



FARM CREDIT
OF SOUTHERN COLORADO



2022

ANNUAL REPORT



Jeremy M Anderson
President & CEO

To our customers and shareholders,

Farm Credit of Southern Colorado reports a record year for net income and patronage to be paid to you, our customer owners. 2022 began with continued loan growth for the Association, as rates remained lower. As the Federal Reserve took actions to slow inflation, rates rose significantly which slowed growth. Despite the decline in loan volume growth, your Association remains strong and continues to be in a position to deliver capital to farmers, ranchers, and rural America.

We had record operating results with net earnings of \$23.2 million, which allows the Association to return \$9.5 million in cash patronage in the spring of 2023, to you, our shareholders. Total loans outstanding at December 31, 2022 were \$1.45 billion, an increase of \$75.7 million, or 5.5 percent, from loans of \$1.38 billion at December 31, 2021. Our average accrual loan volume increased \$144.5 million or 11.5 percent from \$1.25 billion at December 31, 2021.

Additional Association highlights for 2022 included:

Company Culture

We continue to focus 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. While many companies began to require staff to return to the office, we embrace the future of remote work, with over 50% of our workforce now working remotely or in some form of a hybrid work arrangement. The Association was again recognized as one of the best workplaces in 2022 by the Colorado Springs Gazette.

Related Services

We enjoyed another successful year of partnering with our customers to increase our multi-peril and hail insurance service business. We have doubled the coverage sold to eligible customers and are proud to be a part of their risk management strategies.

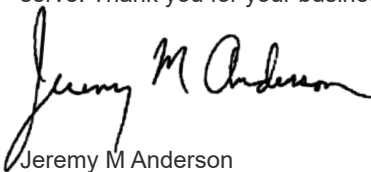
Other Items

We have worked diligently to improve customer communication and the turnaround time it takes to get you an answer on loan requests. While we continue to focus on this and will in years to come, we made significant and measured improvement in the time it takes to deliver an answer to a request for financing.

Governance remains a focus for Farm Credit of Southern Colorado and I am proud of our Board for investing in continued education. In 2022, the Board made an investment in the Farm Credit Premier Governance Series which is a detailed training program for Farm Credit directors. This requires a significant amount of learning, travel, and time commitments.

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 2022 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
President & CEO

OUR BOARD OF DIRECTORS



Whitney Hansen

Burlington, CO
Board Chair



Ryan Britten

Haswell, CO
Vice Chairman



Cole James

Karval, CO



J Kent Price

Monte Vista, CO



Steven Betts

Centennial, CO
Appointed Director



Colin Durham

Yoder, CO



Dale Willhite

Holly, CO



Gary Pautler

Stratton, CO



Michael Livingston

Stratton, CO



Julie Fortenbery

Sunderland, MD
Appointed Director



Michael Whitmore

Burlington, CO



James Andersen

Genoa, CO

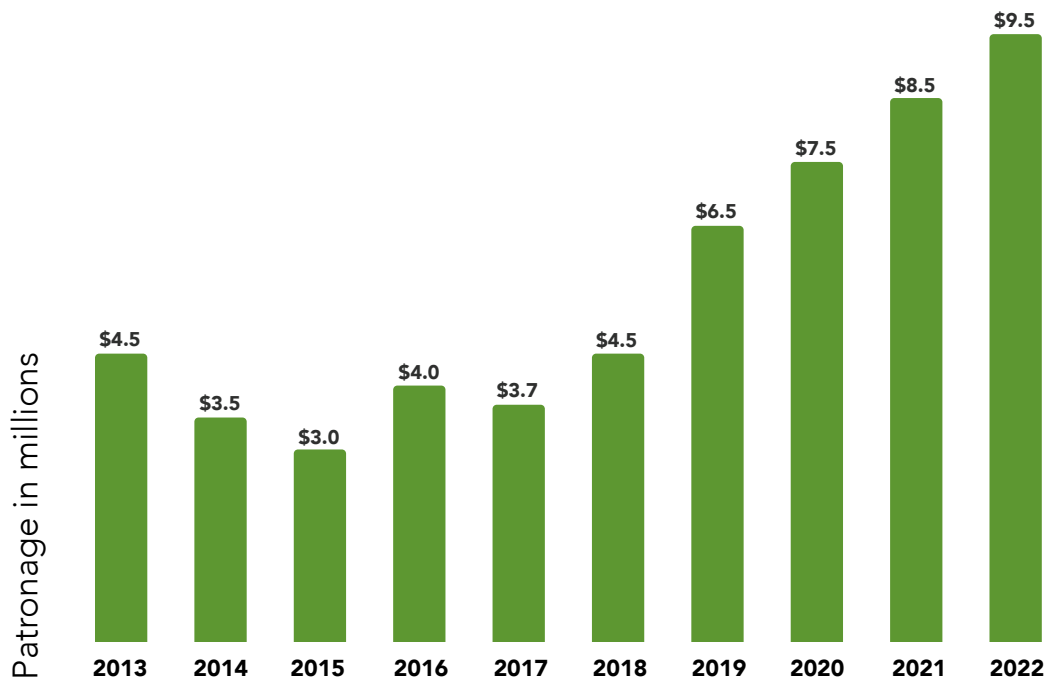
PATRONAGE

The Board of Directors of Farm Credit of Southern Colorado declared a record cash patronage dividend of \$9.5 Million for 2022

The Board of Directors approved a cash patronage dividend of \$9.5 million dollars. This represents approximately 41% of Farm Credit of Southern Colorado's net earnings going back to farmers and ranchers to invest in their operations, families, and rural communities. Since 2013, Farm Credit of Southern Colorado has returned over \$55.2 million to eligible customer-owners.

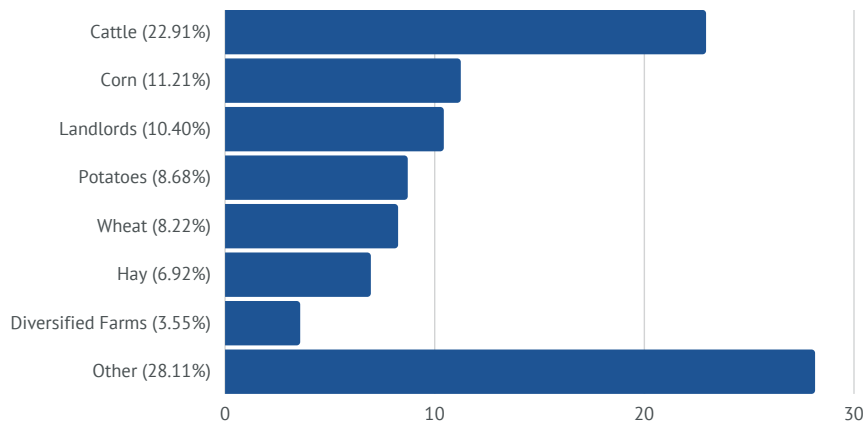
PATRONAGE DECLARED IN 2022

\$9.5 MILLION



PORTFOLIO BREAKDOWN

Our association loan volume by borrower primary commodity as of December 31, 2022.



KEY NUMBERS

(IN THOUSANDS)



TOTAL ASSETS
\$1,542,481



NET INCOME
\$23,173



TOTAL SHAREHOLDERS' EQUITY
\$290,841



TOTAL 2022 PATRONAGE DECLARED
\$9,500

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Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2022	2021	2020	2019	2018
Statement of Condition Data					
Loans	\$ 1,451,447	\$ 1,375,787	\$ 1,177,690	\$ 1,036,258	\$ 1,028,163
Less allowance for loan losses	3,793	3,100	3,826	3,440	2,863
Net loans	1,447,654	1,372,687	1,173,864	1,032,818	1,025,300
Investment in CoBank, ACB	35,313	35,248	35,213	32,839	32,435
Other assets	59,514	47,560	44,231	42,443	45,062
Total assets	\$ 1,542,481	\$ 1,455,495	\$ 1,253,308	\$ 1,108,100	\$ 1,102,797
Obligations with maturities of one year or less	\$ 37,631	\$ 26,496	\$ 27,203	\$ 21,433	\$ 19,075
Obligations with maturities longer than one year	1,213,433	1,151,296	959,973	825,222	829,974
Reserve for unfunded commitments	576	568	476	437	411
Total liabilities	1,251,640	1,178,360	987,652	847,092	849,460
Preferred stock	778	776	953	2,557	2,826
Capital stock	1,816	1,777	1,635	1,487	1,454
Unallocated retained earnings	288,247	274,582	263,068	257,254	249,624
Accumulated other comprehensive income/(loss)	-	-	-	(290)	(567)
Total shareholders' equity	290,841	277,135	265,656	261,008	253,337
Total liabilities and shareholders' equity	\$ 1,542,481	\$ 1,455,495	\$ 1,253,308	\$ 1,108,100	\$ 1,102,797

	For the Year Ended December 31				
	2022	2021	2020	2019	2018
Statement of Income/(Expense) Data					
Net interest income	\$ 37,848	\$ 32,078	\$ 29,356	\$ 29,417	\$ 27,805
Patronage distribution from Farm Credit institutions	6,599	5,572	3,850	3,275	4,105
(Provision for credit losses)/Credit loss reversal	(701)	643	(391)	(699)	(494)
Noninterest expense, net	(20,554)	(18,268)	(19,482)	(17,803)	(15,393)
Provision for income taxes	(19)	(11)	(9)	(4)	(6)
Net income	\$ 23,173	\$ 20,014	\$ 13,324	\$ 14,186	\$ 16,017
Comprehensive income	\$ 23,173	\$ 20,014	\$ 13,614	\$ 14,463	\$ 16,291

Key Financial Ratios**For the Year**

Return on average assets	1.56%	1.50%	1.15%	1.30%	1.50%
Return on average shareholders' equity	8.04%	7.28%	4.98%	5.42%	6.41%
Net interest income as a percentage of average earning assets	2.70%	2.55%	2.69%	2.87%	2.78%
Net (recoveries)/charge-offs as a percentage of average net loans	-	<(0.01%)	<(0.01%)	0.01%	(0.01%)

At Year End

Shareholders' equity as a percentage of total assets	18.86%	19.04%	21.20%	23.55%	22.97%
Debt as a ratio to shareholders' equity	4.30:1	4.25:1	3.72:1	3.25:1	3.35:1
Allowance for loan losses as a percentage of loans	0.26%	0.23%	0.32%	0.33%	0.28%
Common equity tier 1 (CET1) capital ratio	16.39%	16.57%	18.83%	20.36%	19.68%
Tier 1 capital ratio	16.39%	16.57%	18.83%	20.36%	19.68%
Total regulatory capital ratio	16.66%	16.82%	19.20%	20.70%	19.94%
Tier 1 leverage ratio	17.17%	17.36%	19.65%	21.47%	20.78%
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	17.04%	18.06%	20.31%	22.18%	21.41%
Permanent capital ratio	16.48%	16.66%	18.97%	20.65%	19.98%

Net Income Distribution

Cash patronage distributions paid	\$ 8,500	\$ 7,500	\$ 6,500	\$ 4,500	\$ 3,750
Cash patronage declared	\$ 9,500	\$ 8,500	\$ 7,500	\$ 6,500	\$ 4,500
Stock dividends paid	\$ 3	\$ 1	\$ 20	\$ 57	\$ 28
Stock dividends declared	\$ 8	\$ -	\$ 10	\$ 56	\$ 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, 2022. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, footnotes, and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- Business Overview
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Human Capital
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy
- Changes in Management
- 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, 2022, we are one of 63 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is 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, term life insurance, multi-peril and crop hail insurance, 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, we signed a two-year extension to the service agreement to expire on December 31, 2024. We are a shareholder in AgVantis, along with other AgVantis customers. Farm Credit Foundations, a human resource shared service provider for a number of Farm Credit institutions, provides administration for our payroll and benefits and may provide related human resource offerings.

ECONOMIC OVERVIEW

The overall agricultural economy in our territory continues to struggle from the impacts of inflation and price volatility on all inputs including chemicals, fertilizer, fuel, parts, and capital. In contrast, strong market prices for all commodities produced in our territory are helping producers offset increased costs. The U.S. Bureau of Labor Statistics reported that the December Consumer Price Index for All Urban Consumers rose 6.5 percent in the last twelve months. Within the Consumer Price Index, over the previous twelve months, food and energy prices increased 10.4 percent and 6.5 percent, respectively. The unemployment rate in Colorado decreased to 3.3 percent in December 2022.

Drought conditions throughout our territory improved in 2022. Most of the territory received some seasonal moisture in the fourth quarter. While the territory still has some areas classified by the United States Department of Agriculture (USDA) U.S. Drought Monitor as D0 (Abnormally Dry), D1 (Moderate Drought), D2 (Severe Drought), and D3 (Extreme Drought), most of our territory has improved over the past year. The driest conditions exist in our eastern to southeastern counties.

Grain and hay markets have decreased from their peaks in May 2022; however, they remain strong and continue to offer strong pricing opportunities based on high demand across all markets. Volatility in these markets is a challenge, however, strong basis bids helped to offset the volatility risk.

The livestock producers in our territory are facing USDA drought designations of none to D3 (Extreme Drought) ratings. Timely moisture in the second half of the year helped to restore subsoil moisture profiles and increased confidence in pasture conditions for 2023. Prices were exceptionally strong for calves marketed early in the summer which continued through the fall. Values for fat cattle and feeder cattle continue to maintain profitable levels for producers. Markets revealed strong demand for quality bred heifers and cows late in the year.

Yields on corn crops in our territory were below average in 2022 primarily due to drought conditions. Due to the smaller crop in our territory, basis bids remain historically strong. Limited corn supplies in the United States are also driving strong market prices. While contract prices reported by the Chicago Mercantile Exchange are down from market highs at mid-year, they remain above prices at year-end 2021.

Moisture in the third quarter allowed for ideal planting conditions for winter wheat. The USDA National Agricultural Statistics Service reports that the Colorado wheat crop is in 50 percent good to excellent condition at year end, a significant improvement over 2021. Our customers need moisture over the winter and throughout the spring of 2023 to finish the wheat crop.

Potatoes are primarily grown in the San Luis Valley, which is in the southwest region of our territory. Drought conditions in other regions have caused a nationwide shortage of potatoes, driving the Colorado potato market to historic highs. San Luis Valley potato growers had a decent growing season and are getting high returns on any potatoes that were harvested. Crop conditions for the 2022 growing season were average with a smaller size profile. All potatoes have been harvested and are either in the bin or have already been shipped. The San Luis Valley growers are also battling drought conditions and working towards a sustainable aquifer with water conservation practices.

While we continue to experience strong demand for real estate in our territory, the market has experienced some slowing during the latter part of 2022. Increased interest rates, inflation, and overall economic slowdown have eroded the buying power of buyers in the market. While real estate prices have not yet measurably declined, the market has slowed and bids are not as aggressive. We continue to observe a shortage of agricultural properties available on the market. Despite strong demand for properties, we are experiencing some softening in the loan market as the rising rate environment has slowed demand for real estate loans.

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

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

The U.S. government instituted various programs in support of the COVID-19 recovery. In March 2021, Congress passed the \$1.9 trillion American Rescue Plan Act designed to provide near-term help to those hurt by the pandemic. In December 2020, Congress passed the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, which, among other provisions, allocated additional funding for Paycheck Protection Program (PPP) loans and allows certain existing PPP borrowers to apply for additional loans or draws on existing loans. The Association obtained approval to participate as a lender in the PPP and successfully processed PPP loans for customers through the initial round of funding before the program was depleted. In 2021, we 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 \$1.45 billion at December 31, 2022, an increase of \$75.7 million, or 5.5%, from loans at December 31, 2021 of \$1.38 billion, and an increase of \$273.8 million, or 23.2%, from loans at December 31, 2020 of \$1.18 billion. The increase in loans was due to increased participations purchased and an increase in our core portfolio, predominantly in our real estate mortgage and agribusiness loans, offset by a decrease in production and intermediate-term loans. The types of loans outstanding at December 31 are reflected in the following table.

<i>(dollars in thousands)</i>	2022		2021		2020	
	Volume	Percent	Volume	Percent	Volume	Percent
Real estate mortgage loans	\$ 942,374	64.9%	\$ 884,391	64.3%	\$ 717,970	60.9%
Production and intermediate-term loans	229,723	15.8%	240,148	17.5%	204,402	17.4%
Agribusiness loans	195,262	13.5%	171,148	12.4%	171,557	14.6%
Rural infrastructure loans	71,550	4.9%	70,827	5.1%	72,769	6.2%
Agricultural export finance loans	11,781	0.8%	8,512	0.6%	10,140	0.8%
Rural residential real estate loans	18	—	23	—	27	—
Mission-related loans	739	0.1%	738	0.1%	825	0.1%
Total	\$ 1,451,447	100.0%	\$ 1,375,787	100.0%	\$ 1,177,690	100.0%

Real estate mortgage loans outstanding increased 6.6% to \$942.4 million, compared with \$884.4 million at year-end 2021, primarily due to an increase in our core portfolio from operation expansion. Sellers saw opportunities to sell, and increasing prices combined with rising interest rates created demand from buyers, resulting in an increase in our real estate loan portfolio. 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 decreased 4.3% to \$229.7 million, compared with 2021 loans of \$240.1 million, primarily due to customer paydowns from the sale of prior year's crops coupled with payments received from the United States Department of Agriculture in drought ridden areas. Production loans are used to finance the ongoing operating needs of agricultural producers and generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years. Our production and intermediate-term loan portfolio shows some seasonality. Borrowings increase throughout the planting and growing seasons to meet farmers' operating and capital needs. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs.

Agribusiness loans increased 14.1% to \$195.3 million, compared with 2021 loans of \$171.1 million due to increased participations purchased. Agribusiness loans consist of 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, 2022, 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 and non-System entities to reduce risk and comply with lending limits we have established.

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

<i>(dollars in thousands)</i>	2022	2021	2020
Participations purchased with other Farm Credit institutions	\$ 369,624	\$ 323,885	\$ 316,135
Participations purchased with non-Farm Credit institutions	636	796	1,413
Total participations purchased	\$ 370,260	\$ 324,681	\$ 317,548
Participations sold to other Farm Credit institutions	63,412	57,109	64,106
Participations sold to non-Farm Credit institutions	6,761	—	—
Total participations sold	\$ 70,173	\$ 57,109	\$ 64,106

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 increase in participations purchased is due to an increase in opportunities presented for purchase from other Farm Credit institutions.

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

	2022	2021	2020
Alamosa	4.50%	4.40%	3.11%
Arapahoe	1.84%	2.29%	2.53%
Baca	1.64%	2.22%	2.41%
Bent	1.32%	0.96%	1.13%
Cheyenne	4.08%	4.26%	4.20%
Conejos	1.06%	1.00%	1.11%
Costilla	0.85%	0.66%	0.58%
Custer	0.75%	0.76%	0.75%
Douglas	1.43%	1.52%	1.50%
El Paso	2.04%	1.24%	1.30%
Elbert	3.09%	3.22%	2.99%
Huerfano	0.59%	0.62%	0.24%
Jefferson	0.60%	0.87%	0.58%
Kiowa	1.75%	1.58%	1.45%
Kit Carson	15.57%	16.92%	17.62%
Las Animas	0.80%	0.83%	0.88%
Lincoln	2.52%	2.91%	3.23%
Otero	1.43%	1.72%	1.72%
Prowers	2.19%	2.11%	2.46%
Rio Grande	5.52%	4.97%	4.08%
Saguache	1.42%	1.52%	1.47%
Other – Colorado	13.06%	12.91%	13.76%
Other	31.95%	30.51%	30.90%
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 Agreements Providing Territorial Concurrence with both Farm Credit Services of America and Farm Credit Mid-America, FLCA. The Agreement with Farm Credit Services of America eliminates territorial restrictions and allows either party to make loans through its dealer network in the other's territory. The Agreement with Farm Credit Mid-America, FLCA eliminates territorial restrictions and allows them to originate and service consumer loans to consumer loan borrowers 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.

SIC Category	December 31		
	2022	2021	2020
Cattle	22.91%	23.98%	24.92%
Corn	11.21%	11.08%	11.93%
Landlords	10.40%	9.27%	8.10%
Potatoes	8.68%	8.07%	6.28%
Wheat	8.22%	8.84%	10.08%
Hay	6.92%	7.26%	7.13%
Diversified Farms	3.55%	4.47%	2.42%
Other	28.11%	27.03%	29.14%
Total	100.00%	100.00%	100.00%

Our loan portfolio contains a concentration of cattle, corn, landlords, potatoes, and wheat. 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, 2022, borrowers with cow/calf as their primary product represented 14.63% of the portfolio, fed cattle and stockers represented 4.74% and 1.77%, respectively. Cattle producers that did not fall into one of these subcategories represented 1.77% of the portfolio. The decrease in our cattle concentration was due to the overall loan portfolio growing at a faster pace than loans to customers with cattle as their primary business. Our concentration of corn producers increased to 11.21%, slightly up from 11.08% as of December 31, 2021. Our concentration of borrowers whose primary commodity is landlord income increased to 10.40% primarily due to new business and a general shift from active farming to leasing farms. The other category represents 28.11% of the loan volume and is comprised of more than 90 categories, the largest of these is 1.88%.

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

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

The loans outstanding at December 31, 2022 for loans \$250 thousand or less accounted for 14.0% of loan volume and 69.5% 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.

(dollars in thousands)	2022		2021		2020	
	Amount outstanding	Number of loans	Amount outstanding	Number of loans	Amount outstanding	Number of loans
\$1 - \$250	\$ 203,359	2,690	\$ 207,601	2,722	\$ 198,344	2,709
\$251 - \$500	177,883	498	177,794	498	162,448	460
\$501 - \$1,000	239,253	346	222,008	324	196,925	285
\$1,001 - \$5,000	654,843	315	596,790	293	491,352	248
\$5,001 - \$25,000	150,565	20	145,460	17	101,868	13
\$25,001 - \$100,000	25,544	1	26,134	1	26,753	1
Total	\$1,451,447	3,870	\$1,375,787	3,855	\$1,177,690	3,716

As of December 31, 2022, approximately 10.9% 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 \$19.5 million at year-end 2022, \$20.6 million at year-end 2021, and \$22.6 million at year-end 2020 were outstanding.

Credit Commitments

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

The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2022.

<i>(dollars in thousands)</i>	Due 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years	Total
Commitments to extend credit	\$ 77,335	\$ 130,072	\$ 110,460	\$ 32,734	\$ 350,601
Standby letters of credit	2,157	856	94	–	3,107
Total commitments	\$ 79,492	\$ 130,928	\$ 110,554	\$ 32,734	\$ 353,708

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

High Risk Assets

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

<i>(dollars in thousands)</i>	2022	2021	2020
Nonaccrual loans:			
Real estate mortgage	\$ 2,804	\$ 5,982	\$ 6,741
Production and intermediate-term	882	–	2
Agribusiness	2,504	–	–
Mission-related	–	–	825
Total nonaccrual loans	6,190	5,982	7,568
Accruing restructured loans:			
Real estate mortgage	399	392	403
Production and intermediate-term	–	20	50
Total accruing restructured loans	399	412	453
Total high risk assets	\$ 6,589	\$ 6,394	\$ 8,021
Nonaccrual loans to total loans	0.43%	0.43%	0.64%
High risk assets to total loans	0.45%	0.46%	0.68%
High risk assets to total shareholders' equity	2.27%	2.31%	3.02%

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

Total high risk assets increased \$195 thousand, or 3.0%, to \$6.6 million at December 31, 2022 compared with year-end 2021. The increase in high risk assets was due to an increase in nonaccrual loans, partially offset by a decrease in 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 increased \$208 thousand compared with December 31, 2021 due to ten loans, attributed to two borrowers, moving to nonaccrual status contributing \$4.4 million. This increase was partially offset by three loans returning to accrual status contributing \$3.9 million and paydowns of \$309 thousand. Two loan complexes comprise approximately 70% of total nonaccrual loan volume.

The following table provides additional information on nonaccrual loans as of December 31 for the last three fiscal years.

<i>(dollars in thousands)</i>	2022	2021	2020
Nonaccrual loans current as to principal and interest	\$ 6,190	\$ 5,982	\$ 7,529

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 \$13 thousand during 2022. The accruing restructured loans include only the year-end balances of loans and related accrued interest on which monetary concessions have been granted to borrowers and that are in accrual status. Accruing restructured loans do not include loans on which monetary concessions have been granted but which remain in nonaccrual status.

High risk asset volume is anticipated to decrease in the future due to payments and some of our nonaccrual portfolio returning to accrual status.

Credit Quality

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

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

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

	2022	2021	2020
Acceptable	95.66%	95.08%	91.85%
OAEM	2.30%	2.42%	5.56%
Substandard	2.01%	2.46%	2.54%
Doubtful	0.03%	0.04%	0.05%
Total	100.00%	100.00%	100.00%

During 2022, overall credit quality improved. Loans classified as Acceptable and OAEM were 97.96% at December 31, 2022, 97.50% at December 31, 2021, and 97.41% at December 31, 2020. 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. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs, and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased and remained at a low level of 0.10% at December 31, 2022, compared with 0.21% at December 31, 2021 and 2020.

Allowance for Loan Losses

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

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

<i>(dollars in thousands)</i>	2022	2021	2020
Balance at beginning of year	\$ 3,100	\$ 3,826	\$ 3,440
Recoveries:			
Agribusiness	–	9	34
Total recoveries	–	9	34
Net recoveries	–	(9)	(34)
Provision for loan losses/(Loan loss reversal)	693	(735)	352
Balance at December 31	\$ 3,793	\$ 3,100	\$ 3,826
Net recoveries to average net loans	–	<(0.01%)	<(0.01%)

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

<i>(dollars in thousands)</i>	2022	2021	2020
Real estate mortgage	\$ 1,416	\$ 943	\$ 1,074
Production and intermediate-term	645	997	857
Agribusiness	1,112	800	1,021
Rural Infrastructure	506	240	265
Agricultural export finance	7	5	9
Mission-related	107	115	600
Total	\$ 3,793	\$ 3,100	\$ 3,826

The allowance for loan losses increased \$693 thousand from December 31, 2021, to \$3.8 million at December 31, 2022. The increase in allowance for loan losses was due to the provision for loan losses totaling \$693 thousand that was recorded due to credit quality deterioration in the capital markets portfolio with three loan complexes downgraded to substandard, one of which had \$509 thousand of specific reserves established. In addition, one loan complex downgraded to OAEM. The management reserve increased due to economic and inflationary pressures. No charge-offs or recoveries were recorded during 2022. Overall, charge-off activity remains low relative to the size of our loan portfolio. During 2021, our allowance for loan losses decreased \$726 thousand from 2020 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 on two loans contributed to the decrease in allowance for loan loss. These decreases were partially offset by an increase in the general reserve. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2022	2021	2020
Allowance for loan losses as a percentage of:			
Loans	0.26%	0.23%	0.32%
Impaired loans	57.57%	48.48%	47.70%
Nonaccrual loans	61.28%	51.82%	50.55%

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

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

<i>(dollars in thousands)</i>	2022	2021	2020
Balance at beginning of year	\$ 568	\$ 476	\$ 437
Provision for reserve for unfunded commitments	8	92	39
Total	\$ 576	\$ 568	\$ 476

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.

	USDA	December 31		
		2022	2021	2020
Young	7.95%	17.45%	17.54%	17.31%
Beginning	29.89%	28.90%	28.12%	25.07%
Small	91.99%	36.87%	36.66%	35.27%

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

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 2022, 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 2022, the goal was to originate 325 or more new loans to YBS customers for \$19.0 million or greater. Actual results were 413 new loans, for a total of \$121.6 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	141	N/A	\$ 45,537
Beginning	N/A	229	N/A	\$ 70,369
Small	N/A	317	N/A	\$ 73,755
Existing Loans				
Young	732	703	\$ 179,275	\$ 188,682
Beginning	1,178	1,164	\$ 334,631	\$ 336,616
Small	1,562	1,485	\$ 346,553	\$ 334,301

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 2023, 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:

	2023	2024	2025
# of New Loans	350	375	400
Volume of New Loans	\$20.0 million	\$21.0 million	\$22.0 million

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

	2023		2024		2025	
	# of Loan	Volume	# of Loan	Volume	# of Loan	Volume
Young	766	\$ 204,276	824	\$ 219,600	886	\$ 236,070
Beginning	1,260	\$ 365,175	1,354	\$ 392,563	1,456	\$ 422,005
Small	1,600	\$ 360,042	1,720	\$ 387,046	1,849	\$ 416,074

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. During 2022, our goal to host quarterly educational seminars resulted in two seminars: Commodity Protection and 2022 Weather Outlook sessions. These sessions were held in various locations throughout our territory. We coordinated with the Colorado FFA foundation to support various initiatives around our territory including the state FFA officer sponsorship. Our support extends to the local FFA chapters and 4-H clubs where we engaged in fundraisers, career development event judging, supervised agriculture experience projects, and classroom agricultural education. Throughout 2022, we made efforts to recruit additional involvement from YBS borrower members and prospective customers to the YBS committee. However, at the end of 2022, we did not receive commitments for involvement. We participated in activities with a local high school FFA chapter and with the State FFA Association at the State Convention. Additionally, the Association prepared a series of infographics that provided educational themes aimed at YBS customers with topics including Borrowing Basics, 5 C's of Credit, Financial Statements, and Product Offerings. Our goal to coordinate with industry experts to provide legislative updates to our member borrowers did not materialize, however, we retained this goal for 2023. In order to engage past scholarship and internship recipients, we have plans to host a YBS conference in California with other Farm Credit Associations across the Western United States in 2023.

Our qualitative goals for 2023 include:

- Coordinate with other Farm Credit Associations to deliver a YBS Educational Program for YBS customers of the cooperating associations in the spring of 2023.
- Deliver quarterly education seminars in person or via electronic media.
- Coordinate with Colorado FFA Foundation and Colorado 4-H Council to support youth agricultural education and leadership programs in our territory.
- Recruit additional involvement from 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 Farm Credit of Southern Colorado and career opportunities in the Farm Credit System.
- 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 and also in our unfunded loan commitments and standby letters of credit. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies, and procedures.

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

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

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

By regulation, we cannot have loan commitments to one borrower for more than 15% of our lending and lease limit base. Our Association's lending and lease limit base is established by our total regulatory capital. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established 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 2022, we recorded net income of \$23.2 million, compared with \$20.0 million in 2021, and \$13.3 million in 2020. The increase in 2022 was primarily due the increase in net interest income and noninterest income, offset by an increase in noninterest expense and provision for credit losses. 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 following table presents the changes in the significant components of net income from the previous year.

<i>(dollars in thousands)</i>	2022 vs. 2021	2021 vs. 2020
Net income, prior year	\$ 20,014	\$ 13,324
Increase/(Decrease) from changes in:		
Interest income	14,448	980
Interest expense	(8,678)	1,742
Net interest income	5,770	2,722
Provision for credit losses	(1,344)	1,034
Noninterest income	1,737	1,931
Noninterest expense	(2,996)	1,005
Provision for income taxes	(8)	(2)
Total increase in net income	3,159	6,690
Net income, current year	\$ 23,173	\$ 20,014

Return on average assets increased to 1.56% from 1.50% in 2021, and return on average shareholders' equity increased to 8.04% from 7.28% in 2021, primarily as a result of an increase in net income.

Net Interest Income

Net interest income for 2022 was \$37.8 million compared with \$32.1 million for 2021 and \$29.4 million for 2020. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets, and cost of debt. The increase in net interest income was largely due to an increase in average loan volume and an increase in the spread between the yield on assets and the cost of debt. The following table provides an analysis of the individual components of the change in net interest income during 2022 and 2021.

<i>(dollars in thousands)</i>	2022 vs. 2021	2021 vs. 2020
Net interest income, prior year	\$ 32,078	\$ 29,356
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	7,970	(5,393)
Interest rates paid	(5,798)	4,338
Volume of interest-bearing assets and liabilities	3,584	3,890
Interest income on nonaccrual loans	14	(113)
Increase/(Decrease) in net interest income	5,770	2,722
Net interest income, current year	\$ 37,848	\$ 32,078

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

	For the Year Ended December 31		
	2022	2021	2020
Net interest margin	2.70%	2.55%	2.69%
Interest rate on:			
Average loan volume	4.50%	3.86%	4.37%
Average debt	2.13%	1.58%	2.07%
Interest rate spread	2.37%	2.28%	2.30%

The increase in interest rate spread resulted from a 64 basis point increase in interest rates on average loan volume and a 55 basis point increase in interest rates on average debt. The increase in net interest margin in addition to the change in spread was due to higher 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 provision for credit losses of \$701 thousand in 2022, compared with net credit loss reversals of \$643 thousand in 2021 and net provision for credit losses of \$391 thousand in 2020. The provision for loan losses of \$693 thousand recorded during 2022 was primarily due to credit quality deterioration in the capital markets portfolio with three loan complexes downgraded to substandard. In addition, one loan complex downgraded to OAEM. The management reserve increased due to economic and inflationary pressures. 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 reserve for unfunded commitments of \$8 thousand recorded during 2022 and \$92 thousand recorded during 2021 were 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.

Noninterest Income

During 2022, we recorded noninterest income of \$9.0 million, compared with \$7.2 million in 2021 and \$5.3 million in 2020. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. The total patronage from CoBank is comprised of two sources: patronage based on our borrowing balance (direct note patronage) and patronage based on loans we originate and then sell a portion to them as a participant (sold volume patronage). Patronage earned from CoBank was \$6.5 million in 2022, \$5.6 million in 2021, and \$3.8 million in 2020. Patronage income from CoBank includes special cash patronage distributions of \$1.1 million for 2022, \$873 thousand for 2021, and \$685 thousand for 2020 due to CoBank's strong capital levels and financial results.

During 2022 and 2021, we received 95 basis points on participation loans and 45 basis points on our direct note with CoBank for all other loans. During 2020, we received 95 basis points on participation loans and 36 basis points on our direct note with CoBank for all other loans. These basis points are before any special patronage distributed by CoBank. As a result of changes to their patronage programs in 2021, CoBank has indicated that our patronage income related to our direct note with CoBank will remain at 45 basis points over the next two years.

We received a patronage distribution from AgVantis, based on our services purchased from AgVantis during 2022. We received a Notice of Allocation with our total patronage of \$84 thousand for 2022, compared with none for 2021 and 2020. The balance of the allocation is recorded in other assets.

We recorded a cash patronage of \$14 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 \$24 thousand recorded in 2021 and \$13 thousand in 2020. Patronage from Farm Credit Foundations, AgVantis, and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received a refund of \$227 thousand during 2020 from FCSIC. No such refund was received in 2022 or 2021. The FCSIC refund is our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts.

We received mineral income of \$1.2 million during 2022, which is distributed to us quarterly by CoBank. Mineral income increased from \$794 thousand in 2021 and \$536 thousand in 2020. The increase in 2022 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 2022 were \$492 thousand, an increase of \$54 thousand, from 2021, primarily due to non-deferrable fees earned on our participations purchased, breakage/prepayment fees, and service fees for participations sold. 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. Other noninterest income increased \$236 thousand to \$548 thousand primarily due to lease income from Colorado Springs building, recorded patronage from AgDirect LLP (AgDirect), FCS captive insurance allocated savings, and an increase in gain on fixed assets.

Noninterest Expense

Noninterest expense for 2022 increased \$3.0 million, or 15.0%, to \$22.9 million compared with 2021 and \$2.0 million, or 9.5% compared with 2020. Noninterest expense for each of the three years ended December 31 is summarized as follows:

<i>(dollars in thousands)</i>	Percent of Change				
	2022	2021	2020	2022/2021	2021/2020
Salaries & employee benefits	\$ 12,260	\$ 10,655	\$ 10,080	15.06%	5.70%
Occupancy & equipment	1,173	1,246	1,261	(5.86%)	(1.19%)
Purchased services from AgVantis	2,918	2,529	2,282	15.38%	10.82%
Supervisory & examination costs	454	404	421	12.38%	(4.04%)
Other	3,918	3,551	3,684	10.34%	(3.61%)
Total operating expense	20,723	18,385	17,728	12.72%	3.71%
Farm Credit Insurance Fund premium	2,213	1,555	783	42.32%	98.60%
Prepayment expense	–	–	2,434	–	(100.00%)
Total noninterest expense	\$ 22,936	\$ 19,940	\$ 20,945	15.03%	(4.80%)

For the year ended December 31, 2022, total operating expense increased \$2.3 million, or 12.7%, compared with the year ended December 31, 2021, primarily due to increases in salaries and employee benefits and purchased services from AgVantis. The increase in salaries and employee benefits expense is due to increased staff, increased incentive expenses, and decreased salary deferrals. Insurance Fund premium increased \$658 thousand to \$2.2 million at December 31, 2022 due to an increase in the insurance premium accrual assessment rate on Systemwide adjusted insured debt from 16 basis points to 20 basis points, which was retroactively applied for 2022 during the second quarter. The increase was also impacted by an increase in average loan volume. We recorded prepayment fee expense of \$2.4 million in 2020 due to prepayment fees charged by CoBank. No such fees were recorded in 2022 or 2021. These fees were primarily related to loan conversions that resulted from the low interest rate environment in the wake of the COVID-19 pandemic.

Provision for income taxes

We recorded \$19 thousand in provision for income taxes during 2022, compared with \$11 thousand in 2021 and \$9 thousand in 2020. The increase in 2022 was primarily 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 renews annually and matures on May 31, 2023. The annual average principal balance of the note payable to CoBank was \$1.17 billion in 2022, \$1.03 billion in 2021, and \$874.0 million in 2020.

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

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and its asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed excess loanable funds with CoBank at a fixed rate for a specified term as a part of CoBank's Association Equity Positioning Program (AEPP). 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.

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

While our Association currently holds legacy LIBOR indexed loans in our portfolio, we have adopted a transition plan to reduce LIBOR exposures and stop the inflow of new LIBOR volume. We have analyzed potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational, and compliance risks. 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, 2022 totaled \$290.8 million, compared with \$277.1 million at December 31, 2021, and \$265.7 million at December 31, 2020. The increase of \$13.7 million in shareholders' equity reflects net income and net stock issuances, partially offset by patronage distributions.

Our capital position is reflected in the following ratio comparisons.

	2022	2021	2020
Debt to shareholders' equity	4.30:1	4.25:1	3.72:1
Shareholders' equity as a percent of net loans	20.09%	20.19%	22.63%
Shareholders' equity as a percent of total assets	18.86%	19.04%	21.20%

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2021 primarily due to the increase in loan volume and the corresponding increase in our note payable to CoBank.

Retained Earnings

Our retained earnings increased \$13.7 million to \$288.2 million at December 31, 2022 from \$274.6 million at December 31, 2021 and increased \$25.2 million from \$263.1 million at December 31, 2020. The increase in 2022 was a result of net income of \$23.2 million, partially offset by \$9.5 million of patronage distributions declared.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, the Bylaws address increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of \$8.5 million in 2022, \$7.5 million in 2021, and \$6.5 million in 2020. During 2022, we declared patronage distributions of \$9.5 million to be paid in April 2023.

Stock

Our total stock increased \$41 thousand to \$2.6 million at December 31, 2022, from \$2.6 million at December 31, 2021 and increased from \$2.6 million at December 31, 2020. The increase during 2022 was due to \$218 thousand of stock issuances, including \$3 thousand of preferred stock issued from dividends, partially offset by \$177 thousand of stock retirements. 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.

Capital Plan and Regulatory Requirements

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

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

As shown in the following table, at December 31, 2022, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions, retire equities, and pay preferred stock dividends.

	2022	2021	2020	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	16.39%	16.57%	18.83%	7.00%
Tier 1 Capital ratio	16.39%	16.57%	18.83%	8.50%
Total Capital ratio	16.66%	16.82%	19.20%	10.50%
Tier 1 Leverage ratio	17.17%	17.36%	19.65%	5.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	17.04%	18.06%	20.31%	1.50%
Permanent capital ratio	16.48%	16.66%	18.97%	7.00%

The minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2022, we have 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 April 14, 2022, the FCA issued a final rule to address changes to its capital regulations and certain other regulations in response to the current expected credit losses (CECL) accounting standard. The regulation reflects the CECL methodology, which revises the accounting for credit losses in accordance with accounting principles generally accepted in the United States of America (GAAP), as well as conforming amendments to the other regulations to accurately reference credit losses. Specifically, the regulation identifies which credit loss allowances under CECL are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's tier 2 capital up to 1.25 percent of the System institution's total risk-weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's tier 2 capital. In addition, the regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The final rule was effective on January 1, 2023. The regulation did not have a material impact on our regulatory capital.

HUMAN CAPITAL

As of December 31, 2022, we had 79 employees at our headquarters in Colorado Springs, Colorado and at our other branch locations. Our employees have an established foundation and working knowledge of agriculture and the Farm Credit System. Our workforce is approximately 36.3 percent male and 63.7 percent female, with minorities representing approximately 5.0 percent of our associates.

REGULATORY MATTERS

As of December 31, 2022, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

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

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

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of four members of the Board of Directors. During 2022, five 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 is composed of four members of the Board of Directors and held five meetings during 2022.

Compensation Committee

The Compensation Committee is responsible for the oversight of the senior officer and association employee compensation program. The Compensation Committee is composed of four members of the Board of Directors and held four meetings during 2022. 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. The Committee held two meetings in 2022. The Committee consists of three directors and four Association employees.

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. In 2022, we provided twelve \$1,500 scholarships to graduating high school seniors in our territory. One grand prize recipient was awarded an additional \$1,000 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 2023, we are awarding a total of \$34,000 in scholarships for the Fall 2023 semester. The Association will award eighteen \$1,500 scholarships and two individuals will be awarded an additional \$1,000 scholarship. In 2023, we will award two \$2,500 YBS scholarships to a college junior with the intent to pursue a farming, ranching, or agricultural 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 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. This Committee had a total of four meetings during the year.

Governance and Strategy Committee

The purpose of the Governance and Strategy Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by making recommendations and providing guidance as it relates to the Association's corporate governance and long-term strategic plan. The Governance and Strategy Committee is composed of five members of the Board of Directors and held two meetings during 2022.

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 employee 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 coronavirus pandemic, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and/or the Farm Credit System; and,
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses/Reserve for Unfunded Commitments

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

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

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

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

CUSTOMER PRIVACY

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

CHANGES IN MANAGEMENT

In 2022, we appointed a Chief Risk Officer and Chief Business Development Officer. The Chief Risk Officer leads the enterprise risk management and compliance functions. The Chief Business Development Officer manages all facets of the Association's business development.

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.

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

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, management engaged Deloitte & 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.

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Whitney Hansen
Board Chair

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Jeremy M. Anderson
President and Chief Executive Officer

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Shawna R. Neppi
Chief Financial Officer

March 9, 2023



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

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

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Jeremy M. Anderson
President and Chief Executive Officer

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Shawna R. Neppi
Chief Financial Officer

March 9, 2023

AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes four members from the Board of Directors of Farm Credit of Southern Colorado (Association). In 2022, five Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2022.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2022 were \$96,900 for audit services and \$10,200 for tax services.

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

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

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2022 (the "Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2022 and for filing with the Farm Credit Administration.

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Steven J. Betts, Chairman of the Audit Committee

Audit Committee Members

Steven Betts, James Andersen, Colin Durham, Michael Livingston

March 9, 2023



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, 2022, 2021 and 2020, and the related consolidated statements of comprehensive income, changes in shareholders’ equity and cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2022, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2022 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

PricewaterhouseCoopers LLP

Kansas City, Missouri
March 9, 2023

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2022	2021	2020
ASSETS			
Loans	\$ 1,451,447	\$ 1,375,787	\$ 1,177,690
Less allowance for loan losses	3,793	3,100	3,826
Net loans	1,447,654	1,372,687	1,173,864
Cash	7,924	3,507	4,615
Accrued interest receivable	21,531	16,904	15,925
Investment in CoBank, ACB	35,313	35,248	35,213
Investment in AgDirect	1,708	1,621	963
Premises and equipment, net	11,901	12,398	12,934
Prepaid benefit expense	7,675	5,821	4,491
Other assets	8,775	7,309	5,303
Total assets	\$ 1,542,481	\$ 1,455,495	\$ 1,253,308
LIABILITIES			
Note payable to CoBank, ACB	\$ 1,210,396	\$ 1,150,045	\$ 958,757
Advance conditional payments	19,409	11,902	15,047
Accrued interest payable	3,037	1,251	1,216
Patronage distributions payable	9,500	8,500	7,500
Accrued benefits liability	141	146	153
Reserve for unfunded commitments	576	568	476
Other liabilities	8,581	5,948	4,503
Total liabilities	\$ 1,251,640	\$ 1,178,360	\$ 987,652
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Preferred stock	778	776	953
Capital stock	1,816	1,777	1,635
Unallocated retained earnings	288,247	274,582	263,068
Total shareholders' equity	290,841	277,135	265,656
Total liabilities and shareholders' equity	\$ 1,542,481	\$ 1,455,495	\$ 1,253,308

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2022	2021	2020
INTEREST INCOME			
Loans	\$ 63,138	\$ 48,690	\$ 47,710
Total interest income	63,138	48,690	47,710
INTEREST EXPENSE			
Note payable to CoBank, ACB	25,119	16,602	18,311
Other	171	10	43
Total interest expense	25,290	16,612	18,354
Net interest income	37,848	32,078	29,356
Provision for credit losses/(Credit loss reversals)	701	(643)	391
Net interest income after provision for credit losses/credit loss reversals	37,147	32,721	28,965
NONINTEREST INCOME			
Financially related services income	134	128	134
Loan fees	492	438	415
Patronage distribution from Farm Credit institutions	6,599	5,572	3,850
Farm Credit Insurance Fund distribution	-	-	227
Mineral income	1,208	794	536
Other noninterest income	548	312	151
Total noninterest income	8,981	7,244	5,313
NONINTEREST EXPENSE			
Salaries and employee benefits	12,260	10,655	10,080
Occupancy and equipment	1,173	1,246	1,261
Purchased services from AgVantis, Inc.	2,918	2,529	2,282
Farm Credit Insurance Fund premium	2,213	1,555	783
Supervisory and examination costs	454	404	421
Prepayment expense	-	-	2,434
Other noninterest expense	3,918	3,551	3,684
Total noninterest expense	22,936	19,940	20,945
Income before income taxes	23,192	20,025	13,333
Provision for income taxes	19	11	9
Net income	23,173	20,014	13,324
COMPREHENSIVE INCOME			
Amortization of retirement costs	-	-	283
Actuarial gain in retirement obligation	-	-	7
Total comprehensive income	\$ 23,173	\$ 20,014	\$ 13,614

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, 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
Comprehensive income			23,173	-	23,173
Stock issued	-	215			215
Stock retired	(1)	(176)			(177)
Preferred stock dividends	3		(8)		(5)
Patronage distributions: Cash			(9,500)		(9,500)
Balance at December 31, 2022	\$ 778	\$ 1,816	\$ 288,247	\$ -	\$ 290,841

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 23,173	\$ 20,014	\$ 13,324
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	756	745	705
Provision for credit losses/(Credit loss reversal)	701	(643)	391
Patronage stock from CoBank, ACB	(105)	(63)	(35)
Allocated patronage from AgVantis	(84)	-	-
Gains on sales of premises and equipment	(40)	(31)	(115)
Change in assets and liabilities:			
(Increase)/Decrease in accrued interest receivable	(4,627)	(979)	445
Increase in prepaid benefit expense	(1,854)	(1,330)	(893)
Increase in other assets	(1,340)	(1,978)	(627)
Increase/(Decrease) in accrued interest payable	1,786	35	(415)
Decrease in accrued benefits liability	(5)	(7)	(7)
Increase/(Decrease) in other liabilities	2,628	1,446	(636)
Total adjustments	(2,184)	(2,805)	(1,187)
Net cash provided by operating activities	20,989	17,209	12,137
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	(75,660)	(198,088)	(141,398)
Increase in investment in CoBank, ACB	(2)	-	(2,374)
Increase in investment in AgDirect	(87)	(658)	(331)
Expenditures for premises and equipment	(259)	(215)	(1,827)
Proceeds from sales of premises and equipment	40	37	222
Net cash used in investing activities	(75,968)	(198,924)	(145,708)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank, ACB	60,351	191,288	135,166
Increase/(Decrease) in advance conditional payments	7,507	(3,145)	5,713
Preferred stock retired	(1)	(178)	(1,643)
Preferred stock issued	-	-	19
Capital stock retired	(176)	(191)	(151)
Capital stock issued	215	333	299
Cash patronage distributions paid	(8,500)	(7,500)	(6,500)
Net cash provided by financing activities	59,396	180,607	132,903
Net increase/(decrease) in cash	4,417	(1,108)	(668)
Cash at beginning of year	3,507	4,615	5,283
Cash at end of year	\$ 7,924	\$ 3,507	\$ 4,615

SUPPLEMENTAL CASH INFORMATION:

Cash paid during the year for:

Interest	\$ 23,504	\$ 16,577	\$ 18,769
Income taxes	\$ 21	\$ 8	\$ 8

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Patronage stock from CoBank, ACB	\$ 105	\$ 63	\$ 35
Allocated patronage from AgVantis	\$ 84	\$ -	\$ -
Net recoveries	\$ -	\$ (9)	\$ (34)
Patronage distributions payable	\$ 9,500	\$ 8,500	\$ 7,500
Stock dividends paid	\$ 3	\$ 1	\$ 20
Stock dividends declared	\$ 8	\$ -	\$ 10
Change in accumulated other comprehensive income/(loss)	\$ -	\$ -	\$ 290

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, 2022, the System was comprised of three Farm Credit Banks, one Agricultural Credit Bank (System Banks), and 63 associations.

CoBank, ACB (funding bank or the “Bank”), its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. As of December 31, 2022, the CoBank District consists of CoBank, 18 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA) and AgVantis.

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

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

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

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

The Association also serves as an intermediary in offering credit life insurance, term life insurance, multi-peril and crop hail insurance, 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 refinancing 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, 2022, the Association's investment in AgDirect, which is included in the Consolidated Statement of Condition, was \$1.7 million, representing a 0.40% 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

The Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" on January 1, 2023. This guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. The guidance requires management to consider in its estimate of allowance for credit losses (ACL) relevant historical events, current conditions, and reasonable and supportable forecasts that affect the collectability of the assets. Prior to the adoption, the allowance for loan losses represented management's estimate of the probable credit losses inherent in its loan portfolio and certain unfunded commitments. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves. The adoption of this guidance resulted in a net decrease in the Association's allowance for credit losses (including the Reserve for Unfunded Commitments) of \$2.2 million and a corresponding increase in retained earnings.

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

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

Summary of the Association's Significant Accounting Policies

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

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

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

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

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

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

The Association purchases loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk. Additionally, the Association sells a portion of certain large loans to other System and non-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 3.00 percent of the prior one-year average direct loan volume. The investment in CoBank is comprised of patronage based stock and purchased stock. The requirement for capitalizing patronage-based participation loans sold to CoBank is 7.00 percent of the prior ten-year average of such participations sold to CoBank.
- D. Premises and Equipment: 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 Association conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state, or local laws.

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

earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

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

The Association has 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 loans acquired in an acquisition or merger and other property owned.

The fair value disclosures are presented in Note 14.

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

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

(dollars in thousands)	December 31		
	2022	2021	2020
Real estate mortgage	\$ 942,374	\$ 884,391	\$ 717,970
Production and intermediate-term	229,723	240,148	204,402
Agribusiness	195,262	171,148	171,557
Rural infrastructure	71,550	70,827	72,769
Agricultural export finance	11,781	8,512	10,140
Rural residential real estate	18	23	27
Mission-related	739	738	825
Total loans	\$ 1,451,447	\$ 1,375,787	\$ 1,177,690

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2022.

(dollars in thousands)	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 49,760	\$ 63,412	\$ 636	\$ 6,761	\$ 50,396	\$ 70,173
Production and intermediate-term	46,069	—	—	—	46,069	—
Agribusiness	190,464	—	—	—	190,464	—
Rural infrastructure	71,550	—	—	—	71,550	—
Agricultural export finance	11,781	—	—	—	11,781	—
Total	\$ 369,624	\$ 63,412	\$ 636	\$ 6,761	\$ 370,260	\$ 70,173

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 \$19.5 million at year-end 2022, \$20.6 million at year-end 2021, and \$22.6 million at year-end 2020 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). The Association did not have any loans guaranteed by the SBA in 2022.

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

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

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

	2022	2021	2020
Real estate mortgage			
Acceptable	95.56%	94.23%	89.55%
OAEM	2.42%	2.97%	7.18%
Substandard	1.98%	2.74%	3.19%
Doubtful	0.04%	0.06%	0.08%
Total	100.00%	100.00%	100.00%
Production and intermediate-term			
Acceptable	96.98%	95.64%	94.13%
OAEM	1.52%	1.06%	3.47%
Substandard	1.50%	3.30%	2.40%
Total	100.00%	100.00%	100.00%
Agribusiness			
Acceptable	94.86%	97.98%	95.67%
OAEM	2.87%	1.45%	3.63%
Substandard	2.27%	0.57%	0.70%
Total	100.00%	100.00%	100.00%
Rural infrastructure			
Acceptable	95.15%	97.34%	99.27%
OAEM	2.22%	2.66%	0.73%
Substandard	2.63%	—	—
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	95.66%	95.08%	91.85%
OAEM	2.30%	2.42%	5.56%
Substandard	2.01%	2.46%	2.54%
Doubtful	0.03%	0.04%	0.05%
Total	100.00%	100.00%	100.00%

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

	December 31		
(dollars in thousands)	2022	2021	2020
Nonaccrual loans:			
Current as to principal and interest	\$ 6,190	\$ 5,982	\$ 7,529
Past due	—	—	39
Total nonaccrual loans	6,190	5,982	7,568
Impaired accrual loans:			
Restructured	399	412	453
Total impaired accrual loans	399	412	453
Total impaired loans	\$ 6,589	\$ 6,394	\$ 8,021

Commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2022 totaled \$686 thousand. 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:

<i>(dollars in thousands)</i>	December 31		
	2022	2021	2020
Nonaccrual loans			
Real estate mortgage	\$ 2,804	\$ 5,982	\$ 6,741
Production and intermediate-term	882	—	2
Agribusiness	2,504	—	—
Mission related	—	—	825
Total nonaccrual loans	6,190	5,982	7,568
Accruing restructured loans			
Real estate mortgage	399	392	403
Production and intermediate-term	—	20	50
Total accruing restructured loans	399	412	453
Total impaired loans	\$ 6,589	\$ 6,394	\$ 8,021

The Association had no loans 90 days past due and still accruing interest, and no other property owned for the years presented.

Additional impaired loan information is as follows:

<i>(dollars in thousands)</i>	Recorded Investment at 12/31/22	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Agribusiness	\$ 2,504	\$ 2,595	\$ 509	\$ 641	\$ —
Total	\$ 2,504	\$ 2,595	\$ 509	\$ 641	\$ —
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 3,203	\$ 4,579		\$ 5,405	\$ 41
Production and intermediate-term	882	885		345	—
Agribusiness	—	110		254	—
Total	\$ 4,085	\$ 5,574		\$ 6,004	\$ 41
Total impaired loans:					
Real estate mortgage	\$ 3,203	\$ 4,579	\$ —	\$ 5,405	\$ 41
Production and intermediate-term	882	885	—	345	—
Agribusiness	2,504	2,705	509	895	—
Total	\$ 6,589	\$ 8,169	\$ 509	\$ 6,645	\$ 41

<i>(dollars in thousands)</i>	Recorded Investment at 12/31/21	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with 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

<i>(dollars in thousands)</i>	Recorded Investment at 12/31/20	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with 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

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

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

<i>(dollars in thousands)</i>	Year Ended December 31		
	2022	2021	2020
Interest income recognized on:			
Nonaccrual loans	\$ 19	\$ 5	\$ 118
Restructured accrual loans	20	33	37
Accrual loans 90 days or more past due	2	12	8
Interest income recognized on impaired loans	\$ 41	\$ 50	\$ 163

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

<i>(dollars in thousands)</i>	Year Ended December 31		
	2022	2021	2020
Interest income which would have been recognized under the original loan terms	\$ 468	\$ 665	\$ 848
Less: interest income recognized	39	38	155
Interest income not recognized	\$ 429	\$ 627	\$ 693

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

<i>(dollars in thousands)</i>	December 31, 2022					
	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	\$ 177	\$ —	\$ 177	\$ 957,844	\$ 958,021	\$ —
Production and intermediate-term	1,328	—	1,328	233,006	234,334	—
Agribusiness	—	—	—	196,270	196,270	—
Rural infrastructure	—	—	—	71,767	71,767	—
Agricultural export finance	—	—	—	11,827	11,827	—
Rural residential real estate	—	—	—	19	19	—
Mission-related	—	—	—	740	740	—
Total	\$ 1,505	\$ —	\$ 1,505	\$1,471,473	\$1,472,978	\$ —

<i>(dollars in thousands)</i>	December 31, 2021					
	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					
	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
<i>(dollars in thousands)</i>						
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	\$ –

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.

<i>(dollars in thousands)</i>	Loans modified as TDRs			TDRs in Nonaccrual Status*		
	2022	2021	2020	2022	2021	2020
Real estate mortgage	\$ 399	\$ 392	\$ 403	\$ –	\$ –	\$ –
Production and intermediate-term	–	20	50	–	–	–
Total	\$ 399	\$ 412	\$ 453	\$ –	\$ –	\$ –

* 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 and \$1.2 million at December 31, 2020. We had no additional commitments to lend to borrowers whose loans have been modified in TDRS at December 31, 2022.

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

<i>(dollars in thousands)</i>	Balance at December 31, 2021	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2022
Real estate mortgage	\$ 943	\$ –	\$ –	\$ 473	\$ 1,416
Production and intermediate-term	997	–	–	(352)	645
Agribusiness	800	–	–	312	1,112
Rural infrastructure	240	–	–	266	506
Agricultural export finance	5	–	–	2	7
Mission-related	115	–	–	(8)	107
Total	\$ 3,100	\$ –	\$ –	\$ 693	\$ 3,793

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

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

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

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

<i>(dollars in thousands)</i>	Year Ended December 31		
	2022	2021	2020
Balance at beginning of period	\$ 568	\$ 476	\$ 437
Provision for reserve for unfunded commitments	8	92	39
Total	\$ 576	\$ 568	\$ 476

Additional information on the allowance for loan losses follows:

<i>(dollars in thousands)</i>	Allowance for Loan Losses Ending Balance at December 31, 2022		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2022	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ —	\$ 1,416	\$ 3,203	\$ 954,818
Production and intermediate-term	—	645	882	233,452
Agribusiness	509	603	2,504	193,766
Rural infrastructure	—	506	—	71,767
Agricultural export finance	—	7	—	11,827
Rural residential real estate	—	—	—	19
Mission-related	—	107	—	740
Total	\$ 509	\$ 3,284	\$ 6,589	\$ 1,466,389

	Allowance for Loan Losses Ending Balance at December 31, 2021		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2021	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
<i>(dollars in thousands)</i>				
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	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
<i>(dollars in thousands)</i>				
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

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2022, the Association's investment in CoBank is in the form of Class A stock with a par value of \$100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing the Association's direct loan from CoBank changed from 4.00 percent of the Association's prior five-year average direct loan volume to 3.00 percent of the prior one-year average direct loan volume. The current requirement for capitalizing patronage-based participation loans sold to CoBank is 7.00 percent of the Association's prior ten-year average balance of such participations sold to CoBank. Under the current CoBank capital plan, patronage from CoBank related to these participations sold is paid 75 percent cash and 25 percent Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

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

The Association owned 0.89 percent of the outstanding common stock of CoBank at December 31, 2022, compared with 0.88 percent in 2021 and 0.90 percent in 2020.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

(dollars in thousands)	December 31		
	2022	2021	2020
Land	\$ 1,140	\$ 1,139	\$ 1,139
Buildings	13,850	13,799	13,744
Furniture, equipment, and automobiles	3,428	3,292	3,333
	18,418	18,230	18,216
Less: accumulated depreciation	6,517	5,832	5,282
Total	\$ 11,901	\$ 12,398	\$ 12,934

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 May 31, 2023. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2022. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing.

(dollars in thousands)	December 31		
	2022	2021	2020
Line of credit	\$ 1,600,000	\$ 1,300,000	\$ 1,075,000
Outstanding principal and accrued interest balance	\$ 1,213,403	\$ 1,151,295	\$ 959,972
Average outstanding principal balance under the line of credit	\$ 1,165,262	\$ 1,034,549	\$ 873,988
Weighted average interest rate	2.16%	1.60%	2.10%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. Other than the funding relationship with the Bank, and our advanced conditional payments, the Association has no other uninsured or insured debt. See Note 2 for additional information. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2022, the Association's notes payable was within the specified limitations.

The Association has the opportunity to commit loanable funds with CoBank under a variety of programs at either fixed or variable rates for specified timeframes. Participants in the program receive a credit on the committed loanable funds balance classified as a reduction of interest expense. These committed funds are netted against the note payable to the Bank. The average committed funds as of December 31 are as follows:

(dollars in thousands)	2022	2021	2020
Average committed funds	\$ 247,928	\$ 231,551	\$ 222,261
Average rates	1.27%	0.40%	0.92%

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, 2022, 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 requirements for Banks and Associations were adopted. These requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital, and Total Capital risk-based capital ratio requirements. The requirements also replaced the existing net collateral ratio for System Banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the Banks and Associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

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

Ratio	Primary Components of Numerator	Denominator	2022	2021	2020	Minimum with Buffer	Minimum Requirement
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE) and common cooperative equities (qualifying capital stock and allocated equity) ¹	Risk-weighted assets	16.39%	16.57%	18.83%	7.0%	4.5%
Tier 1 Capital	CET1 Capital and non-cumulative perpetual preferred stock	Risk-weighted assets	16.39%	16.57%	18.83%	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	16.66%	16.82%	19.20%	10.5%	8.0%
Tier 1 Leverage	Tier 1 Capital (at least 1.5% must be URE and URE equivalents)	Total assets	17.17%	17.36%	19.65%	5.0%	4.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	17.04%	18.06%	20.31%	—	1.5%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-weighted assets	16.48%	16.66%	18.97%	—	7.0%

¹ Equities subject to a minimum redemption or revolvment 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 revolvment period of 5 or more years, but less than 7 years

⁴ Equities subject to a minimum redemption or revolvment 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
- 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, 2022. Unless otherwise indicated, all classes of stock have a par value of \$5.00. All classes of stock are transferable 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, 361,031 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, 2,200 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 the Association but who are not eligible to hold voting stock (including but not limited to insurance customers who are not eligible to hold voting stock) and (d) persons or organizations to whom it is issued in connection with purchased loan participations in which stock issuance is required. 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, 77,814,957 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 2022 are summarized in the following table.

<i>Shares in whole numbers</i>	Preferred	Capital
Shares outstanding at December 31, 2021	77,638,441	355,447
Issuances	263,403	43,060
Retirements	(86,887)	(35,276)
Shares outstanding at December 31, 2022	77,814,957	363,231

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 \$8.5 million in 2022, \$7.5 million in 2021, and \$6.5 million in 2020. The Association declared a \$9.5 million cash patronage to be distributed in 2023.

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 2022, the Association allocated 41.10 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 2022, 2021, or 2020. There were no other items affecting comprehensive income or loss.

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

<i>(dollars in thousands)</i>	2022	2021	2020
Pension and other benefit plans:			
Beginning balance	\$ —	\$ —	\$ (290)
Other comprehensive income before reclassifications	—	—	7
Amounts reclassified from accumulated other comprehensive loss	—	—	283
Net current period other comprehensive income	—	—	290
Year-end balance	\$ —	\$ —	\$ —

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

(dollars in thousands)	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)			Location of Loss Recognized in Statement of Income
	December 31			
	2022	2021	2020	
Pension and other benefit plans: Net actuarial loss	\$ –	\$ –	\$ 283	Salaries and employee benefits
Total reclassifications	\$ –	\$ –	\$ 283	

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

(dollars in thousands)	2022	2021	2020
CoBank	\$ 6,501	\$ 5,548	\$ 3,837
AgVantis	84	–	–
Farm Credit Foundations	14	24	13
Total	\$ 6,599	\$ 5,572	\$ 3,850

Patronage distributed from CoBank was in cash and stock. The amount earned in 2022 was accrued and will be paid by CoBank in March 2023. The Association received additional patronage distributions from CoBank of \$1.1 million in 2022, \$873 thousand in 2021, and \$685 thousand in 2020 due to CoBank's strong capital levels and financial results. The amount earned and accrued in 2021 and 2020 was paid by CoBank in March of the following year.

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

Patronage distributed by Farm Credit Foundations was accrued at the end of the year and will be paid in March 2023. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

NOTE 9 – INCOME TAXES

The provision for income taxes follows.

(dollars in thousands)	Year Ended December 31		
	2022	2021	2020
Current:			
Federal	\$ 15	\$ 9	\$ 7
State	4	2	2
Provision for income taxes	\$ 19	\$ 11	\$ 9

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.

(dollars in thousands)	Year Ended December 31		
	2022	2021	2020
Federal tax at statutory rate	\$ 4,870	\$ 4,205	\$ 2,800
State tax, net	3	2	1
Effect of non-taxable FLCA subsidiary	(5,204)	(4,449)	(3,387)
Change in valuation allowance	347	251	601
Other	3	2	(6)
Provision for income taxes	\$ 19	\$ 11	\$ 9

Deferred tax assets and liabilities are comprised of the following.

(dollars in thousands)	December 31		
	2022	2021	2020
Deferred income tax assets:			
Allowance for loan losses	\$ 132	\$ 232	\$ 218
Nonaccrual loan interest	9	—	—
Net operating loss carryforward	4,830	4,329	3,999
Charitable contribution carryover	2	2	2
Depreciation	—	9	8
Gross deferred tax assets	4,973	4,572	4,227
Deferred tax asset valuation allowance	(4,762)	(4,356)	(4,062)
Deferred income tax liabilities:			
Depreciation	9	—	—
Bank patronage allocation	(219)	(215)	(164)
Sale of fixed assets	—	—	—
Gain on installment sales	(1)	(1)	(1)
Gross deferred tax liability	(211)	(216)	(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 \$4.8 million in 2022, \$4.4 million in 2021, and \$4.1 million in 2020. 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 \$13.7 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, 2022, 2021, or 2020. The Association recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2019 and forward.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth 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 a funded asset totaling \$9.6 million at December 31, 2022. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the plan was \$271.9 million at December 31, 2022, \$347.3 million at December 31, 2021, and \$359.9 million at December 31, 2020. The fair value of the plan assets was \$281.5 million at December 31, 2022, \$341.9 million at December 31, 2021, and \$302.5 million at December 31, 2020. 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 \$8.1 million in 2022, \$13.7 million in 2021, and \$19.5 million in 2020. The Association's allocated share of plan expenses included in salaries and employee benefits was \$700 thousand in 2022, \$1.1 million in 2021, and \$1.7 million in 2020. Participating employers contributed \$30.0 million in 2022, \$30.0 million in 2021, and \$30.0 million in 2020 to the plan. The Association's allocated share of these pension contributions was \$2.6 million in 2022, \$2.4 million in 2021, and \$2.6 million in 2020. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2023 is \$4.0 million. The Association's allocated share of these pension contributions is expected to be \$383 thousand. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are 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 2022, \$1 thousand in 2021, and \$1 thousand in 2020. The Association made cash contributions of \$5 thousand in 2022, \$5 thousand in 2021, and \$5 thousand in 2020.

In 2020, 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 2020.

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

<i>(dollars in thousands)</i>		Nonqualified Pension Restoration Benefits
		2020
Change in benefit obligation:		
Benefit obligation at the beginning of the period	\$	290
Interest cost		7
Actuarial gain		(7)
Benefits paid		(290)
Benefit obligation at the end of the period	\$	—
Change in plan assets:		
Company contributions	\$	290
Benefits paid		(290)
Fair value of plan assets at the end of the period	\$	—
Funded status of the plan	\$	—
Amounts recognized in the Consolidated Statement of Condition consist of:		
Liabilities	\$	—
Net amount recognized	\$	—

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

<i>(dollars in thousands)</i>	2020
Net actuarial loss	\$ —
Total amount recognized in AOCI/(loss)	\$ —

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

<i>(dollars in thousands)</i>	2020
Accumulated benefit obligation	\$ —
Fair value of plan assets	\$ —

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

<i>(dollars in thousands)</i>	2020
Projected benefit obligation	\$ —
Fair value of plan assets	\$ —

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

<i>(dollars in thousands)</i>	Nonqualified Pension Restoration Benefits 2020
Components of net periodic benefit cost/(income)	
Interest cost	\$ 7
Net amortization and deferral	283
Net periodic benefit cost	\$ 290

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

<i>(dollars in thousands)</i>	2020
Current year net actuarial gain	\$ 7
Amortization of net actuarial loss	283
Total recognized in other comprehensive income/(loss)	\$ 290

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

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

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

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

	Nonqualified Pension Restoration Benefits 2020
Discount rate	
Projected benefit obligation	2.59%
Service Cost	2.69%
Interest Cost	2.49%
Rate of compensation increase	5.40%
Interest crediting rate	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 \$752 thousand in 2022, \$672 thousand in 2021, and \$545 thousand in 2020.

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.

<i>(dollars in thousands)</i>	2022	2021	2020
Beginning balance	\$ 17,573	\$ 19,856	\$ 16,671
New loans and advances	15,293	21,205	14,494
Repayments	(15,793)	(16,778)	(14,963)
Reclassifications*	6,757	(6,710)	3,654
Ending balance	\$ 23,830	\$ 17,573	\$ 19,856

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

The Association also has business relationships with certain other System entities. The Association paid \$2.9 million in 2022, \$2.5 million in 2021, and \$2.3 million in 2020 to AgVantis for technology services and \$31 thousand in 2022, \$35 thousand in 2021, and \$32 thousand in 2020 to CoBank for operational services. One Association officer serves as an AgVantis' director. The Association paid \$193 thousand in 2022, \$189 thousand in 2021, and \$163 thousand in 2020 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, 2022, there were no enforcement actions in effect for the Association and FCA took no enforcement on the Association during the year.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Association 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, 2022, \$350.6 million of commitments to extend credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon.

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31,

2022, \$3.1 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2023 to 2027. The maximum potential amount of future payments the Association is required to make under the guarantees is \$3.1 million.

The credit risk associated 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:

<i>(dollars in thousands)</i>	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
2022	\$ 133	\$ –	\$ –	\$ 133
2021	\$ 81	\$ –	\$ –	\$ 81
2020	\$ 40	\$ –	\$ –	\$ 40

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:

<i>(dollars in thousands)</i>	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
2022				
Loans	\$ –	\$ –	\$ 2,013	\$ 2,013
2021				
Loans	\$ –	\$ –	\$ –	\$ –
2020				
Loans	\$ –	\$ –	\$ 782	\$ 782

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, 2022, 2021, and 2020 follow.

<i>(dollars in thousands)</i>	2022				
	First	Second	Third	Fourth	Total
Net interest income	\$ 8,879	\$ 9,304	\$ 9,774	\$ 9,891	\$ 37,848
(Credit loss reversal)/Provision for credit losses	(468)	223	882	64	701
Noninterest expense, net	3,445	3,777	3,865	2,887	13,974
Net income	\$ 5,902	\$ 5,304	\$ 5,027	\$ 6,940	\$ 23,173

<i>(dollars in thousands)</i>	2021				
	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

<i>(dollars in thousands)</i>	2020				
	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

NOTE 16 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 9, 2023, which is the date the financial statements were issued, and no material subsequent events were identified.

DISCLOSURE INFORMATION REQUIRED BY

FARM CREDIT 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 Colorado Springs, Colorado	Administrative Office and Lending Office	Owned
549 South Lincoln Street Burlington, Colorado	Lending Office	Owned
1302 East Third Street La Junta, Colorado	Lending Office	Owned
100 East Main Street Limon, Colorado	Lending Office	Owned
159 Washington Street Monte Vista, Colorado	Lending Office	Owned
1301 East Olive Street 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, 2022, required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Consolidated Financial Data," included in this annual report to shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

DIRECTORS AND SENIOR OFFICERS

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

DIRECTORS

Whitney Hansen: Board Chair currently serving a three-year term expiring in 2023 and a member of the Association's Scholarship, Governance and Strategy, and Compensation Committees. Ms. Hansen is a fifth generation Oklahoma cattle rancher, married to a fourth generation Colorado farmer. She and her husband have two boys and they maintain a cow/calf operation in Oklahoma. Over the last 18 years, she has become an integral part of Hansen Family Farms, an irrigated, dryland 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.

Ryan Britten: Vice Chair of the Board currently serving a three-year term expiring in 2024 and is Chair of the Association's Compensation Committee and a member of the Governance and Strategy 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, is a member of the Plainsman Research Center Advisory Board, serves on the Board of Directors of the Cheyenne County Farm Bureau, and serves on the Colorado Parks and Wildlife's 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.

James Andersen: Director currently serving a three-year term expiring in 2025 and is Chair of the Association's Scholarship Committee and a member of the Audit Committee. Mr. Andersen has been farming dryland wheat, corn, and millet on a six-generation family farm in the Genoa area that originated in 1906. Mr. Andersen started farming and ranching for himself in 1981 and works alongside his wife, son, brother, and nephew. He graduated from Colorado State University with an Agricultural degree. He graduated from the Colorado Ag Leadership Program and previously served on the Colorado Wheat Administrative Board, US Wheat Associate Board, and Wheat Food Council Board. Mr. Andersen has served seven years as a Limon Trustee for the Town of Limon. He presently serves on the Cooper Clark Foundation Board of Directors and is a member of the Colorado Association of Wheat Growers.

Steven Betts: Appointed Director currently serving a three-year term expiring in 2024 and is Chair of the Association's Audit Committee and a member of the Governance and Strategy Committee. Mr. Betts is Executive Vice President, Chief Financial Officer, and Treasurer of Merrick & Company. He graduated from the University of Denver and is a Certified Public Accountant licensed in Colorado.

Colin Durham: Director currently serving a three-year term expiring in 2025 and a member of the Association's Audit Committee and serves as the District Farm Credit Council Representative. Dr. Durham resides 25 miles southeast of 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.

Julie Fortenbery: Appointed Director currently serving a three-year term expiring in 2025 and Chair of the Association's Governance and Strategy Committee and a member of the Risk Committee. Ms. Fortenbery is the Chief Financial Officer at First Book, a national non-profit that provides educational resources to children in need. Prior to First Book, she served as the VP of Financial Planning and Analysis and VP/Risk Officer at Farmer Mac. Ms. Fortenbery has almost 20 years of experience at various Farm Credit institutions. She earned her bachelor's degree in finance from Marquette University, a bachelor's degree in accounting from Eastern Washington

University, and a Master of Accounting from Auburn University. She is a Certified Public Accountant, licensed in Washington.

Cole James: Director currently serving a three-year term expiring in 2024 and is a member of the Association's Risk and YBS Committees. 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 and serves on the Board of the Prairie Soil Conservation District and the Karval School Board.

Michael Livingston: Director appointed to fill a vacated term expiring in 2024 and is a member of the Association's Audit Committee. Mr. Livingston previously served a three-year term on the Association's Board and Audit Committee which expired in July 2021. 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 and Livingston Farms LLC, which he and his son operate together to raise corn, milo, and wheat.

Gary Pautler: Director currently serving a three-year term expiring in 2023 and a member of the Association's Risk and Scholarship Committees. 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.

J. Kent Price: Director currently serving a three-year term expiring in 2023 and Chair of the Association's Risk Committee and a member of the Governance and Strategy Committee. Mr. Price is a partner in Price Farms LLC, Price Farms Certified Seed Company LLC, Heritage Farms LLC, and Expo LLC. He is also part owner in San Acacio Seed LLC. His operations specialize in growing seed potatoes, commercial potatoes, and growing small grains and barley. He graduated from Adams State University and has been farming for over 40 years. He currently serves on the Board of the Colorado Certified Potato Growers Association and the San Luis Valley Well Users Board.

Michael Whitmore: Director currently serving a three-year term expiring in 2025 and Chair of the Association's YBS Committee and a member of the Compensation Committee. Mr. Whitmore is the owner/operator of approximately 4,500 acres of irrigated and dryland wheat, corn, and milo located southeast of Burlington. Upon graduating college, he worked for the Soil Conservation Services for six years where he gained knowledge in designing and developing essential practices in combating water and wind erosion for agriculture use. In 1991, he partnered with his father on the family farm and in 2015, his son joined the farming operation. Mr. Whitmore is a member of the Colorado Farm Bureau, Corn Growers Association, Colorado Wheat Growers, and Farm Credit of Southern Colorado. He served as a board member of High Plains Water District for 15 years and was a member of The Family Farm Group where his farming operation was featured in "The Progressive Farmer" magazine.

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. Recently, Mr. Willhite sold a portion of his farm and is pursuing other business as well as actively farming. 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.

Mark Peterson: Chairman of the Board whose three-year term expired in 2022. He served on the Association's Audit, Risk, and Compensation Committees.

Michael Shields: Vice Chairman of the Board whose three-year term expired in 2022. He served as Chair of the Association's Compensation 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 22 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 (CPCO) 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 22 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 36 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 19 years of 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 31 years.

Sean Lawrence: Chief Risk Officer (CRO) since February 2022. Mr. Lawrence served as VP of Risk Management starting at Farm Credit of Southern Colorado in March of 2020. Previously served as Risk Optimization Manager in the Quantitative Risk Analytics group, in Enterprise Risk Management at CoBank, ACB. Before joining the Quantitative Risk Analytics group, he was a Manager of Asset/Liability Risk in the Market Risk Analytics group and held various roles at CoBank, ACB and U.S. AgBank, FCB in the Market Risk Analytics and Treasury groups. Mr. Lawrence has been with the Farm Credit System for 13 years.

Stacy Loutzenhiser: Chief Business Development Officer (CBDO) beginning in February 2022. Previously served as VP of Business Development from April 2020 to February 2022 and served in various roles including Loan Officer and Relationship Manager from May 2008 to April of 2020 in the Colorado Springs and Limon offices. Mr. Loutzenhiser has been employed with Farm Credit of Southern Colorado for 15 years. He has also served as a director for N.A. Smith & Son, Inc. since 1999. N.A. Smith & Son, Inc. is a closely held family corporation engaged in agricultural real estate, dry crop, and cow-calf enterprises.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Per the Association's Director Honoraria policy, during 2022, directors of the Association received a monthly stipend (honoraria) based on their position as compensation for their services. Each director received \$1,200 per month. The Board Chair and Committee Chairs received \$2,000 and \$1,400, respectively, per month. The Financial Expert role received \$1,600 per month and Committee Chair and Financial Expert dual role received \$1,800 per month.

Additional information for each director is provided below:

Name	Number of Days Served at		Monthly Retainer Paid During 2022	Total Compensation Paid During 2022
	Board Meetings	Other Official Duties		
Whitney Hansen	9.0	9.0	\$ 19,800	\$ 19,800
Ryan Britten	10.0	11.5	15,400	15,400
James Andersen	7.0	4.5	8,200	8,200
Steven Betts	7.5	5.5	21,600	21,600
Colin Durham	6.0	6.0	15,800	15,800
Julie Fortenbery	8.0	6.5	13,800	13,800
Cole James	9.5	6.0	14,400	14,400
Michael Livingston	8.0	5.0	14,400	14,400
Gary Pautler	6.0	8.0	14,400	14,400
J. Kent Price	10.0	9.0	16,800	16,800
Michael Whitmore	7.0	4.0	8,200	8,200
Dale Willhite	9.0	7.5	14,400	14,400
Mark Peterson	3.5	6.5	14,000	14,000
Michael Shields	3.5	3.5	9,800	9,800
Total Compensation			\$ 201,000	\$ 201,000

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 \$101,770 in 2022, \$124,748 in 2021, and \$40,473 in 2020. Noncash compensation paid to directors as a group was \$756 during 2022.

No senior officers or directors held Preferred H stock at December 31, 2022.

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	2022	\$ 427,500	\$ 398,355	\$ —	\$ 72,827	\$ 5,060	\$ 903,742
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

Aggregate Number Of Officers/Highly Compensated Individuals (excluding CEO)	Year	Salary	Incentive Compensation ⁽²⁾	Bonus ⁽³⁾	Deferred/Perq	Other ⁽⁴⁾	Total
6	2022 ⁽¹⁾	\$ 1,135,321	\$ 641,259	\$ —	\$ 117,907	\$ (561,882)	\$ 1,332,605
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

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 six senior officers for 2022. Aggregate number includes five officers and senior officers for 2021. Aggregate number includes five senior officers and one highly compensated employee for 2020.
- (2) Incentive plan includes amounts earned in the reported fiscal year, which are paid in the following year and includes long-term incentives, which are established on a rolling three year period on a collective basis.
- (3) Bonus amounts include 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 (1) a competitive mix of base and variable pay, (2) a pay-for-performance program that allocates individual awards based on both organizational results and individual performance and contributions, (3) a balanced use of appropriate performance measures, and (4) a long-term portion of variable pay to align with the strategic direction of the Association.

Compensation for the CEO and senior officers includes base salary, short-term and long-term incentive programs and retirement plans generally available to all employees. Compensation for all other employees includes base salary and short-term incentive programs. Base salary and short-term and long-term incentives are intended to be competitive with annual compensation for comparable positions at peer organizations. Annually, the Compensation Committee of the Board of Directors reviews market surveys related to the level and combination of salaries, incentive plans and benefits for senior officers. The Board of Directors determines the appropriate balance of compensation being mindful of their responsibilities to our shareholders. Incentive plans, short- and long-term objectives and performance measures are approved annually by the Board of Directors.

CEO and senior officer base salaries reflect the individual's experience, position, performance and level of responsibility. Base salaries are subject to review and approval by the Compensation Committee and are subject to adjustment based on changes in responsibilities or competitive market conditions.

The Association has two incentive plans. The Annual Incentive Program (AIP) is available to all employees and payable once a year. The AIP is designed to provide a competitive compensation opportunity so the Association can

attract, retain and motivate talented employees, with an emphasis on the achievement of high quality, consistent and balanced business results over the long term. The AIP is also intended to promote and reward positive business results in several key performance areas. These typically include financial results, credit performance measures and other key ratios.

The AIP is also intended to build and strengthen coordination and 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.

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	34.95	\$ 3,724,627	\$ –

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 9, 2023, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2022 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 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.



FARM CREDIT
OF SOUTHERN COLORADO

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US POSTAGE
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COLO SPRGS CO
PERMIT NO 398

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Colorado Springs, CO 80970-5640

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Our Locations

Burlington

549 S. Lincoln Street
Burlington, CO 80807
719-346-5324

La Junta

1302 E. 3rd Street
La Junta, CO 81050
719-384-4455

Limon

100 Main Street
Limon, CO 80828
719-775-2838

Colorado Springs

5110 Edison Avenue
Colorado Springs, CO 80915
719-570-1087

Lamar

1301 E. Olive Street
Lamar, CO 81052
719-336-7474

Monte Vista

159 Washington Street
Monte Vista, CO 81144
719-852-3341



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