrative Office and Lending Office | Owned |
| 549 South Lincoln Street<br>Burlington, Colorado | Lending Office | Owned |
| 1302 East Third Street<br>La Junta, Colorado | Lending Office | Owned |
| 100 East Main Street<br>Limon, Colorado | Lending Office | Owned |
| 159 Washington Street<br>Monte Vista, Colorado | Lending Office | Owned |
| 1301 East Olive Street<br>Lamar, Colorado | Lending Office | Owned |

## LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

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

Other than ordinary routine litigation incidental to the business, there are no material legal proceedings pending to which the Association is a party of which any of its property is subject to, or which involve claims that the Association may be required to satisfy.

## DESCRIPTION OF CAPITAL STRUCTURE

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

## DESCRIPTION OF LIABILITIES

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

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

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

## SELECTED FINANCIAL DATA

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

## MANAGEMENT’S DISCUSSION AND ANALYSIS

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

## DIRECTORS AND SENIOR OFFICERS

The following represents certain information regarding the directors and senior officers of the Association.

### *DIRECTORS*

Mark Peterson: Chairman of the Board currently serving a three-year term expiring in 2022. He serves on the Association’s Audit Committee, Risk Committee, and Compensation Committee. Mr. Peterson is a partner in a family run farm, Peterson Farms, LLC, farming potatoes and malting barley for Coors. Mr. Peterson is currently serving on the board of the Colorado Potato Administrative Committee. He is an Alternate Director on the National Potato Council, which is the governmental oversight committee for the potato industry in the US. He serves on the Trade Affairs committee, the US-Mexico Trade affairs sub-committee, and the Legislative and Governmental Affairs Committee.

Michael Shields: Vice Chairman of the Board currently serving a three-year term expiring in 2022 and Chairman of the Association’s Compensation Committee. Mr. Shields was raised near Coaldale and currently resides in Westcliffe, Colorado in Custer County. Ranching has been his principal occupation for the past 27 years; he is self-employed as a limited partner in his family-owned limited liability partnership, San Isabel, LLP, and his agricultural operation consists of a cow/calf and stocker operation and a hay ranch. Mr. Shields is a member of the Custer County Planning and Zoning Commission and he serves on the Board for the Upper Arkansas Water Conservancy District. Mr. Shields attended Wayne State College.

Steve Betts: Appointed Director currently serving a three-year term expiring in 2024 and Chairman of the Association’s Audit Committee. Mr. Betts is Executive Vice President and Chief Financial Officer of Merrick & Company, and is also on the Board of Advisors for Phiston Technologies, Inc. He received his bachelor’s and master’s degrees in accounting from the University of Denver, and is a Certified Public Accountant licensed in Colorado.

Ryan Britten: Director currently serving a three-year term expiring in 2024 and is a member of the Association’s Risk Committee and Scholarship Committee. Mr. Britten was raised and currently resides north of Haswell, Colorado in Lincoln County. He is self-employed and also a partner in the family partnership, Britten Gold Track Farms. His agricultural operation is located in Lincoln and Kiowa Counties and consists of dryland wheat, milo, millet, corn, and sunflowers. Mr. Britten is also a certified livestock and farm equipment appraiser and is a former loan inspector at GN Bank. He currently serves on the Karval FFA Advisory Board and is a member of the Plainsman Research Center Advisory Board. Mr. Britten received an associate degree in Farm and Ranch Management and Ag Business in 2004 from Lamar Community College. He is a volunteer with the Kiowa County Fire Protection District.

Colin Durham: Director currently serving a three-year term expiring in 2022 and a member of the Association’s Audit Committee and Chairman of the YBS Committee. Dr. Durham resides in Yoder, Colorado and is a 2013 graduate of Colorado State University’s College of Veterinary Medicine. Dr. Durham is a partner at Colorado Veterinary Clinic, P.C. in La Junta, Colorado. He and his brother run a commercial cow/calf and stocker operation.

Whitney Hansen: Director serving a three-year term expiring in 2023 and a member of the Association’s Compensation Committee, Scholarship Committee and serves as the District Farm Credit Council Representative. Ms. Hansen is a fifth generation Oklahoma cattle rancher, married to a fourth generation Colorado farmer. She and her husband maintain a 500 head cow/calf operation in Oklahoma. Over the last 17 years, she has become an integral part of Hansen Family Farms, an irrigated, dry land farm raising corn, wheat and millet in the Burlington area. Ms. Hansen is a partner in D&M Farms Corp and Han-Son’s LLLP, raising corn, wheat and millet. She is a founding member of the Blue River Foundation of Oklahoma and a member of multiple organizations throughout Colorado and Oklahoma.

Cole James: Director currently serving a three-year term expiring in 2024 and is a member of the Association's YBS Committee and was a member of the Association's Audit Committee until January 2022 at which time he was appointed to the Risk Committee. Mr. James was raised on a ranch north of Karval, Colorado. He graduated from Karval High School in 2010 and went on to attend Northeastern Junior College, where he obtained a degree in diesel technology in 2012. After graduation, he purchased a small ranch and returned to his hometown, where he currently runs a stocker operation and dryland farms while serving in numerous positions in the oil field. Mr. James has served his community in many ways since returning to Lincoln County and is involved with the local fire department, serves on the board of the Prairie Soil Conservation District, the Karval School Board, and Lincoln County Farm Bureau.

Gary Pautler: Director currently serving a three-year term expiring in 2023 and a member of the Association's Risk Committee and Scholarship Committee. Mr. Pautler has been farming since 1967. He is a partner in Pautler Brothers, a family owned irrigated and dryland corn and wheat operation. Mr. Pautler serves on the Board of the Stratton Fire Protection District.

Kent Price: Director currently serving a three-year term expiring in 2023 and Chairman of the Association's Risk Committee. Mr. Price is a partner in Price Farms LLC, Price Farms Certified Seed Company LLC, Price Heritage LLC and Expo LLC. He is also part owner in San Acacio Seed LLC. His operations specialize in growing small grains and barley. He graduated from Adams State University and has been farming for over 39 years. He is currently secretary/treasurer for the Colorado Certified Potato Growers Association and serves on the San Luis Valley Well Users Board. He is an alternate on the Colorado Potato Administrative Committee for Saguache County.

Dale Willhite: Director currently serving a three-year term expiring in 2024 and is a member of the Association's Compensation Committee. Mr. Willhite currently farms in Prowers and Baca Counties in southeastern Colorado and is the third-generation owner/manager of the farm started by his grandfather and father. The farm is irrigated and dryland growing corn, sorghum, wheat and sunflowers. Mr. Willhite has experience in corporate management with Cargill, Inc. for 13 years and Tempel Grain for 3 years. He was also a licensed commodity broker with the Rosenthal-Collins Group for 5 years. Mr. Willhite has served on church boards for many years and has been active in foreign missions for 20 years.

James Crowder: Director, served a three-year term, which expired in July 2021, and was a member of the Association's Audit Committee.

Mary-Margaret Henke: Appointed Director, served through December 2021. Ms. Henke's term was due to expire in 2023, but came to an end when she began serving as a director for a commercial bank in January 2022. She served as a member of the Association's Audit Committee and Risk Committee.

Michael Livingston: Director, served a three-year term, which expired in July 2021, and was a member of the Association's Audit Committee. Reappointed to the Board and the Audit Committee in January 2022 to complete a vacated term, which expires in 2024. Mr. Livingston resides in Stratton, Colorado and has operated a farm and ranch with his wife Julie since 1984. Their primary enterprise is a cow/calf operation that serves northern Kit Carson and southern Yuma counties. Mr. Livingston is also a member of Woods Ranch LLC, which he and his son operate together to raise corn, milo and wheat.

Jeffrey Uhland: Director, served a three-year term, which expired in July 2021, and was the Chairman of the Association's Compensation Committee and a member of the Scholarship Committee.

Sid Yoder: Director, term ended in November 2021. Mr. Yoder's term was due to expire in 2024, but came to an end when his Association stock was retired upon repayment of his Association loan. He served as the Chairman of the Scholarship Committee and was a member of the Association's Risk Committee.

### *SENIOR OFFICERS*

Jeremy Anderson: President and Chief Executive Officer (CEO) since November 2017. Previously, he served as Regional President, Board Member and part owner of a community bank in south central Nebraska. Mr. Anderson has over 21 years of commercial banking experience with National and Regional commercial banks. Mr. Anderson joined the AgVantis Board in 2020. AgVantis is a technology cooperative that provides solutions to clients in the Farm Credit System. Mr. Anderson and his wife operated a working row-crop farming operation with his grandparents and parents near Clay Center, Nebraska for 26 years until 2017 when he took the role of CEO at Farm Credit of Southern Colorado.

Deborah Anderson: Chief People & Culture Officer since February 2020. Previously, she served as VP of Human Resources from 2017 to February 2020 and as HR Generalist from 2010 to June 2017. Ms. Anderson started with the Association as an Administrative Assistant then moved to an HR – Administrative Assistant, and has been with Farm Credit of Southern Colorado for 21 years. She holds the Society of Human Resource Management's SHRM-CP Certification in Human Resources.

Chuck Blasi: Chief Credit Officer (CCO) beginning in March 2018. Previously served as Senior Vice President-Lending from February 2016 to March 2018 and Senior Credit Officer from September 2013 to February 2016. Mr. Blasi served in various Loan Officer roles in the La Junta and Burlington Branches for 27 years from 1986 to 2013. Mr. Blasi has been employed with Farm Credit of Southern Colorado for over 35 years.

Kode Hunt: Chief Information Officer (CIO) since November 2018. Previously served as Vice President of Information Services at Farm Credit of New Mexico and has 18 years experience in the Farm Credit System. Mr. Hunt has several IT certifications including MCSA, A+, and Security+ along with being a Lean certified expert. He actively serves on the AgVantis Technology Committee.

Shawna R. Neppl: Chief Financial Officer (CFO) since February 2007. Ms. Neppl served as Interim CEO from June 2017 to November 2017. She has served as Vice President/Branch Manager of the Colorado Springs Branch from February 2001 to February 2007 and as Assistant Vice President – Risk Management from January 2000 to February 2001. Ms. Neppl has been with the Farm Credit System for 30 years.

## COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Per the Association's Director Honoraria policy, during 2021, directors of the Association received a monthly stipend (honoraria) based on their position as compensation for their services. Each director received $1,000 per month. The Chairman of the Board and Chair of Committees received $1,800 and $1,200 respectively, per month. The Financial Expert(s) received $1,300 per month, and a chair and financial expert dual role received $1,500 per month.

Additional information for each director is provided below:

| | Number of Days Served at | | | |
|---|---|---|---|---|
| Name | Board Meetings | Other Official Duties | Monthly Retainer Paid During 2021 | Total Compensation Paid During 2021 |
| Mark Peterson | 6.0 | 26.5 | $ 21,600 | $ 21,600 |
| Michael Shields | 6.0 | 12.0 | 13,000 | 13,000 |
| Steve Betts | 5.0 | 13.5 | 18,000 | 18,000 |
| Ryan Britten | 5.0 | 8.5 | 6,000 | 6,000 |
| Colin Durham | 5.0 | 12.0 | 14,400 | 14,400 |
| Whitney Hansen | 5.0 | 6.5 | 12,000 | 12,000 |
| Cole James | 5.0 | 9.0 | 6,000 | 6,000 |
| Gary Pautler | 6.0 | 12.5 | 12,000 | 12,000 |
| Kent Price | 6.0 | 20.5 | 14,400 | 14,400 |
| Dale Willhite | 5.0 | 5.5 | 6,000 | 6,000 |
| James Crowder | 1.0 | 3.5 | 7,000 | 7,000 |
| Mary-Margaret Henke | 6.0 | 15.5 | 15,600 | 15,600 |
| Michael Livingston | 1.0 | 5.0 | 7,000 | 7,000 |
| Jeffrey Uhland | 2.0 | 2.5 | 8,400 | 8,400 |
| Sid Yoder | 5.0 | 11.0 | 13,200 | 13,200 |
| Total Compensation | | | $ 174,600 | $ 174,600 |

Directors and senior officers are reimbursed for travel, subsistence and other expenses related to Association business according to Association policy. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to directors for travel, subsistence and other related expenses were $124,748 in 2021, $40,473 in 2020 and $53,044 in 2019. Noncash compensation paid to directors as a group was $2,557 during 2021.

Information on senior officers and directors who hold Preferred H-Stock follows. The average dividend rate during 2021 on all balances was 0.06%.

| Name of the Account | Director or Officer | December 31, 2021 Balance | Purchases during 2021 | Retirements during 2021 |
|---|---|---|---|---|
| James Crowder | Director | $ 32,514 | $ 102 | $ 125,000 |
| Gary Pautler | Director | $ – | $ 13 | $ 52,704 |

Information on Chief Executive Officer (CEO), senior officers and other highly compensated individuals follows.

| CEO Name | Year | Salary | Incentive Compensation[2] | Bonus[3] | Deferred/ Perq | Other[4] | Total |
|---|---|---|---|---|---|---|---|
| Jeremy Anderson | 2021 | $ 398,917 | $ 384,216 | $ 20,000 | $ 63,070 | $ 10,254 | $ 876,457 |
| Jeremy Anderson | 2020 | $ 385,750 | $ 153,573 | $ 175,000 | $ 46,388 | $ 4,477 | $ 765,188 |
| Jeremy Anderson | 2019 | $ 370,167 | $ 154,916 | $ – | $ 32,769 | $ 150 | $ 558,002 |

| Aggregate Number Of Officers/Highly Compensated Individuals (excluding CEO) | Year | Salary | Incentive Compensation[2] | Bonus[3] | Deferred/ Perq | Other[4] | Total |
|---|---|---|---|---|---|---|---|
| 5 | 2021[1] | $ 914,175 | $ 377,277 | $ 80,000 | $ 74,062 | $ 346,894 | $ 1,792,408 |
| 6 | 2020[1] | $ 863,157 | $ 194,043 | $ 15,864 | $ 66,245 | $ 1,122,279 | $ 2,261,588 |
| 10 | 2019[1] | $ 1,301,644 | $ 326,429 | $ 16,408 | $ 108,541 | $ 2,389,470 | $ 4,142,492 |

Disclosure of information on the total compensation paid during the last fiscal year to any senior officer, or to any other officer included in the aggregate, is available to shareholders upon request. The senior officers and highly compensated employees included above are those defined by FCA regulations section 619.9310 and section 620.6.

(1) Aggregate number includes five officers and senior officers for 2021. Aggregate number includes five senior officers and one highly compensated employee for 2020. Aggregate number includes ten senior officers for 2019.

(2) Incentive plan includes amounts earned in the reported fiscal year, which are paid in the following year and beginning in 2019 includes long-term incentives, which are established on a rolling three year period on a collective basis.

(3) Bonus amounts represent discretionary bonuses and retention bonuses earned in the reported fiscal year.

(4) Other compensation includes, but is not limited to changes in pension value, vacation pay out, service awards, retirement gratuity and in 2020 includes the amount paid to a senior officer pursuant to a plan or arrangement in connection with the resignation, retirement, or termination of such officer's employment with the Association. Separation payments were accrued in 2019 and paid in January 2020, due to a Reduction in Force and Voluntary Separation Program and were reported in the "Other" total during the reporting year. The change in value of the pension benefits is defined as the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year, disclosed in Note 10 of the Financial Statements.

We believe the design and governance of our compensation program provides total compensation that promotes our mission to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. Our compensation philosophy aims to provide a competitive total rewards package that will enable us to attract and retain highly qualified officers with the requisite expertise and skills while achieving desired business results aligned with the best interest of our shareholders. The design of our senior officer compensation program includes:

- a balanced mix of base and variable pay,
- a balanced use of appropriate performance measures,
- an annual incentive program that allocates individual awards based on both organizational and individual results.

Senior officers are compensated with a combination of salaries, incentive programs and retirement plans generally available to all employees. Our Board of Directors determines the appropriate balance of compensation being mindful of their responsibilities to our shareholders. Base salary, short-term and long-term incentives are intended to be competitive with annual compensation for comparable positions at peer organizations. The Compensation Committee annually reviews market surveys related to the level and combination of salaries, incentive plans and benefits for Senior Officers.

The Association has two incentive plans. The Annual Incentive Program (AIP) is available to all employees and payable once a year. This AIP is designed and intended to promote and reward positive business results in several key performance areas. These typically include:

- credit quality,
- loan volume growth,
- return on assets,
- and other key ratios.

It is also intended to build and enhance teamwork among all employees and groups of employees for the ultimate benefit of our customers and their Association. Annual Incentive Compensation reflects the amount in the year earned. The Long-Term Incentive Program (LTIP) is designed to contribute to a competitive compensation package, provide an incentive to plan participants for continued employment, and to encourage the achievement of long-term, balanced business results. Plan participation will not exceed fifteen percent of the workforce and rewards key employees in roles where strategic decisions affect the long-term performance of the association. Incentive opportunity is measured over the course of three years.

Senior officer base salaries reflect the individual's experience and level of responsibility. Base salaries are subject to review and approval by the Compensation Committee of our Board of Directors and are subject to adjustment based on changes in responsibilities or competitive market conditions.

Retirement Plan Overview – Certain Senior Officers participate in two defined benefit retirement plans: (a) the Ninth Farm Credit District Pension Plan (Pension Plan), which is a qualified defined benefit plan and (b) the Former Ninth and Eleventh District Employers Pension Restoration Plan (Pension Restoration Plan), which is a nonqualified retirement plan. Due to the Pension Plans being closed to new participants, the CEO does not participate in the Pension Plan or the Pension Restoration Plan. Additionally, substantially all employees participate in the 401(k) Plan, which has an employer matching contribution. Information on pension benefits attributable to senior officers and other highly compensated individuals follows.

| Aggregate Number of Senior Officers/ Highly Compensated Individuals Participating in Plan | Plan | Average Years of Credited Service | Present Value of Accumulated Benefits | Payments Made During the Reporting Period |
|---|---|---|---|---|
| 2 | Pension Plan | 33.89 | $ 4,312,835 | $ – |

For the Pension Plan and the Pension Restoration Plan, the average years of service represents an average for the aggregate senior officers and highly compensated employee group included in the Plan.

Pension Plan – In general, the Pension Plan is a qualified plan and provides participants with a 50% joint-and-survivor annuity benefit at normal retirement that is equal to 1.50% of average monthly compensation during the 60 consecutive months in which an individual receives his highest compensation (High 60) multiplied by his years of benefit service, plus 0.25% of the amount by which the High 60 exceeds covered compensation multiplied by years of benefit service. The benefit is actuarially adjusted if the individual chooses a different form of distribution than a 50% joint-and-survivor annuity, such as a lump sum distribution. The pension valuation was determined using a blended approach assuming half of the benefits would be paid as a lump sum and half as an annuity at the participants earliest unreduced retirement age. The Pension Plan pays benefits up to the applicable limits under the Internal Revenue Code.

Pension Restoration Plan – The Pension Restoration Plan is unfunded and not qualified for tax purposes. Benefits payable under this plan are equal to the excess of the amount that would be payable under the terms of the Pension Plan disregarding the limitations imposed under Internal Revenue Code Sections 401(a)(17) and 415, over the pension actually payable under the Pension Plan. The plan also restores any benefits attributable to nonqualified deferred compensation excluded from the benefit determined under the Pension Plan. The nonqualified pension restoration valuation was determined using an assumption that benefits would be paid as a lump sum at the participants earliest unreduced retirement age.

## TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

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

## INVOLVEMENT OF SENIOR OFFICERS AND DIRECTORS IN CERTAIN LEGAL PROCEEDINGS

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

## BORROWER PRIVACY STATEMENT

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. The Association does not sell or trade customers' personal information to marketing companies or information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting the Association.

## RELATIONSHIP WITH INDEPENDENT AUDITORS

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

## RELATIONSHIP WITH COBANK, ACB (COBANK)

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

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

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

## CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS, RANCHERS AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

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

## FINANCIAL STATEMENTS

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

## COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2021 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 5110 Edison Avenue, Colorado Springs, Colorado 80915, or may be contacted at PO Box 75640, Colorado Springs, Colorado 80970-5640 or by calling (800) 815-8559 or (719) 570-1087. The reports may also be obtained free of charge by visiting CoBank's website at www.cobank.com.

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# Our Locations

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**La Junta**
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719-384-4455

**Lamar**
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Lamar, CO 81052
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**Limon**
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**Monte Vista**
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