Premier Farm Credit

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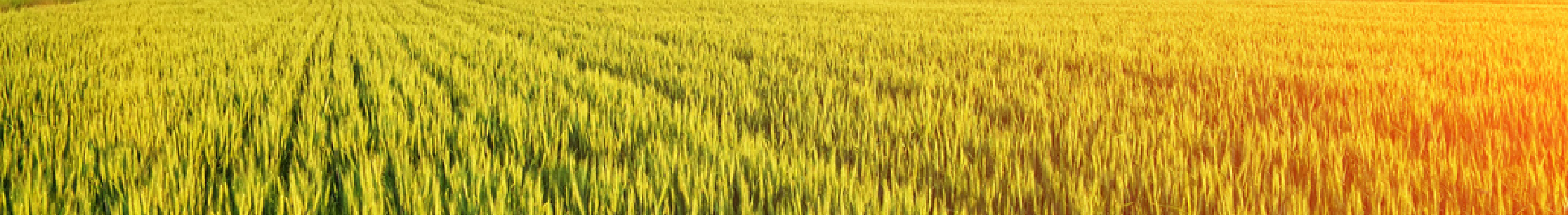
ANNUAL REPORT 2022



MESSAGE TO STOCKHOLDERS

Dear Members:

On behalf of the Board of Directors and staff, we are pleased to present the 2022 Annual Report for Premier Farm Credit, ACA. As you will see in the following pages, your Association once again achieved outstanding results this year, highlighted by record levels of net income, loan volume and patronage. Our continued success can be attributed to the loyalty of our membership and the dedicated efforts of our employees who work hard to be the preferred source for agricultural financing today and tomorrow.

The Association realized net earnings of $18.5 million as a result of growth in net interest income which was largely attributed to growth in loan volume. Loan volume grew by 9.4%, ending the year with volume exceeding $930 million. Total loan growth over the past three years been $220 million! Total shareholder equity increased to $202.3 million, and our total regulatory capital ratio remained strong at 17.22%. Our capital position is actively managed to ensure that we maintain safe levels to support current operations and have a sufficient resources to fund your future needs.

In addition to providing you with competitive loan products, as a member of Premier Farm Credit you continue to share in the success of your cooperative. The Board of Directors again demonstrated their commitment to a meaningful patronage program by declaring a record cash patronage dividend of $6.5 million for 2022 business. This $6.5 million represents approximately 35% of Association earnings and is an increase of $1.0 million over the 2021 dividend. The Association has returned $22.0 million of patronage over the past four years, demonstrating our ongoing commitment to providing value to our membership. Our strong patronage program continues to illustrate our financial strength and commitment to the true value of the cooperative model. Since 1996, the total amount returned to our member-owners is $80.5 million!

Your Association continues to strive to make a difference by being a strong community partner and advocate for agriculture. We accomplish this through our support and investment in numerous youth programs, young and beginning farmers, local communities, education programs, sustainable agriculture and diversity. We also actively lobby and support numerous legislative efforts that support agriculture.

We remain proud to be your lending cooperative and thank you for your continued business and contributions to our success. Please accept our sincere appreciation for your continued support and commitment to the Association.

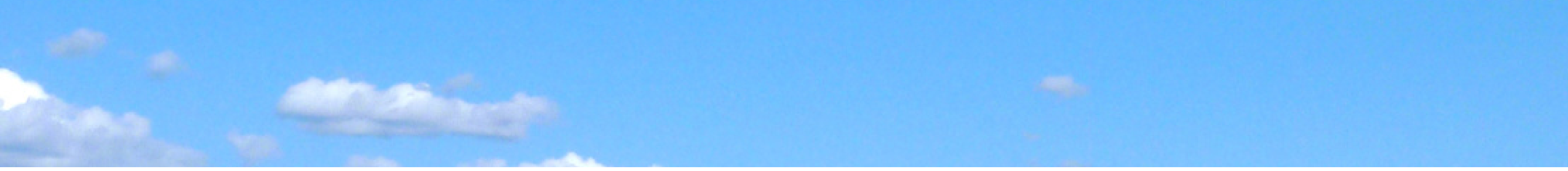
"The Association has returned <u>$22.0 million</u> of patronage over the past four years, demonstrating our ongoing commitment to providing value to our membership."

Michael Grauberger
President and CEO

Sincerely,

Michael Grauberger
President and Chief Executive Officer

Premier Farm Credit Mission Statement
Premier Farm Credit supports rural communities by providing sound, competitively priced credit and related services to enhance the economic well-being of farmers, ranchers and ag businesses.



INVESTING IN AGRICULTURE & RURAL COMMUNITIES

KEY INITIATIVES

- GRO Program
- Cash Patronage Dividend
- NJC Student Board of Directors
- Scholarships
- Educational Outreach
- Agriculture Advocacy and Industry Support
- Leopold Conservation Award
- Colorado FFA Foundation
- County Fairs
- International Feedlot Cowboys
- Colorado Junior Rodeo Association
- Northeast Colorado Children's Water Festival
- 4-H & FFA sponsorships, donations, and volunteering
- Morgan County Community College Foundation
- AgWest Commodity Marketing Workshops
- Colorado Association of Wheat Growers
- Community Foundation of Northeast Colorado
- Northeast Colorado Cattlemen Associations
- Colorado Ag in the Classroom
- “Home Grown by Heroes” program

...and too many more to list!

GENERATING RURAL OPPORTUNITIES (GRO) PROGRAM

Premier Farm Credit's Generating Rural Opportunities (GRO) Program encourages youth in Northeast Colorado to participate in 4-H or FFA by awarding one-time grants to help get their projects started. The goal of the program is to facilitate increased participation in 4-H and FFA, foster Ag education, and inspire a lifelong passion for agriculture.

2021-2022 was a record breaking year for the GRO Program. 13 recipients were chosen and awarded $21,200 to fund their 4-H or FFA project. Each recipient successfully completed their project, grew their agriculture and financial knowledge and developed invaluable leadership skills through participation in their local 4-H and FFA programs.

We received over 50 applications for the 2022-2023 funding cycle and have awarded over $19,000 to 16 recipients. The recipients demonstrate a wide variety of diversity, need, experience, and project types. GRO participants are paired with a Premier Farm Credit employee, who provides age-appropriate financial education, mentorship and support for their projects. We are excited to see the results of all of their hard work in the coming year!

YOUNG, BEGINNING, AND SMALL PRODUCERS

We invest in lending programs, education and opportunities to connect with young, beginning and small producers in many ways. **2022 YBS donations exceeded $85,000.**

In 2022, we launched a Premier Farm Credit Student Board at NJC. The program allows students a chance to build their network, job shadow, and gain useful professional experience by completing an industry project that is presented to the management team in the spring semester. The 2022 students prepared and presented on enterprise budgets for various commodities and the rising input cost environment. Additionally, the program provides Premier Farm Credit an opportunity to gain an understanding of the marketplace from the perspective of students attending the local community college.

We strive to forge fresh connections so we can continue to serve new markets and individuals.

As a mission based lender, Premier Farm Credit strives to support higher standards of living and quality of life for the communities in Northeast Colorado. We make a difference by focusing on all aspects of agriculture, youth, beginning farmers, community activities and support, sustainability, education and diversity.

PATRONAGE

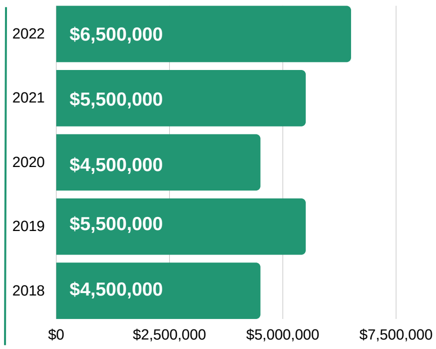
Premier Farm Credit's Board of Directors unanimously approved a record breaking $6.5 million Cash Patronage Dividend to our member-owners for their 2022 business. We recognize our success is a direct result of each of our shareholders and members and with that in mind the 2022 Cash Patronage Dividend returns approximately 35% of Association earnings to our borrowers.

An important component of our mission is our ongoing commitment to invest in agriculture and support rural communities. Returning this capital to member-owners benefits not only the predominately local farmers and ranchers who are the borrowers of Premier Farm Credit, but also supports the businesses and communities where they live and work.

Since 1996, the total amount returned to our member-owners is $80.5 million! Our strong patronage program continues to illustrate our financial strength and commitment to the true value of the cooperative model. It pays to be a member of Premier Farm Credit!

2022 CASH
PATRONAGE DIVIDEND
$6,500,000

Premier's Cash Patronage Dividend has totaled $22.0 million over the last four years, resulting in average interest rate reductions of almost 1% each year.



SUPPORTING CHILDCARE IN RURAL COLORADO

Premier Farm Credit and CoBank partnered up in 2022 to make a significant donation to the Holyoke Childcare Initiative, who is raising money to create an 11,500 square foot building to serve over 100 birth to school aged children in Holyoke, Colorado. With just a couple of in-home daycare providers in Phillips County, that each currently have a waiting list, the center will help the local workforce and community fill a need while providing at least 16 jobs. Premier understands the childcare challenges in our area and is a proud supporter of this project.

2022 SCHOLARSHIP RECIPIENTS

Each year we proudly award four scholarships worth $1,000 to outstanding high school graduates or college students from our territory. These well-deserving students are children or grandchildren of our borrower-owners and have demonstrated a combination of academic, leadership and extracurricular achievements. The 2022 Scholarship winners are:

- Alli Stromberger a Caliche High School graduate attending the University of Wyoming and majoring in Speech Pathology. She is the daughter of Brad & Jonna Stromberger.
- Kellum Carnahan a Revere High School graduate attending Northeastern Junior College and majoring in Vet Science and Ag Business. He is the son of Brenda Carnahan.
- Zachary Karg a Merino High School graduate that is currently attending South Dakota School of Mines majoring in Mechanical Engineering. He is the son of Bob & Elissa Karg.
- Brooklyn Plumb a Haxtun High School graduate currently attending Northeastern Junior College and majoring in Animal Science. She is the daughter of Jeff & Kendra Plumb.

We congratulate 2022's scholarship recipients on a job well done and wish them the best of luck in their future endeavors!

ALLI STROMBERGER
CALICHE HIGH SCHOOL

KELLUM CARNAHAN
REVERE HIGH SCHOOL

ZACHARY KARG
SOUTH DAKOTA SCHOOL OF MINES

BROOKLYN PLUMB
HAXTUN HIGH SCHOOL

A highlight of 2022 included Premier Farm Credit Senior Financial Analyst, Brandy Morris, travelling to Louisville, Kentucky to coach the Phillips/Yuma County 4-H Livestock Judging Team. The team placed 3rd overall at the North American International Livestock Exposition. Congratulations to this hard working group for a job well done!

AGRICULTURE ADVOCACY & COMMUNITY INVOLVEMENT

Premier Farm Credit is an active supporter and sponsor of organizations that promote agriculture education, support public policy interests, and advocate for the industries we serve. Our employees participate in area cattlemen, cattle women, and growers associations as well as various other industry and advocacy focused clubs and committees.

We are proud of our employees' continued dedication to their communities and the industries we serve. In 2022, we had several employees volunteer their time to coach area youth (livestock judging teams, sports teams, etc.), serve on FFA advisory committees for local FFA chapters, contribute to their county 4-H clubs, serve on Boards of Directors for charities, and participate in community events year-round.

Every day we live our mission to serve Rural America through our actions, outreach, and giving efforts. We are dedicated to helping agriculture grow, empowering communities, and helping farmers, ranchers, and agribusinesses thrive, today and tomorrow.

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2022	2021	2020	2019	2018
Statement of Condition Data					
Loans	**$ 931,065**	$ 851,348	$ 764,184	$ 711,281	$ 679,654
Less allowance for loan losses	**1,321**	1,870	2,155	2,178	2,790
Net loans	**929,744**	849,478	762,029	709,103	676,864
Investment in CoBank, ACB	**22,973**	23,581	23,515	21,782	21,639
Other assets	**37,229**	29,088	29,742	31,665	28,943
Total assets	**$ 989,946**	$ 902,147	$ 815,286	$ 762,550	$ 727,446
Obligations with maturities of one year or less	**$ 35,087**	$ 29,763	$ 26,037	$ 21,110	$ 17,605
Obligations with maturities longer than one year	**752,285**	681,707	608,703	570,174	547,441
Reserve for unfunded commitments	**272**	330	361	351	337
Total liabilities	**787,644**	711,800	635,101	591,635	565,383
Capital stock	**821**	843	845	867	862
Unallocated retained earnings	**201,969**	189,978	179,587	170,325	161,486
Accumulated other comprehensive income/(loss)	**(488)**	(474)	(247)	(277)	(285)
Total shareholders' equity	**202,302**	190,347	180,185	170,915	162,063
Total liabilities and shareholders' equity	**$ 989,946**	$ 902,147	$ 815,286	$ 762,550	$ 727,446

	For the Year Ended December 31				
	2022	2021	2020	2019	2018
Statement of Income/(Expense) Data					
Net interest income	**$ 24,338**	$ 21,707	$ 20,086	$ 19,522	$ 18,535
Patronage distribution from Farm Credit institutions	**4,187**	3,645	2,854	2,531	3,019
Credit loss reversal	**609**	329	41	484	122
Noninterest expense, net	**(10,627)**	(9,773)	(9,205)	(8,198)	(7,214)
Provision for income taxes	**(16)**	(17)	(14)	-	(16)
Net income	**$ 18,491**	$ 15,891	$ 13,762	$ 14,339	$ 14,446
Comprehensive income	**$ 18,477**	$ 15,664	$ 13,792	$ 14,347	$ 14,551

Key Financial Ratios					
For the Year					
Return on average assets	**1.99%**	1.90%	1.77%	1.98%	2.03%
Return on average shareholders' equity	**9.30%**	8.47%	7.75%	8.47%	9.07%
Net interest income as a percentage of average earning assets	**2.75%**	2.74%	2.73%	2.85%	2.75%
Net (recoveries)/charge-offs as a percentage of average net loans	**<(0.01%)**	<(0.01%)	<(0.01%)	0.02%	<(0.01%)
At Year End					
Shareholders' equity as a percentage of total assets	**20.44%**	21.10%	22.10%	22.41%	22.28%
Debt as a ratio to shareholders' equity	**3.89:1**	3.74:1	3.52:1	3.46:1	3.49:1
Allowance for loan losses as a percentage of loans	**0.14%**	0.22%	0.28%	0.31%	0.41%
Common equity tier 1 (CET1) capital ratio	**17.08%**	17.46%	18.63%	19.14%	18.47%
Tier 1 capital ratio	**17.08%**	17.46%	18.63%	19.14%	18.47%
Total regulatory capital ratio	**17.22%**	17.72%	18.92%	19.45%	18.87%
Tier 1 leverage ratio	**18.98%**	19.35%	20.39%	20.85%	20.09%
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	**18.89%**	19.92%	20.86%	21.32%	20.56%
Permanent capital ratio	**17.10%**	17.50%	18.67%	19.19%	18.53%
Net Income Distribution					
Cash patronage distributions paid	**$ 5,500**	$ 4,500	$ 5,500	$ 4,500	$ 3,750
Cash patronage declared	**$ 6,500**	$ 5,500	$ 4,500	$ 5,500	$ 4,500

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Premier Farm Credit, ACA (Association) for the year ended December 31, 2022. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, footnotes, and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

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

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.premieraca.com, or upon request. We are located at 202 Poplar Street, Sterling, Colorado 80751, or may be contacted by calling (970) 522-5295.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

As of December 31, 2022, we are one of 63 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine, and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of northeastern Colorado. The counties in our territory are listed in Note 1 of the accompanying consolidated financial statements. We make long-term real estate mortgage loans to farmers, ranchers, rural residents, and agribusinesses, and production and intermediate-term loans for agricultural production or operating purposes. Additionally, we provide other related services to our borrowers, such as credit life insurance, multi-peril crop and crop hail insurance, advance conditional payment accounts, and provides additional services to borrowers such as leasing and fee appraisals. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

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

We, along with the borrower's investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing

CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 202 Poplar Street, Sterling, Colorado 80751, or by calling (970) 522-5295. 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

During 2022, economic conditions in our region remained relatively stable despite volatile markets, rising interest rate environment, inflationary pressures, and political and weather issues. Commodity values remained elevated in 2022 fueled by global demand and offered earnings support for producers amid supply chain issues and labor shortages. Weather conditions were challenging with the region experiencing severe drought the majority of 2022, causing stressed rangeland and below average crop yields. However, snow storms in late December provided some relief to Northeastern Colorado and an optimistic production outlook for the coming year. Feed costs remained volatile throughout the year due to drought and expensive hay prices with harsh winter conditions causing additional feed challenges.

Association credit quality improved in 2022 and is anticipated to remain mostly stable in 2023. Operations continue to maintain financial stability resulting from prior earnings and asset appreciation. Input costs rose throughout 2022, but are expected to remain fairly stable into 2023. Cash grain producers, specifically dryland operations, were negatively impacted by the drought conditions and rising input costs. Some borrowers are seeing a general erosion of working capital and loan margins due to the lack of production; however, earnings were supported by crop insurance, government payments, and high commodity prices. Producers will continue making strategic decisions and adjustments to their operations to manage the continuing high input costs, feed limitations, and weather-related risks throughout 2023.

Our Association experienced another year of substantial loan growth. Portfolio growth was achieved in agribusiness, intermediate-term, and rural infrastructure loans, with the largest new loan growth being generated from the purchased loan portfolio. The credit quality of the purchased loan portfolio remained stable in 2022. The broad commodity sectors financed within the purchased loan portfolio serve as a method to diversify overall portfolio risk. While the purchased loan portfolio does have areas that reflect potential risk including regulatory change, inflation, rising interest rate sensitivity, and the geopolitical landscape, the portfolio is not expected to experience material stress in 2023.

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.

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

The U.S. government instituted various programs in support of the COVID-19 recovery. In March 2021, Congress passed the $1.9 trillion American Rescue Plan Act designed to provide near-term help to those hurt by the pandemic. In December 2020, Congress passed the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, which, among other provisions, allocated additional funding for Paycheck Protection Program (PPP) loans and allows certain existing PPP borrowers to apply for additional loans or draws on existing loans. The Association obtained approval to participate as a lender in the PPP and continued to provide funds to eligible borrowers during the first half of 2021. As of December 31, 2022, the Association had no PPP loans outstanding. In March 2021, the current presidential administration also proposed the $2.3 trillion American Jobs Plan intended to create jobs and rebuild the country's infrastructure.

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

LOAN PORTFOLIO

Total loans outstanding were $931.1 million at December 31, 2022, an increase of $79.7 million, or 9.4%, from loans at December 31, 2021 of $851.3 million, and an increase of $166.9 million, or 21.8%, from loans at December 31, 2020 of $764.2 million. The increase in loans was due to growth in both the direct loan portfolio and participations purchased portfolio. Direct loan volume growth was attributed to term-loan demand combined with increased borrowing on operating lines of credit. The types of loans outstanding at December 31 are reflected in the following table.

	2022		2021		2020	
(dollars in thousands)	**Volume**	**Percent**	Volume	Percent	Volume	Percent
Real estate mortgage loans	**$449,720**	**48.2%**	$448,241	52.7%	$402,413	52.7%
Production and intermediate-term loans	**202,603**	**21.8%**	176,487	20.7%	166,701	21.8%
Agribusiness loans	**191,570**	**20.6%**	155,939	18.3%	137,845	18.1%
Rural infrastructure loans	**78,115**	**8.4%**	63,044	7.4%	48,508	6.3%
Agricultural export finance loans	**9,057**	**1.0%**	7,637	0.9%	8,345	1.1%
Rural residential real estate loans	**–**	**–**	–	–	372	–
Total	**$931,065**	**100.0%**	$ 851,348	100.0%	$764,184	100.0%

Real estate mortgage loans outstanding increased 0.3% to $449.7 million, compared with $448.2 million at year-end 2021, primarily due to new loan demand. Long-term mortgage loans are primarily used to purchase, refinance, or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans increased 14.8% to $202.6 million, compared with 2021 loans of $176.5 million, primarily due to purchased loans, advances on revolving lines of credit, and reduced loan prepayments. Production loans are used to finance the ongoing operating needs of agricultural producers and generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years. Our production and intermediate-term loan portfolio shows some seasonality. Borrowings increase throughout the planting and growing seasons to meet farmers' operating and capital needs. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs.

Increases were also noted in agribusiness loan volume, where the majority of loan volume was due to loan participations. Additionally, at December 31, 2022 approximately 99% of agribusiness, and 100% of rural infrastructure and agricultural export finance volume were a result of loan participations purchased.

Portfolio Diversification

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

We purchase loan participations from other System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System entities to reduce risk and comply with lending limits we have established. Our volume of participations purchased and sold as of December 31 follows:

(dollars in thousands)	**2022**	2021	2020
Participations purchased	**$ 383,382**	$ 314,416	$ 274,335
Participations sold	**$ 33,469**	$ 38,156	$ 30,618

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

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

	2022	2021	2020
Logan	**8.33%**	9.37%	9.79%
Morgan	**7.35%**	8.72%	9.31%
Phillips	**5.71%**	6.86%	7.81%
Sedgwick	**1.15%**	1.00%	1.11%
Washington	**7.31%**	7.58%	7.25%
Yuma	**19.95%**	19.83%	19.65%
Other Colorado Counties	**10.14%**	10.41%	9.78%
Other States	**40.06%**	36.23%	35.30%
Total	**100.00%**	100.00%	100.00%

Our largest volume concentration is in Yuma County due to its physical size and the scale of operations relative to other counties. The Other States category represents 40.06% of the portfolio, a 3.83% increase from 2021. The increase in Other States relates primarily to participations purchased.

We are a party to an Agreement Providing Territorial Concurrence (Agreement) with Farm Credit of Southern Colorado, ACA. This Agreement reduces territorial restrictions and allows each association to make loans in the other association's territory regardless of a borrower's place of residence, location of operations, location of loan security, or location of headquarters. Either association can terminate this Agreement with 30 days written notice.

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

		December 31	
SIC Category	**2022**	2021	2020
Corn	**26.22%**	27.81%	28.81%
Beef	**19.04%**	19.51%	18.67%
Wheat	**6.90%**	7.46%	7.26%
Landlords	**5.19%**	5.71%	5.73%
Other	**42.65%**	39.51%	39.53%
Total	**100.00%**	100.00%	100.00%

Our loan portfolio contains a concentration of corn, beef, and wheat producers. The other category is comprised of 97 separate commodity groups, with the largest representing 3.20% of the total. 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 69.2% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loans outstanding by dollar size at December 31 for the last three years.

	2022		2021		2020	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 130,019**	**1,817**	$ 131,938	1,834	$ 128,901	1,852
$251 - $500	**125,497**	**353**	122,809	343	119,403	339
$501 - $1,000	**169,972**	**234**	181,190	246	176,400	241
$1,001 - $5,000	**397,823**	**205**	329,815	173	294,271	162
$5,001 – 25,000	**107,754**	**16**	85,596	12	45,209	6
Total	**$ 931,065**	**2,625**	$ 851,348	2,608	$ 764,184	2,600

As of December 31, 2022, approximately 12% of our loans outstanding is attributable to 10 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 $16.7 million at year-end 2022, $17.5 million at year-end 2021, and $19.1 million at year-end 2020 were outstanding. We utilize Farm Service Agency (FSA) 90% or 95% loan guarantees when appropriate to manage the Association’s credit risk. The United States Government guarantees to pay 90% to 95%, depending on the percent guaranteed, of any loss incurred on the FSA guarantee loans. During 2021, the Association’s credit guarantees with government agencies also included loans guaranteed at 100% by the Small Business Administration (SBA).

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2022.

(dollars in thousands)	**Due 1 year or less**	**Due after 1 year through 3 years**	**Due after 3 years through 5 years**	**Due after 5 years**	**Total**
Commitments to extend credit	$ 93,048	$ 98,361	$ 91,749	$ 14,735	$ 297,893
Standby letters of credit	1,620	790	245	106	2,761
Total commitments	$ 94,668	$ 99,151	$ 91,994	$ 14,841	$ 300,654

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

High Risk Assets

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

(dollars in thousands)	**2022**	2021	2020
Nonaccrual loans:			
Real estate mortgage	**$ –**	$ –	$ 67
Agribusiness	**2,884**	144	202
Total nonaccrual loans	**2,884**	144	269
Total high risk assets	**$ 2,884**	$ 144	$ 269
Nonaccrual loans to total loans	**0.31%**	0.02%	0.04%
High risk assets to total loans	**0.31%**	0.02%	0.04%
High risk assets to total shareholders' equity	**1.43%**	0.08%	0.15%

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

Total high risk assets increased $2.7 million, to $2.9 million at December 31, 2022 compared with year-end 2021. Contributing to the increase in our high risk assets were loans to a single participation borrower adversely impacted by litigation, resulting in the borrower filing bankruptcy.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume increased $2.7 million compared with December 31, 2021 due to an agribusiness participation loan transferring to nonaccrual status, partially offset by the single nonaccrual loan as of 2021 year-end transferring to an accrual status in 2022. The following table provides additional information on nonaccrual loans as of December 31 for the last three fiscal years.

(dollars in thousands)	**2022**	2021	2020
Nonaccrual loans current as to principal and interest	**$ 1,899**	$ 144	$ 269

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

High risk asset volume is anticipated to decrease in the future, as we expect the current nonaccrual borrower to liquidate assets and pay the loans off. Additional high risk asset volume may occur due to isolated production issues and high input costs, but are anticipated to decrease from 2022.

Credit Quality

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

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

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

	2022	2021	2020
Acceptable	**97.02%**	95.46%	90.44%
OAEM	**1.78%**	2.08%	6.56%
Substandard	**1.20%**	2.46%	3.00%
Total	**100.00%**	100.00%	100.00%

During 2022, overall credit quality improved. Loans classified as Acceptable and OAEM were 98.80% at December 31, 2022, 97.54% at December 31, 2021, and 97.00% at December 31, 2020. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs, and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. There were no loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans at December 31, 2022, compared with 0.24% at December 31, 2021 and no loan delinquencies at December 31, 2020.

Allowance for Loan Losses

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

(dollars in thousands)	**2022**	2021	2020
Balance at beginning of year	**$ 1,870**	$ 2,155	$ 2,178
Charge-offs:			
Production and intermediate-term	**1**	–	–
Total charge-offs	**$ 1**	$ –	$ –
Recoveries:			
Production and intermediate-term	**3**	4	5
Agribusiness	**–**	9	23
Total recoveries	**$ 3**	$ 13	$ 28
Net recoveries	**$ (2)**	$ (13)	$ (28)
Loan loss reversal	**$ (551)**	$ (298)	$ (51)
Balance at December 31	**$ 1,321**	$ 1,870	$ 2,155
Net recoveries to average net loans	**<(0.01%)**	<(0.01%)	<(0.01%)

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

(dollars in thousands)	**2022**	2021	2020
Real estate mortgage	**$ 87**	$ 246	$ 342
Production and intermediate-term	**241**	687	636
Agribusiness	**920**	670	836
Rural infrastructure	**71**	243	302
Agricultural export finance	**2**	24	39
Total	**$ 1,321**	$ 1,870	$ 2,155

The allowance for loan losses decreased $549 thousand from December 31, 2021, to $1.3 million at December 31, 2022. The decrease in allowance for loan losses was primarily due to the loan loss reversals totaling $551 thousand that were recorded due to improved credit quality, partially offset by an increase in specific reserves and provisions recorded due to loan growth. Net recoveries of $2 thousand 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 $285 thousand from 2020 primarily due to loan loss reversals totaling $298 thousand that were recorded due to decreased risk in the loan portfolio as a result of recovering COVID-19 economic conditions, partially offset with provisions recorded due to loan growth. 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	**0.14%**	0.22%	0.28%
Impaired loans	**45.80%**	1,298.61%	801.12%
Nonaccrual loans	**45.80%**	1,298.61%	801.12%

Allowance for loan losses as a percentage of impaired/nonaccrual loans decreased in 2022 as a result of an increase in nonaccrual loan volume, as well as decreased allowance for loan losses.

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

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

(dollars in thousands)	**2022**	2021	2020
Balance at beginning of year	**$ 330**	$ 361	$ 351
(Reversal of)/Provision for reserve for unfunded commitments	**(58)**	(31)	10
Total	**$ 272**	$ 330	$ 361

The increase in reversal of reserve for unfunded commitments in 2022 is due to improved credit quality.

Young, Beginning, and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit and related services to young, beginning, and small (YBS) farmers and ranchers. Our YBS mission statement is as follows:

Premier Farm Credit, ACA will encourage the financing of young, beginning, and small farmers and ranchers by implementing programs designed to meet the needs of these applicants to the fullest extent of their creditworthiness.

Following are FCA regulatory definitions for YBS farmers and ranchers.

- 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	**2022**	2021	2020
Young	18.26%	**24.06%**	22.80%	22.21%
Beginning	24.82%	**24.30%**	23.23%	22.15%
Small	63.18%	**30.82%**	32.32%	35.07%

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

We offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory. Such services include crop insurance, credit life insurance, advance conditional payment accounts, fee appraisals, and equipment/vehicle leasing programs. We increase opportunities for YBS farmers by coordinating credit and credit services in the territory utilizing governmental and private sources. We utilize the FSA programs such as the 50/50 program or the 50/45/5 program. We continue to utilize FSA loan guarantees to assist us in meeting the needs of YBS borrowers. We have implemented effective outreach programs to attract YBS farmers and ranchers through sponsorships in area YBS organizations. We sponsor seminars that have YBS farmers as members or attendees. Our continued use of social media will strengthen our brand and allows us to reach a wider potential customer base. In addition, we are proud to invest in the future of our area youth by providing four $1,000.00 scholarships. The eligibility criteria allow the scholar to attend the school of their choice. Since the fall of 2021, Premier has worked with Northeastern Junior College to offer students the opportunity to participate on the Premier Farm Credit Student Board. Our objective is to build relationships with local students interested in agriculture at an early stage of their education. We also provide monetary donations to young farmer organizations as well as area high school events and organizations such as 4-H and FFA. Staff members serve as 4-H Livestock judging coaches or as members of an FFA Advisory Board. Our qualitative efforts are strongly successful as all personnel are actively involved in furthering the opportunities for YBS producers within our territory. We continue to support the System's partnership with the Farmer Veteran Coalition, an organization aimed at mobilizing veterans to enter agriculture and feed America. We also support the System's "Home Grown by Heroes" program to help boost the marketing efforts for agriculture products produced by U.S. farmer veterans.

During 2022, we donated to 126 different groups or organizations where YBS members are active. We are proud to report that 52% of the members of the Advisory Committee and the Nominating Committee are young, beginning, and/or small farmers in our loan portfolio.

Quarterly reports are provided to our Board of Directors detailing the number, volume, and credit quality of our YBS customers. We have developed quantitative targets to monitor our progress. Quantitative goals established in the 2022 Business Plan reflect an annual growth rate of 4.50% for Young, Beginning, and Small Farmers within loan numbers and classified volume.

The three-year goals we have established to increase market share of loans to YBS farmers and ranchers are as follows:

(dollars in thousands)	Young Farmer/Rancher		Beginning Farmer/Rancher		Small Farmer/Rancher	
Year	Number	Volume	Number	Volume	Number	Volume
12/31/2023	415	$ 109,390	419	$ 109,592	531	$ 65,024
12/31/2024	435	$ 114,860	460	$ 115,071	558	$ 68,275
12/31/2025	457	$ 120,603	462	$ 120,825	586	$ 71,689

As reflected in the following chart, during 2022, we experienced an increase in number of loans in the Young and Beginning categories, but realized a decrease in the Small category. Loan volume increased in the Young, Beginning, and Small categories. Capital asset prices continued to remain high during 2022, making it difficult for the young and beginning farmers to begin farming operations. Higher commodity prices, together with good production, has resulted in gross farm sales exceeding the Small farmer threshold. Looking forward to 2023, we anticipate the Small farmer category to continue this decline as commodity prices are anticipated to remain strong.

($000's)	Young	Beginning	Small
2022 Goal	393	400	557
	$104,267	$105,498	$64,441
2022 Actual	395	399	506
	$104,181	$104,373	$61,927
2021 Actual	376	383	533
	$99,777	$100,955	$61,666

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 have developed specific lending products directed at serving the YBS producers in our territory. These products include YBS specific loan programs, including the YBS Stocker Cattle Program, YBS Breeding Cattle Program, and YBS Crop Farming Program. In addition, we utilize loan guarantee programs, fee waivers, and interest rate concessions to qualified YBS farmers. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training, and insurance services for YBS farmers and ranchers.

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 based on loan quality for loans originated by our Association, loans originated outside of our Association, and special lending programs. We have adopted an individual lending limit maximum of 14% of lending and lease limit base for our highest quality borrowers.

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. LGD provides an estimation of the anticipated loss with respect to a specific financial obligation of a borrower assuming a default has occurred or will occur within the next twelve months. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. PDs and LGDs are utilized in loan and portfolio management processes and are utilized for the allowance for loan losses estimate.

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

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

RESULTS OF OPERATIONS

Earnings Summary

In 2022, we recorded net income of $18.5 million, compared with $15.9 million in 2021 and $13.8 million in 2020. The increase in 2022 was primarily due to increases in net interest income, noninterest income, and a larger credit loss reversal. These factors were partially offset by increases in operating expenses. The increase in 2021 was primarily due to increases in net interest income, noninterest income, and a larger credit loss reversal. These factors were partially offset by increases in operating expenses and provision for income taxes. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2022 vs. 2021**	2021 vs. 2020
Net income, prior year	**$ 15,891**	$ 13,762
Increase/(Decrease) from changes in:		
Interest income	**8,293**	(594)
Interest expense	**(5,662)**	2,215
Net interest income	**2,631**	1,621
Provision for credit losses	**280**	288
Noninterest income	**849**	675
Noninterest expense	**(1,161)**	(452)
Provision for income taxes	**1**	(3)
Total increase in net income	**2,600**	2,129
Net income, current year	**$ 18,491**	$ 15,891

Return on average assets increased to 1.99% from 1.90% in 2021 and return on average shareholders' equity increased to 9.30% from 8.47% in 2021, primarily as a result of increased net income from 2021.

Net Interest Income

Net interest income for 2022 was $24.3 million compared with $21.7 million for 2021 and $20.1 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 increased loan volume. The following table provides an analysis of the individual components of the change in net interest income during 2022 and 2021.

(dollars in thousands)	**2022 vs. 2021**	2021 vs. 2020
Net interest income, prior year	**$ 21,707**	$ 20,086
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**4,293**	(2,710)
Interest rates paid	**(4,046)**	2,891
Volume of interest-bearing assets and liabilities	**2,393**	1,530
Interest income on nonaccrual loans	**(9)**	(90)
Increase in net interest income	**2,631**	1,621
Net interest income, current year	**$ 24,338**	$ 21,707

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	**2.75%**	2.74%	2.73%
Interest rate on:			
Average loan volume	**4.36%**	3.82%	4.20%
Average debt	**1.96%**	1.34%	1.82%
Interest rate spread	**2.40%**	2.48%	2.38%

The decrease in interest rate spread resulted from a 54 basis point increase in interest rates on average loan volume and a 62 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.

Credit Loss Reversals

We monitor our loan portfolio and unfunded commitments on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for loan losses or reserve for unfunded commitments is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio and unfunded commitments. We recorded net credit loss reversals of $609 thousand in 2022, compared with $329 thousand in 2021 and $41 thousand in 2020. The loan loss reversals of $551 thousand recorded during 2022 were primarily due to improved credit quality, partially offset by an increase in specific reserves and provisions recorded due to loan growth. The reversal of reserve for unfunded commitments of $58 thousand was recorded during 2022 due to improved loan quality.

The loan loss reversals of $298 thousand recorded during 2021 were primarily due to improved credit quality, partially offset with provisions recorded due to loan growth. The reversal of provision for reserve for unfunded commitments of $31 thousand was recorded during 2021 due to improved credit quality. The loan loss reversals of $51 thousand recorded in 2020 were primarily due to improved credit quality. The provision for reserve for unfunded commitments of $10 thousand was recorded during 2020 due to additional commitments to extend credit.

Noninterest Income

During 2022, we recorded noninterest income of $6.1 million, compared with $5.3 million in 2021 and $4.6 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 $4.1 million in 2022, $3.6 million in 2021, and $2.8 million in 2020. Patronage income from CoBank includes special cash patronage distributions of $674 thousand for 2022, $548 thousand for 2021, and $491 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 $63 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 $9 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 $16 thousand recorded in 2021 and $8 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 $148 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 $805 thousand during 2022, which is distributed to us quarterly by CoBank. Mineral income increased from $529 thousand in 2021 and $357 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 $477 thousand, an increase of $21 thousand, from 2021, primarily due to increased loan participation fees.

Noninterest Expense

Noninterest expense for 2022 increased $1.2 million, or 10.2%, to $12.6 million compared with 2021 and $1.6 million, or 14.7% compared with 2020. Noninterest expense for each of the three years ended December 31 is summarized as follows:

(dollars in thousands)	**2022**	2021	2020	**Percent of Change 2022/2021**	**Percent of Change** 2021/2020
Salaries & employee benefits	**$ 6,215**	$ 5,917	$ 6,236	**5.04%**	(5.12%)
Occupancy & equipment	**363**	368	416	**(1.36%)**	(11.54%)
Purchased services from AgVantis	**2,187**	1,905	1,719	**14.80%**	10.82%
Supervisory & examination costs	**328**	297	284	**10.44%**	4.58%
Other	**2,177**	2,005	1,779	**8.58%**	12.70%
Total operating expense	**11,270**	10,492	10,434	**7.42%**	0.56%
Farm Credit Insurance Fund premium	**1,306**	923	512	**41.50%**	80.27%
Prepayment expense	**–**	–	17	**–**	(100.00%)
Total noninterest expense	**$ 12,576**	$ 11,415	$ 10,963	**10.17%**	4.12%

For the year ended December 31, 2022, total operating expense increased $778 thousand, or 7.4%, compared with the year ended December 31, 2021, primarily due to increased salaries and employee benefits as a result of increased pension expense related to changes in certain plan assumptions and employee health benefits. Salaries and employee benefits decreased in 2021 from 2020, primarily due to deferred costs related to loan originations. Purchased services from AgVantis increased in 2022 and 2021. Other expenses, which mainly includes other purchased services, directors, travel, communications, training, and public and member relation expenses also increased in 2022 and 2021. Insurance Fund premium increased $383 thousand to $1.3 million at December 31, 2022 due to an increase in the insurance premium accrual assessment rate on Systemwide adjusted insured debt from 16 basis points to 20 basis points, which was retroactively applied for 2022 during the second quarter. The increase was also impacted by an increase in average loan volume. We recorded prepayment fee expense of $17 thousand in 2020 due to prepayment fees charged by CoBank. These fees were primarily related to loan conversions that resulted from the low interest rate environment in the wake of the COVID-19 pandemic.

Provision for income taxes

We recorded $16 thousand in provision for income taxes during 2022, compared with $17 thousand in 2021 and $14 thousand in 2020. The decrease in 2022 was primarily due to paying less tax estimates. 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.

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 pro-rata with our loan portfolio. This program utilizes a percentage of our equity to fund each loan cash flow throughout the life of the loan. This allows 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 Management Committee determines the interest rate charged based on the following factors: 1) the interest rate charged by CoBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

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

While our Association currently holds legacy LIBOR indexed loans in our portfolio, we have adopted a transition plan to reduce LIBOR exposures and stop the inflow of new LIBOR volume. We have analyzed potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational, and compliance risks. Though we engaged 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 using 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 $202.3 million, compared with $190.3 million at December 31, 2021 and $180.2 million at December 31, 2020. The increase of $12.0 million in shareholders’ equity reflects net income and net stock issuances, partially offset by patronage distributions and an increase in accumulated other comprehensive loss. Our capital position is reflected in the following ratio comparisons.

	2022	2021	2020
Debt to shareholders’ equity	**3.89:1**	3.74:1	3.52:1
Shareholders’ equity as a percent of net loans	**21.76%**	22.41%	23.65%
Shareholders’ equity as a percent of total assets	**20.44%**	21.10%	22.10%

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 growth in shareholders’ equity not exceeding the relative increases in net loans and total assets.

Retained Earnings

Our retained earnings increased $12.0 million to $202.0 million at December 31, 2022 from $190.0 million at December 31, 2021 and increased $22.4 million from $179.6 million at December 31, 2020. The increase in 2022 was a result of net income of $18.5 million, partially offset by $6.5 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 $5.5 million in 2022, $4.5 million in 2021, and $5.5 million in 2020. During 2022, we declared patronage distributions of $6.5 million to be paid in March 2023.

Stock

Our total stock decreased $22 thousand to $821 thousand at December 31, 2022, from $843 thousand at December 31, 2021 and decreased from $845 thousand at December 31, 2020. The decrease during 2022 was due to $57 thousand of stock retirements, partially offset by $35 thousand of stock issuances. We require a stock investment for each borrower. We have a Borrower Level Stock Program which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s).

Accumulated Other Comprehensive Income or Loss

Accumulated other comprehensive loss totaled $488 thousand at December 31, 2022, an increase of $14 thousand compared with year-end 2021 and an increase of $241 thousand compared with year-end 2020. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Accounting guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income/loss.

Capital Plan and Regulatory Requirements

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

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

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

	2022	2021	2020	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	**17.08%**	17.46%	18.63%	7.00%
Tier 1 Capital ratio	**17.08%**	17.46%	18.63%	8.50%
Total Capital ratio	**17.22%**	17.72%	18.92%	10.50%
Tier 1 Leverage ratio	**18.98%**	19.35%	20.39%	5.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	**18.89%**	19.92%	20.86%	1.50%
Permanent capital ratio	**17.10%**	17.50%	18.67%	7.00%

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

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

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

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

HUMAN CAPITAL

As of December 31, 2022, we had 46 employees at our headquarters in Sterling, 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 43.5 percent male and 56.5 percent female, with minorities representing approximately 2.2 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 an eleven-member board that provides direction and oversees our management. Of these directors, nine 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, six meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;

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

Compensation Committee

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

Policy Review Committee

The Policy Review Committee reports to the Board of Directors. The Policy Review Committee is composed of five members of the Board of Directors. During 2022, two meetings were held. The Committee semi-annually reviews, evaluates, and recommends for approval to the Board of Directors various policies and procedures utilized by the Association.

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 employees;
- open lines of communication between the independent auditors, management, and the Audit Committee;
- "plain English" disclosures;
- officer certification of accuracy and completeness of the consolidated financial statements; and,
- information disclosure through our website.

Code of Ethics

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

Whistleblower Program

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

FORWARD-LOOKING INFORMATION

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

- political, legal, regulatory, and economic conditions and developments in the United States and abroad;

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses/Reserve for Unfunded Commitments

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

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

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

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

CUSTOMER PRIVACY

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

CHANGES IN MANAGEMENT

In 2022, we appointed a Chief Lending Officer to effectively manage the Association's direct loan portfolio, ensure long term profit growth, more efficiently utilize resources, and minimize risk.

Premier Farm Credit, ACA
Sterling Administrative Office
202 Poplar Street | P.O. Box 1785
Sterling, CO 80751
www.premieraca.com

Telephone: 970.522.5295
Facsimile: 970.522.6584
Toll Free: 877.650.8240

REPORT OF MANAGEMENT

The consolidated financial statements of Premier Farm Credit, ACA (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2022 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, management engaged Harper, Rains, Knight & Company 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 Premier Farm Credit, ACA Annual Report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Rebecca K.W. Lenz
Chair of the Board

Michael Grauberger
President and Chief Executive Officer

Jeffrey L. Schumacher
Chief Financial Officer

March 9, 2023

Premier Farm Credit
The Gold Standard in Ag Lending

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AUDIT COMMITTEE REPORT

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

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2022 were $86,700 for audit services and $10,400 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.

Lyndsey D. Graves

Lyndsey D. Graves, Chair of the Audit Committee

<u>Audit Committee Members</u>
Lyndsey D. Graves
Michael J. Brownell
Randall W. Kirkwood
Lisa E. Shinn

March 9, 2023

Report of Independent Auditors

To the Board of Directors of Premier Farm Credit, ACA,

Opinion

We have audited the accompanying consolidated financial statements of Premier Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated statement of condition as of December 31, 2022, 2021 and 2020, and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Other Information

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

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

PricewaterhouseCoopers LLP

Kansas City, Missouri
March 9, 2023

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2022	2021	2020
ASSETS			
Loans	**$ 931,065**	$ 851,348	$ 764,184
Less allowance for loan losses	**1,321**	1,870	2,155
Net loans	**929,744**	849,478	762,029
Cash	**11,878**	10,337	11,507
Accrued interest receivable	**11,862**	8,832	9,937
Investment in CoBank, ACB	**22,973**	23,581	23,515
Premises and equipment, net	**646**	697	775
Prepaid benefit expense	**4,865**	3,876	3,125
Other assets	**7,978**	5,346	4,398
Total assets	**$ 989,946**	$ 902,147	$ 815,286
LIABILITIES			
Note payable to CoBank, ACB	**$ 750,265**	$ 680,946	$ 607,925
Advance conditional payments	**23,621**	19,098	15,262
Accrued interest payable	**2,020**	761	778
Patronage distributions payable	**6,500**	5,500	4,500
Accrued benefits liability	**1,218**	1,055	783
Reserve for unfunded commitments	**272**	330	361
Other liabilities	**3,748**	4,110	5,492
Total liabilities	**$ 787,644**	$ 711,800	$ 635,101
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Capital stock	**821**	843	845
Unallocated retained earnings	**201,969**	189,978	179,587
Accumulated other comprehensive income/(loss)	**(488)**	(474)	(247)
Total shareholders' equity	**202,302**	190,347	180,185
Total liabilities and shareholders' equity	**$ 989,946**	$ 902,147	$ 815,286

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	**$ 38,612**	$ 30,319	$ 30,913
Total interest income	**38,612**	30,319	30,913
INTEREST EXPENSE			
Note payable to CoBank, ACB	**14,084**	8,565	10,771
Other	**190**	47	56
Total interest expense	**14,274**	8,612	10,827
Net interest income	**24,338**	21,707	20,086
Credit loss reversal	**(609)**	(329)	(41)
Net interest income after credit loss reversal	**24,947**	22,036	20,127
NONINTEREST INCOME			
Financially related services income	**522**	511	543
Loan fees	**477**	456	536
Patronage distribution from Farm Credit institutions	**4,187**	3,645	2,854
Farm Credit Insurance Fund distribution	**-**	-	148
Mineral income	**805**	529	357
Other noninterest income	**145**	146	174
Total noninterest income	**6,136**	5,287	4,612
NONINTEREST EXPENSE			
Salaries and employee benefits	**6,215**	5,917	6,236
Occupancy and equipment	**363**	368	416
Purchased services from AgVantis, Inc.	**2,187**	1,905	1,719
Farm Credit Insurance Fund premium	**1,306**	923	512
Supervisory and examination costs	**328**	297	284
Prepayment expense	**-**	-	17
Other noninterest expense	**2,177**	2,005	1,779
Total noninterest expense	**12,576**	11,415	10,963
Income before income taxes	**18,507**	15,908	13,776
Provision for income taxes	**16**	17	14
Net income	**18,491**	15,891	13,762
COMPREHENSIVE INCOME			
Amortization of retirement costs	**93**	43	51
Actuarial loss in retirement obligation	**(107)**	(270)	(21)
Total comprehensive income	**$ 18,477**	$ 15,664	$ 13,792

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2019	$ 867	$ 170,325	$ (277)	$ 170,915
Comprehensive income		13,762	30	13,792
Stock issued	58			58
Stock retired	(80)			(80)
Patronage distributions: Cash		(4,500)		(4,500)
Balance at December 31, 2020	845	179,587	(247)	180,185
Comprehensive income		15,891	(227)	15,664
Stock issued	75			75
Stock retired	(77)			(77)
Patronage distributions: Cash		(5,500)		(5,500)
Balance at December 31, 2021	843	189,978	(474)	190,347
Comprehensive income		18,491	(14)	18,477
Stock issued	35			35
Stock retired	(57)			(57)
Patronage distributions: Cash		(6,500)		(6,500)
Balance at December 31, 2022	**$ 821**	**$ 201,969**	**$ (488)**	**$ 202,302**

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	**$ 18,491**	$ 15,891	$ 13,762
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**126**	129	151
Credit loss reversal	**(609)**	(329)	(41)
Patronage stock from CoBank, ACB	**(59)**	(68)	(67)
Allocated patronage from AgVantis	**(63)**	-	-
Gains on sales of premises and equipment	**-**	(8)	-
Change in assets and liabilities:			
(Increase)/Decrease in accrued interest receivable	**(3,030)**	1,105	849
Increase in prepaid benefit expense	**(989)**	(751)	(459)
(Increase)/Decrease in other assets	**(2,578)**	(946)	132
Increase/(Decrease) in accrued interest payable	**1,259**	(17)	(441)
Increase in accrued benefits liability	**149**	45	56
(Decrease)/Increase in other liabilities	**(362)**	(1,382)	1,658
Total adjustments	**(6,156)**	(2,222)	1,838
Net cash provided by operating activities	**12,335**	13,669	15,600
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	**(79,715)**	(87,151)	(52,875)
Decrease/(Increase) in investment in CoBank, ACB	**676**	-	(1,733)
Expenditures for premises and equipment	**(75)**	(51)	(16)
Proceeds from sales of premises and equipment	**-**	8	-
Net cash used in investing activities	**(79,114)**	(87,194)	(54,624)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank, ACB	**69,319**	73,021	38,970
Increase in advance conditional payments	**4,523**	3,836	4,243
Capital stock retired	**(57)**	(77)	(80)
Capital stock issued	**35**	75	58
Cash patronage distributions paid	**(5,500)**	(4,500)	(5,500)
Net cash provided by financing activities	**68,320**	72,355	37,691
Net increase/(decrease) in cash	**1,541**	(1,170)	(1,333)
Cash at beginning of year	**10,337**	11,507	12,840
Cash at end of year	**$ 11,878**	$ 10,337	$ 11,507
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 13,015**	$ 8,629	$ 11,268
Income taxes	**$ 16**	$ 22	$ -
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Patronage stock from CoBank, ACB	**$ 59**	$ 68	$ 67
Allocated patronage from AgVantis	**$ 63**	$ -	$ -
Net recoveries	**$ (2)**	$ (13)	$ (28)
Patronage distributions payable	**$ 6,500**	$ 5,500	$ 4,500
Change in accumulated other comprehensive income/(loss)	**$ (14)**	$ (227)	$ 30

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND OPERATIONS

A. Organization: Premier Farm Credit, ACA and its subsidiaries, Premier Farm Credit, FLCA, (Federal Land Credit Association (FLCA)) and Premier Farm Credit, PCA, (Production Credit Association (PCA)), (collectively called "the Association") are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Logan, Morgan, Phillips, Sedgwick, Yuma, and Washington 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, multi-peril crop and crop hail insurance, advance conditional payment accounts, and provides additional services to borrowers such as leasing and fee appraisals.

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting the Association at 202 Poplar Street, Sterling, Colorado 80751 or by calling (970) 522-5295. 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 Premier Farm Credit, PCA and Premier Farm Credit, FLCA and reflect the investments in and allocated earnings of the service organizations in which the Association has partial ownership interests. Inter-company transactions have been eliminated in consolidation.

Use of Estimates

The accounting and reporting policies of the Association conform to GAAP and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates.

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 did not have a material impact on our financial statements.

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

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

Summary of the Association's Significant Accounting Policies

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

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.

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

The Association uses a two-dimensional loan rating model based on internally generated combined System risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The 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 for the buildings ranges from 24 to 40 years, from 1 to 10 years for furniture and equipment, and from 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.

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

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

G. Employee Benefit Plans: Substantially all employees of the Association participate in the 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.

Certain eligible employees may also participate in a nonqualified deferred compensation plan where they are able to defer a portion of their compensation. The Association matches a certain percentage of employee contributions to the 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.

	December 31		
(dollars in thousands)	**2022**	2021	2020
Real estate mortgage	**$ 449,720**	$ 448,241	$ 402,413
Production and intermediate-term	**202,603**	176,487	166,701
Agribusiness	**191,570**	155,939	137,845
Rural infrastructure	**78,115**	63,044	48,508
Agricultural export finance	**9,057**	7,637	8,345
Rural residential real estate	**–**	–	372
Total loans	**$ 931,065**	$ 851,348	$ 764,184

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

	Other Farm Credit Institutions	
(dollars in thousands)	Purchased	Sold
Real estate mortgage	$ 47,435	$ 30,314
Production and intermediate-term	59,940	3,155
Agribusiness	188,835	–
Rural infrastructure	78,115	–
Agricultural export finance	9,057	–
Total	$ 383,382	$ 33,469

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 $16.7 million at year-end 2022, $17.5 million at year-end 2021, and $19.1 million at year-end 2020 were outstanding. The Association utilizes Farm Service Agency (FSA) 90% or 95% loan guarantees when appropriate to manage credit risk. The United States Government guarantees to pay 90% to 95%, depending on the percent guaranteed, of any loss incurred on the FSA guaranteed loans. During 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	**97.05%**	95.57%	88.60%
OAEM	**2.36%**	2.52%	8.41%
Substandard	**0.59%**	1.91%	2.99%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**95.73%**	90.76%	86.75%
OAEM	**2.69%**	2.62%	7.15%
Substandard	**1.58%**	6.62%	6.10%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**96.97%**	98.45%	96.82%
OAEM	**0.25%**	1.15%	2.71%
Substandard	**2.78%**	0.40%	0.47%
Total	**100.00%**	100.00%	100.00%
Rural infrastructure			
Acceptable	**100.00%**	100.00%	98.91%
OAEM	**–**	–	1.09%
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%
Total	**–**	100.00%	100.00%
Total Loans			
Acceptable	**97.02%**	95.46%	90.44%
OAEM	**1.78%**	2.08%	6.56%
Substandard	**1.20%**	2.46%	3.00%
Total	**100.00%**	100.00%	100.00%

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

	December 31		
(dollars in thousands)	**2022**	2021	2020
Nonaccrual loans:			
Current as to principal and interest	**$ 1,899**	$ 144	$ 269
Past due	**985**	–	–
Total nonaccrual loans	**2,884**	144	269
Total impaired loans	**$ 2,884**	$ 144	$ 269

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

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

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

	December 31		
(dollars in thousands)	**2022**	2021	2020
Nonaccrual loans			
Real estate mortgage	**$ –**	$ –	$ 67
Agribusiness	**2,884**	144	202
Total nonaccrual loans	**2,884**	144	269
Total high risk assets	**$ 2,884**	$ 144	$ 269

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

Additional impaired loan information is as follows:

(dollars in thousands)	Recorded Investment at 12/31/22	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Agribusiness	$ 2,838	$ 2,911	$ 592	$ 902	$ –
Total	$ 2,838	$ 2,911	$ 592	$ 902	$ –
Impaired loans with no related allowance for credit losses:					
Agribusiness	$ 46	$ 60		$ 311	$ 8
Total	$ 46	$ 60		$ 311	$ 8
Total impaired loans:					
Agribusiness	$ 2,884	$ 2,971	$ 592	$ 1,213	$ 8
Total	$ 2,884	$ 2,971	$ 592	$ 1,213	$ 8

(dollars in thousands)	Recorded Investment at 12/31/21	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ –	$ –		$ 40	$ 17
Production and intermediate term	–	–		1	–
Agribusiness	144	208		179	–
Total	$ 144	$ 208		$ 220	$ 17

(dollars in thousands)	Recorded Investment at 12/31/20	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 67	$ 78		$ 71	$ –
Production and intermediate term	–	–		6	–
Agribusiness	202	417		230	107
Total	$ 269	$ 495		$ 307	$ 107

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

The Association had no impaired loans with a related allowance for loan losses at December 31, 2021 and December 31, 2020.

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

	Year Ended December 31		
(dollars in thousands)	**2022**	2021	2020
Interest income recognized on:			
Nonaccrual loans	**$ 8**	$ 17	$ 107
Interest income recognized on impaired loans	**$ 8**	$ 17	$ 107

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

	Year Ended December 31		
(dollars in thousands)	**2022**	2021	2020
Interest income which would have been recognized under the original loan terms	**$ 120**	$ 16	$ 30
Less: interest income recognized	**8**	17	107
Interest income not recognized/(recognized)	**$ 112**	$ (1)	$ (77)

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

(dollars in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
			December 31, 2022			
Real estate mortgage	$ –	$ –	$ –	$457,223	$ 457,223	$ –
Production and intermediate-term	–	–	–	205,929	205,929	–
Agribusiness	985	–	985	191,403	192,388	–
Rural infrastructure	–	–	–	78,261	78,261	–
Agricultural export finance	–	–	–	9,126	9,126	–
Total	$ 985	$ –	$ 985	$941,942	$ 942,927	$ –

(dollars in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
			December 31, 2021			
Real estate mortgage	$ 44	$ –	$ 44	$454,671	$ 454,715	$ –
Production and intermediate-term	–	–	–	178,485	178,485	–
Agribusiness	2,003	–	2,003	154,234	156,237	–
Rural infrastructure	–	–	–	63,093	63,093	–
Agricultural export finance	–	–	–	7,651	7,651	–
Total	$ 2,047	$ –	$ 2,047	$858,134	$ 860,181	$ –

(dollars in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
			December 31, 2020			
Real estate mortgage	$ –	$ –	$ –	$409,574	$ 409,574	$ –
Production and intermediate-term	25	–	25	169,092	169,117	–
Agribusiness	–	–	–	138,131	138,131	–
Rural infrastructure	–	–	–	48,566	48,566	–
Agricultural export finance	–	–	–	8,359	8,359	–
Rural residential real estate	–	–	–	374	374	–
Total	$ 25	$ –	$ 25	$774,096	$ 774,121	$ –

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 for the periods presented.

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

(dollars in thousands)	Balance at December 31, 2021	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2022
Real estate mortgage	$ 246	$ –	$ –	$ (159)	$ 87
Production and intermediate-term	687	1	3	(448)	241
Agribusiness	670	–	–	250	920
Rural infrastructure	243	–	–	(172)	71
Agricultural export finance	24	–	–	(22)	2
Total	$ 1,870	$ 1	$ 3	$ (551)	$ 1,321

(dollars in thousands)	Balance at December 31, 2020	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2021
Real estate mortgage	$ 342	$ –	$ –	$ (96)	$ 246
Production and intermediate-term	636	–	4	47	687
Agribusiness	836	–	9	(175)	670
Rural infrastructure	302	–	–	(59)	243
Agricultural export finance	39	–	–	(15)	24
Total	$ 2,155	$ –	$ 13	$ (298)	$ 1,870

(dollars in thousands)	Balance at December 31, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2020
Real estate mortgage	$ 480	$ –	$ –	$ (138)	$ 342
Production and intermediate-term	796	–	5	(165)	636
Agribusiness	650	–	23	163	836
Rural infrastructure	219	–	–	83	302
Agricultural export finance	33	–	–	6	39
Total	$ 2,178	$ –	$ 28	$ (51)	$ 2,155

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/credit loss reversals on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses/loan loss reversals.

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

	For the Year Ended December 31		
(dollars in thousands)	**2022**	2021	2020
Balance at beginning of period	**$ 330**	$ 361	$ 351
(Reversal of)/Provision for reserve for unfunded commitments	**(58)**	(31)	10
Total	**$ 272**	$ 330	$ 361

Additional information on the allowance for loan losses follows:

(dollars in thousands)	Allowance for Loan Losses Ending Balance at December 31, 2022: Individually evaluated for impairment	Allowance for Loan Losses Ending Balance at December 31, 2022: Collectively evaluated for impairment	Recorded Investment in Loans Outstanding Ending Balance at December 31, 2022: Individually evaluated for impairment	Recorded Investment in Loans Outstanding Ending Balance at December 31, 2022: Collectively evaluated for impairment
Real estate mortgage	$ –	$ 87	$ –	$ 457,223
Production and intermediate-term	–	241	–	205,929
Agribusiness	592	328	2,884	189,504
Rural infrastructure	–	71	–	78,261
Agricultural export finance	–	2	–	9,126
Total	$ 592	$ 729	$ 2,884	$ 940,043

(dollars in thousands)	Allowance for Loan Losses Ending Balance at December 31, 2021: Individually evaluated for impairment	Allowance for Loan Losses Ending Balance at December 31, 2021: Collectively evaluated for impairment	Recorded Investment in Loans Outstanding Ending Balance at December 31, 2021: Individually evaluated for impairment	Recorded Investment in Loans Outstanding Ending Balance at December 31, 2021: Collectively evaluated for impairment
Real estate mortgage	$ –	$ 246	$ –	$ 454,715
Production and intermediate-term	–	687	–	178,485
Agribusiness	–	670	144	156,093
Rural infrastructure	–	243	–	63,093
Agricultural export finance	–	24	–	7,651
Total	$ –	$ 1,870	$ 144	$ 860,037

(dollars in thousands)	Allowance for Loan Losses Ending Balance at December 31, 2020: Individually evaluated for impairment	Allowance for Loan Losses Ending Balance at December 31, 2020: Collectively evaluated for impairment	Recorded Investment in Loans Outstanding Ending Balance at December 31, 2020: Individually evaluated for impairment	Recorded Investment in Loans Outstanding Ending Balance at December 31, 2020: Collectively evaluated for impairment
Real estate mortgage	$ –	$ 342	$ 67	$ 409,507
Production and intermediate-term	–	636	–	169,117
Agribusiness	–	836	202	137,929
Rural infrastructure	–	302	–	48,566
Agricultural export finance	–	39	–	8,359
Rural residential real estate	–	–	–	374
Total	$ –	$ 2,155	$ 269	$ 773,852

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 0.58 percent of the outstanding common stock of CoBank at December 31, 2022, compared with 0.59 percent in 2021 and 0.60 percent in 2020.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
(dollars in thousands)	**2022**	2021	2020
Land	**$ 290**	$ 290	$ 290
Buildings and leasehold improvements	**2,411**	2,408	2,408
Furniture, equipment, and automobiles	**916**	881	879
	3,617	3,579	3,577
Less: accumulated depreciation	**2,971**	2,882	2,802
Total	**$ 646**	$ 697	$ 775

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.

	December 31		
(dollars in thousands)	**2022**	2021	2020
Line of credit	**$ 800,000**	$ 800,000	$ 650,000
Outstanding principal and accrued interest balance	**$ 752,214**	$ 681,698	$ 608,694
Average outstanding principal balance under the line of credit	**$ 697,243**	$ 624,710	$ 580,069
Weighted average interest rate	**2.02%**	1.37%	1.86%

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	**$ 198,202**	$ 176,599	$ 161,842
Average rates	**1.65%**	0.86%	1.36%

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	17.08%	17.46%	18.63%	7.0%	4.5%
Tier 1 Capital	CET1 Capital and non-cumulative perpetual preferred stock	Risk-weighted assets	17.08%	17.46%	18.63%	8.5%	6.0%
Total Capital	Tier 1 Capital, allowance for loan losses[2], other common cooperative equities[3], and term preferred stock and subordinated debt[4]	Risk-weighted assets	17.22%	17.72%	18.92%	10.5%	8.0%
Tier 1 Leverage	Tier 1 Capital (at least 1.5% must be URE and URE equivalents)	Total assets	18.98%	19.35%	20.39%	5.0%	4.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	18.89%	19.92%	20.86%	–	1.5%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-weighted assets	17.10%	17.50%	18.67%	–	7.0%

1 Equities subject to a minimum redemption or revolvement period of 7 or more years
2 Capped at 1.25% of risk-weighted assets
3 Equities subject to a minimum redemption or revolvement period of 5 or more years, but less than 7 years
4 Equities subject to a minimum redemption or revolvement period of 5 or more years

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

The Board of Directors has established, adopted, and maintains a formal Capital Adequacy Plan for the Association. The Capital Adequacy Plan establishes minimum capital standards to protect against credit and other general risks which are inherent in the Association's operations. These minimum standards are established above regulatory minimums which would allow the Association to react to a stressed capital environment before regulatory minimums are reached. The Association retires protected stock as established by Association Bylaws provided that the Association shall not retire stock if the action would result in failure of the Association to meet minimum capital requirements. The Association may also be subject to capital calls by CoBank to meet capital requirements for its joint and several liability obligations under the Farm Credit Act and regulations.

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 indicate 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 any holder to which such respective classes of stock may be issued. Refer to the MDA Capital Resources discussion for further information.

Class A — Preferred Stock (Nonvoting, at-risk, no shares outstanding) - Represents Association retained earnings, dividends, or patronage distributions allocated on or after October 6, 1988. This stock may also represent Class B or Class C Common Stock of a borrower which automatically converts to Class A two years after repayment of the loan in full. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations.

Class B — Common Stock (Voting, at-risk, 161,445 shares outstanding) - Issued on or after October 6, 1988, for farm and ranch loans. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations. If the Association is unable to retire Class B Common Stock, or if the borrower elects to keep his/her investment in the Association after repayment of the loan in full, the stock must be converted to Class A Preferred Stock within two years.

Class C — Common Stock (Nonvoting, at-risk, 2,800 shares outstanding) - Issued on or after October 6, 1988, for farm-related and rural home loans and to other persons or organizations who are eligible to borrow but are not eligible to hold voting stock. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations. If the Association is unable to retire Class C Common Stock, or if the borrower elects to keep his/her investment in the Association after repayment of the loan in full, the stock must be converted to Class A Preferred Stock within two years.

Class D — Investor Stock (Nonvoting, at-risk, no shares outstanding, par value of 1,000 dollars) – Shall be issued only to CoBank. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations.

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 E Preferred Stock shall be retired in accordance with the provisions of any agreement entered into between the Association and CoBank in consideration of CoBank providing financial assistance to the Association.

Class F — Common Stock (Voting, protected, no shares outstanding) - Issued prior to October 6, 1988, to borrowers entitled to vote. It must be retired at par value upon repayment of the loan unless the borrower elects to retain his/her investment in the Association. If so, the stock must be converted to Class G Common Stock within two years after loan repayment in full. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations.

Class G — Common Stock (Nonvoting, protected, no shares outstanding) - Formerly participation certificates, this represents stock issued prior to October 6, 1988, to rural residence borrowers and others not eligible to vote. This stock may also represent Class F Common Stock of a borrower which automatically converts to Class G Common Stock two years after repayment of the loan in full. It must be retired at par value upon repayment of the loan unless the borrower elects to retain his/her investment in the Association. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations.

If at any time the Association does not meet the minimum capital adequacy standards established by FCA, all stock required to be purchased as a condition of obtaining a loan shall be purchased from the Association and may not be purchased from persons other than the Association.

The changes in the number of shares of protected and capital stock outstanding during 2022 are summarized in the following table.

Shares in whole numbers	Capital
Shares outstanding at December 31, 2021	168,697
Issuances	7,094
Retirements	(11,546)
Shares outstanding at December 31, 2022	164,245

E. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of Class B, C, F, and G Stock, System institutions, and non-System institutions with or for whom the Association conducts certain business transactions 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. 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 $5.5 million in 2022, $4.5 million in 2021, and $5.5 million in 2020. The Association declared a patronage distribution of $6.5 million in 2022 to be paid 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, pro rata to all classes of preferred stock; second, pro rata to all classes of common stock; third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance; fourth, to the holders of allocated surplus evidenced by non-qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance. Any remaining assets of the Association after such distributions shall be distributed to present and former 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 35.3 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 accumulated other comprehensive loss of $488 thousand in 2022, $474 thousand in 2021, and $247 thousand in 2020. There were no other items affecting comprehensive income or loss.

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

(dollars in thousands)	**2022**	2021	2020
Pension benefit plan:			
Beginning balance	**$ (474)**	$ (247)	$ (277)
Other comprehensive loss before reclassifications	**(107)**	(270)	(21)
Amounts reclassified from accumulated other comprehensive loss	**93**	43	51
Net current period other comprehensive (loss)/income	**(14)**	(227)	30
Year-end balance	**$ (488)**	$ (474)	$ (247)

The following table represents reclassifications out of accumulated other comprehensive loss.

(dollars in thousands)	Amount Reclassified from Accumulated Other Comprehensive Loss			Location of Gain/Loss Recognized in Statement of Income
	December 31			
	2022	2021	2020	
Pension benefit plan:				
Net actuarial loss	**$ 93**	$ 43	$ 51	Salaries and employee benefits
Total reclassifications	**$ 93**	$ 43	$ 51	

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	**$ 4,115**	$ 3,629	$ 2,846
AgVantis	**63**	–	–
Farm Credit Foundations	**9**	16	8
Total	**$ 4,187**	$ 3,645	$ 2,854

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 $674 thousand in 2022, $548 thousand in 2021, and $491 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	**$ 14**	$ 15	$ 11
State	**2**	2	3
Provision for income taxes	**$ 16**	$ 17	$ 14

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	**$ 3,886**	$ 3,341	$ 2,893
State tax, net	**2**	2	2
Effect of non-taxable entity	**(3,628)**	(3,012)	(2,633)
Change to valuation allowance	**(67)**	(22)	(63)
Patronage refunds	**(177)**	(292)	(179)
Other	**–**	–	(6)
Provision for income taxes	**$ 16**	$ 17	$ 14

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	**$ 66**	$ 151	$ 170
Interest on nonaccrual loans	**–**	–	–
Depreciation	**84**	80	76
Gross deferred tax assets	**150**	231	246
Deferred tax asset valuation allowance	**(29)**	(108)	(132)
Deferred income tax liabilities:			
Bank patronage allocation	**(115)**	(118)	(108)
Investment in partnership	**(6)**	(5)	(6)
Gross deferred tax liability	**(150)**	(123)	(114)
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 $29 thousand in 2022, $108 thousand in 2021, and $132 thousand in 2020. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

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 $519 thousand in 2022, $788 thousand in 2021, and $997 thousand 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 $1.5 million in 2022, $1.5 million in 2021, and $1.5 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 $323 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 $2 thousand in 2022, $2 thousand in 2021, and $2 thousand in 2020. The Association made cash contributions of $6 thousand in 2022, $7 thousand in 2021, and $10 thousand in 2020.

The Association participates 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 $158 thousand in 2022, $54 thousand in 2021, and $68 thousand in 2020.

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

	Nonqualified Pension Benefits		
(dollars in thousands)	**2022**	2021	2020
Change in projected benefit obligation:			
Benefit obligation at the beginning of the period	**$ 1,025**	$ 744	$ 706
Interest cost	**21**	11	17
Service cost	**45**	–	–
Actuarial loss	**107**	270	21
Benefit obligation at the end of the period	**$ 1,198**	$ 1,025	$ 744
Fair value of plan assets at the end of the period	**–**	–	–
Funded status of the plan	**$ (1,198)**	$ (1,025)	$ (744)
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	**$ 1,198**	$ 1,025	$ 744
Net amount recognized	**$ 1,198**	$ 1,025	$ 744

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

(dollars in thousands)	**2022**	2021	2020
Net actuarial loss	**$ (488)**	$ (474)	$ (247)
Total amount recognized in AOCI/(loss)	**$ (488)**	$ (474)	$ (247)

An estimated net actuarial loss of $120 thousand for the Pension Restoration Plan will be amortized into income over the next year.

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

(dollars in thousands)	**2022**	2021	2020
Accumulated benefit obligation	**$ 1,152**	$ 1,006	$ 744
Fair value of plan assets	**$ –**	$ –	$ –

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

(dollars in thousands)	**2022**	2021	2020
Projected benefit obligation	**$ 1,198**	$ 1,025	$ 744
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.

	Pension Benefits		
(dollars in thousands)	**2022**	2021	2020
Components of net periodic benefit cost			
Service cost	**$ 45**	$ 11	$ 17
Interest cost	**20**	–	–
Net amortization and deferral	**93**	43	51
Net periodic benefit cost	**$ 158**	$ 54	$ 68

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

(dollars in thousands)	**2022**	2021	2020
Current year net actuarial loss	**$ (107)**	$ (270)	$ (21)
Amortization of net actuarial loss	**93**	43	51
Total recognized in other comprehensive income/(loss)	**$ 14**	$ (227)	$ 30

Actuarial losses in 2022, 2021, and 2020 were primarily due to changes in plan experience, discount rate, and the plan demographics.

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

	2022	2021	2020
Discount rate	**4.57%**	2.14%	1.65%
Rate of compensation increase	**7.10%**	5.40%	5.40%
Interest crediting rate	**5.00%**	5.00%	5.00%

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

	2022	2021	2020
Discount rate			
Projected benefit obligation	**2.14%**	1.65%	2.59%
Service cost	**2.38%**	1.36%	2.69%
Interest cost	**2.00%**	1.45%	2.49%
Rate of compensation increase	**5.40%**	5.40%	5.40%
Interest crediting rate	**5.00%**	5.00%	5.00%

Estimated Future Benefit Payments

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

(dollars in thousands)	Pension Restoration Benefits
2023	$ 293
2024	$ 293
2025	$ 398
2026	$ 302
2027	$ 104
2028 – 2032	$ 3

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 $337 thousand in 2022, $344 thousand in 2021, and $315 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.

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

Loan information for directors, senior officers, and their related parties for the years ended December 31 is shown below.

(dollars in thousands)	**2022**	2021	2020
Beginning balance	**$ 45,968**	$ 43,355	$ 30,602
New loans	**86,105**	78,797	65,042
Repayments	**(91,056)**	(78,826)	(66,585)
Reclassifications*	**657**	2,642	14,296
Ending balance	**$ 41,674**	$ 45,968	$ 43,355

* 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 $2.2 million in 2022, $1.9 million in 2021, and $1.7 million in 2020 to AgVantis for technology services. One Association officer serves as an AgVantis director. The Association paid $125 thousand in 2022, $128 thousand in 2021, and $111 thousand in 2020 to Foundations for human resource services and $11 thousand in 2022, $10 thousand in 2021, and $6 thousand in 2020 to CoBank for operational services. Refer to Note 4, "Investment in CoBank", and Note 6, "Note Payable to CoBank", for additional information on the Association's relationship with CoBank.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

As of December 31, 2022, there were no enforcement actions in effect for the Association and FCA took no enforcement on the Association during the year.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Association 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, $297.9 million of commitments to extend credit were outstanding.

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

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2022, $2.8 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 2039. The maximum potential amount of future payments the Association is required to make under the guarantees is $2.8 million. The Association primarily participates in two types of standby letters of credits to meet the needs of its borrowers. Letters of credit issued to direct borrowers typically facilitate payment guarantees to third parties such as the payment of cash rent to a landlord. If the borrower failed to make such payment, the Association could be obligated to advance on the letter of credit. Similarly, the Association participates in letters of credit within our purchased loan portfolio. These arrangements typically guarantee the availability of credit to large corporate customers with strong credit ratings. The Association individually analyzes each standby letter of credit using relevant credit underwriting standards and had no outstanding loan volume issued against standby letters of credit as of the date of the statement of financial position.

NOTE 14 – FAIR VALUE MEASUREMENTS

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

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

	Fair Value Measurement Using			Total Fair
(dollars in thousands)	Level 1	Level 2	Level 3	Value
Assets held in nonqualified benefits trusts				
2022	**$ 681**	**$ –**	**$ –**	**$ 681**
2021	$ 809	$ –	$ –	$ 809
2020	$ 682	$ –	$ –	$ 682

The Association has loans measured at fair value on a non-recurring basis that are determined to be Level 3 of $2.2 million at December 31, 2022, compared with none at December 31, 2021 and 2020.

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

Valuation Techniques

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

Assets Held in Non-Qualified Benefits Trusts

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

Loans

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

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2022, 2021, and 2020 follow.

	2022				
(dollars in thousands)	**First**	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 5,546**	**$ 5,789**	**$ 6,312**	**$ 6,691**	**$ 24,338**
(Credit loss reversal)/Provision for credit losses	**(311)**	**52**	**(383)**	**33**	**(609)**
Noninterest expense, net	**1,666**	**1,789**	**1,782**	**1,219**	**6,456**
Net income	**$ 4,191**	**$ 3,948**	**$ 4,913**	**$ 5,439**	**$ 18,491**

	2021				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 5,082	$ 5,405	$ 5,507	$ 5,713	$ 21,707
(Credit loss reversal)/Provision for credit losses	(22)	74	(30)	(351)	(329)
Noninterest expense, net	1,524	1,505	1,746	1,370	6,145
Net income	$ 3,580	$ 3,826	$ 3,791	$ 4,694	$ 15,891

	2020				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 4,920	$ 4,952	$ 5,074	$ 5,140	$ 20,086
Provision for credit losses/(Credit loss reversal)	216	(9)	(218)	(30)	(41)
Noninterest expense, net	1,458	1,483	1,725	1,699	6,365
Net income	$ 3,246	$ 3,478	$ 3,567	$ 3,471	$ 13,762

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
202 Poplar Street Sterling, Colorado 80751	Office Building (Administrative Office)	Owned
229 South Third Street Sterling, Colorado 80751	Office Building	Owned
225 East Railroad Avenue Ft. Morgan, Colorado 80701	Office Building	Owned
700 West Eighth Avenue Yuma, Colorado 80759	Office Building	Owned
143 South Campbell, Suite 100 Holyoke, Colorado 80734	Office Building	Leased*
210 North 2nd Street Sterling, Colorado 80751	Vacant	Owned

** Automatically renewable month-to-month lease, currently leased for $500.00 per month.*

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

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

DESCRIPTION OF CAPITAL STRUCTURE

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

DESCRIPTION OF LIABILITIES

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

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

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

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2022, required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Consolidated Financial Data," included in this annual report to shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

DIRECTORS AND SENIOR OFFICERS

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

DIRECTORS

Rebecca K.W. Lenz	Chair, representing the South Region. Three-year term expires in 2025. Mrs. Lenz serves on the Compensation Committee and is a member of the Executive Committee. She also serves on the Association District Leadership Committee and is the District Farm Credit Council Representative. Mrs. Lenz has been a farmer/rancher for five years or more with principal enterprises of corn, potatoes, dry edible beans, wheat, and a cow/calf and backgrounding operation and also raises a registered Charolais herd. She is a partner and has a controlling interest in Six by Two Land Company, LLLP and Six by Two Livestock, LLC and serves as Controller for several family farm entities in addition to being a certified Annie's Project trainer. Mrs. Lenz holds a B.S. from Colorado School of Mines.
Randall W. Kirkwood	Vice Chair, representing the Northeast Region. Three-year term expires in 2023. Mr. Kirkwood serves as a member of the Executive, Audit, and Compensation Committees. He has been a farmer/rancher for five years or more with principal enterprises of dryland wheat and a cow/calf operation. Mr. Kirkwood has a controlling interest in Kirkwood Farm and JRRD, LLC. He serves as the Fleming Jr. High and High School Girls' Basketball Coach. Mr. Kirkwood holds an A.A.S. from Northeastern Junior College.
Rodney A. Boerner	Director, representing the Northeast Region. Three-year term expires in 2024. Mr. Boerner serves on the Compensation and Policy Review Committees. He has been a farmer/rancher for five years or more with principal enterprises of dryland/irrigated wheat, millet, corn, and yearling steers. Mr. Boerner is a partner and has controlling interest in Boerner Farms. He also works as an accountant for a local accounting firm during the winter months. Mr. Boerner holds a B.S. in General Agriculture from Colorado State University.
Michael J. Brownell	Outside Appointed Director. Three-year term expires in 2025. Mr. Brownell is from Fleming, Colorado and serves on the Audit and Compensation Committees. He is a retired Professor who taught Agriculture Business Management and Agronomy for over 22 years at Northeast Junior College. Mr. Brownell has been a farmer for five years or more with principal enterprises of wheat and millet. Mr. Brownell was recently appointed to serve as a Logan County Commissioner. He is a partner and has a controlling interest in NCS Management Systems, Brownell Farms, Inc., Mike and Laural Brownell Farm, and Ace Pilot Car Service, LLC. Mr. Brownell holds a B.S. from Colorado State University.
Andrew E. Gerken	Director, representing the Northwest Region. Three-year term expires in 2023. Mr. Gerken serves on the Compensation and Policy Review Committees. He has been a farmer/rancher for five years or more with principal enterprises of corn, alfalfa, and a cow/calf operation. He has a controlling interest and is a member of 3 Sons, LLC, A and D, LLC, and Andy and Dawn Gerken Living Trust dated February 26, 2021. Mr. Gerken holds certificates in Ag Business Management and Ag Financial Analysis from Morgan Community College.
Ryan W. Godsey	Director, representing the South Region. Three-year term expires in 2024. Mr. Godsey serves on the Compensation Committee. He has been a farmer/rancher for five years or more with principal enterprises of corn, beans, wheat, and cattle in a family operation with his parents. He is an officer and has controlling interest in R & S

	Godsey Farms, Inc. and Roots & Boots Cattle Company LLC. Mr. Godsey holds a B.S. from Colorado State University.
Lyndsey D. Graves	Outside Appointed Director and Financial Expert. Three-year term expires in 2024. Mrs. Graves is from northeast Colorado and resides in Kearney, NE. She serves as Chair of the Audit Committee and serves on the Compensation Committee. Mrs. Graves is a CPA providing tax, business, and estate consulting services to clients in Nebraska and northeast Colorado under Graves Consulting, LLC, and she and her husband operate 926 Enterprises, LLC. Mrs. Graves graduated Summa Cum Laude from UNC/Monfort College of Business in Greeley and received her Master's degree in Taxation from DU/Sturm College of Law.
Terresa Lauck	Director, representing the Northwest Region. Three-year term expiring in 2025. Mrs. Lauck serves on the Compensation and Policy Review Committees. She has been a farmer/rancher for five years or more with her principal enterprise of irrigated corn. Mrs. Lauck serves as the administrative assistant for Lutheran Church of Our Redeemer in Fort Morgan and Bethlehem Lutheran Church in Brush, as well as the bookkeeping for the Fort Morgan Rural Fire Protection District. She and her husband have a controlling interest in Lauck Farms, Inc. Mrs. Lauck attended the University of Northern Colorado.
Mark A. Oestman	Director, representing the South Region. Three-year term expires in 2023. Mr. Oestman serves as the Vice Chairman of the Compensation Committee and Chairman of the Policy Review Committee. He has been a farmer/rancher for five years or more with principal enterprises of corn, pinto beans, white wheat, alfalfa, and cattle. He is a partner and has a controlling interest in Oestman Farms, LLC, BOO Farms, LLC, James P. Brophy Homeplace, LLLP, and Lazy J-3 Limited. Mr. Oestman holds a B.S. from Colorado State University.
Lisa E. Shinn	Director, representing the Northwest Region. Three-year term expires in 2024. Mrs. Shinn serves on the Audit Committee and is Chair of the Compensation Committee. She has been a farmer/rancher for five years or more and is a partner and has a controlling interest in Lyle & Viola Myers Trust and CTL Farm & Ranch, LLC, a family farming operation with her sisters that is leased to a local farmer. Mrs. Shinn is a retired Professor at Northeastern Junior College where she taught Agriculture Business Management for 25 years. She provides private accounting and consulting services in northeast Colorado. Mrs. Shinn holds an M.B.A. from Regis University.
Leo J. Stieb, Jr.	Director, representing the Northeast Region. Three-year term expiring in 2025. Mr. Stieb serves on the Compensation Committee and is Secretary of the Policy Review Committee. He has been a farmer/rancher for five years or more with principal enterprises of corn, alfalfa, soybeans, sorghum, wheat, and a cow/calf and feedlot operation. He is a partner and has a controlling interest in Stieb Bros. Inc., 4-S Land Co., LLP, and Stieb Land Company, LLP. Mr. Stieb holds an A.A.S. from Northeastern Junior College.

SENIOR OFFICERS

Michael Grauberger	President - Chief Executive Officer Mr. Grauberger assumed the President and Chief Executive Officer role on January 1, 2018. Mr. Grauberger has been a Farm Credit System employee since June 9, 1986. During his tenure, Mr. Grauberger has served in various capacities and was previously the Chief Financial Officer since March 2014. All of his years of service have been with associations that formed Premier Farm Credit, ACA, except for three years in which he was employed by the FLBA of Colorado Springs.
Jeffrey L. Schumacher	Chief Financial Officer Mr. Schumacher was appointed Chief Financial Officer on January 1, 2018. He has been a Farm Credit employee since February 19, 1992. Mr. Schumacher was previously Vice President – Credit. All of his years of service have been with associations that formed Premier Farm Credit, ACA. During his tenure, Mr. Schumacher has served in various capacities.
Douglas D. Keil	Chief Credit Officer Mr. Keil has served as Chief Credit Officer since May 2000. Mr. Keil has been a Farm Credit System employee since August 19, 1986. All of his years of service have been with associations that formed Premier Farm Credit, ACA, except for two years in which

	he was employed by the Eighth Farm Credit District and Farm Credit Services of the Mountain Plains, ACA. During his tenure, Mr. Keil has served in various capacities.
Steven J. Kaiser	Chief Lending Officer Mr. Kaiser was appointed Chief Lending Officer on July 1, 2022. He has been a Farm Credit employee since December 28, 1992. Mr. Kaiser was previously Vice President – Lending. All of his years of service have been with associations that formed Premier Farm Credit, ACA. During his tenure, Mr. Kaiser has served in various capacities.
Phyllis P. Luft	Vice President - Administration Mrs. Luft was appointed Vice President - Administration in April 2000. Mrs. Luft has been a Farm Credit System employee since October 10, 1983. All of her years of service have been with associations that formed Premier Farm Credit, ACA, except for three and a half years in which she was employed by Farm Credit Services of the Mountain Plains, ACA. During her tenure, Mrs. Luft has served in various capacities.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Per the Association's Director Honoraria policy, during 2022, directors of the Association were compensated for services on a per diem basis at the rate of $600 per day. The chair of the Board of Directors was compensated for services on a per diem basis at the rate of $750 per day. The chair of the Audit Committee was compensated for Audit Committee services on a per diem basis at the rate of $800 per day. Mileage was reimbursed at a rate of $0.585 per mile while on official business for the first 6 months of 2022 and $0.625 per mile for the final 6 months of 2022. The Compensation Committee meetings and some Audit Committee meetings were held in conjunction with the regular board meetings, so no additional compensation was paid to the directors for these meetings.

Additional information for each director is provided as follows.

	Number of Days Served at		Compensation for				Total
Name	Board Meetings	Other Official Activities	Board Meetings	Policy Review	Audit	Other*	Compensation Paid During 2022
Rebecca K.W. Lenz	10.0	12.0	$ 16,500	$ –	$ –	$ 400	$ 16,900
Randall W. Kirkwood	10.0	9.0	9,600	–	1,800	–	11,400
Rodney A. Boerner	9.0	10.0	10,800	600	–	200	11,600
Michael J. Brownell	10.0	6.0	7,200	–	2,400	–	9,600
Andrew E. Gerken	10.0	7.0	9,000	1,200	–	–	10,200
Ryan W. Godsey	10.0	4.0	8,400	–	–	–	8,400
Lyndsey D. Graves	10.0	6.0	9,600	–	3,200	100	12,900
Terresa Lauck	7.0	8.0	8,400	600	–	–	9,000
Mark A. Oestman	9.0	4.0	6,600	1,200	–	–	7,800
Lisa E. Shinn	10.0	10.0	9,600	–	2,400	–	12,000
Leo J. Stieb, Jr.	9.0	4.0	6,600	1,200	–	–	7,800
Total Compensation			$ 102,300	$ 4,800	$ 9,800	$ 700	$ 117,600

* Other represents compensation for conference calls, virtual training, and meeting participation and is not included in Number of Days Served at Board Meetings and Other Official Duties.

Directors 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 $72,943 in 2022, $82,185 in 2021, and $21,690 in 2020. There was no non-cash compensation paid to directors in 2022.

Information on chief executive officer (CEO) and senior officer compensation follows. The CEO compensation is not included with the senior officer compensation.

		Annual				
President and CEO[2]	Year	Salary	Incentive compensation[3]	Deferred/ Perquisites[4]	Other[5]	Total[1]
Michael Grauberger	2022	$ 299,898	$ 92,500	$(239,607)	$ 12,760	$ 165,551
Michael Grauberger	2021	$ 279,713	$ 80,000	$ 365,074	$ 4,640	$ 729,427
Michael Grauberger	2020	$ 258,826	$ 80,000	$ 601,776	$ 5,050	$ 945,652

Aggregate Number of Officers/Highly Compensated Individuals (excluding CEO)[2]	Year	Annual				Total[1]
		Salary	Incentive compensation[3]	Deferred/ Perquisites[4]	Other[5]	
7	2022	$ 1,129,578	$ 225,863	$ (721,470)	$ 28,028	$ 661,999
7	2021	$ 1,077,887	$ 266,451	$ 457,731	$ 11,687	$ 1,813,756
7	2020	$ 1,043,269	$ 255,743	$ 1,068,301	$ 14,246	$ 2,381,559

1. Disclosure of the total compensation paid during 2022 to any designated senior officer or highly compensated employee is available to our shareholders upon request. The Salary and Incentive Compensation columns of the Summary Compensation Table include all amounts earned during 2022 regardless of whether a portion of such compensation has been deferred by the CEO or other Senior Officers' elections pursuant to the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan) and the Farm Credit Foundations Nonqualified Deferred Compensation Plan (NQDC Plan).
2. The senior officers and highly compensated employees included above are those officers defined by FCA regulations Section 619.9310 and Section 620.6.
3. Incentive compensation amounts represent amounts earned in the reported fiscal year, which are paid in February of the subsequent year. The annual incentive compensation amounts are calculated based on relevant performance factors for the reported fiscal year.
4. The Change in Pension Value decreased in 2022 primarily due to a significant increase in the discount rate used to determine the pension value. 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. Also represents company contributions to retirement plans for all employees and any changes in value of pension benefits. In 2022, the Association's employer matching contribution to the CEO's account in the 401(k) Plan was $12,767 and there was $2,441 contribution to the CEO's account in the NQDC Plan. Also included is a decrease in Pension value of $254,815 for the CEO. For 2022, the Association's employer matching and non-elective contributions for the other Senior Officers' accounts in the 401(k) Plan were $77,074 and there were $5,178 contributions to their accounts in the NQDC Plan. Also included is a decrease in the Pension value of $803,722 for the other Senior Officers. No tax reimbursements are made to senior officers/highly compensated individuals.
5. Includes the payout of unused annual leave.

COMPENSATION PHILOSOPHY

The Association endeavors to provide compensation packages that are competitive in the marketplace to attract and retain a quality, tenured staff. In addition to base salary, all staff, including the CEO and senior officers, can earn additional compensation under annual incentive and bonus plans which are tied to the overall business performance of the Association. The plans are based on a fiscal year and are designed to motivate employees to exceed financial, marketing, and credit quality performance targets approved by the Board of Directors. These targets typically include return on assets, cost per hundred, credit quality, credit administration, growth in loan volume, and new loan volume booked. The program links pay to performance with appropriate controls in place to ensure sound credit quality and administration is maintained, while focusing on the long-term financial goals of the Association. The plans are short-term in nature and do not create a long-term financial obligation for the Association and they can be amended annually. The plans are reviewed each year by the Compensation Committee and are approved by the Board of Directors.

The Compensation Committee annually reviews market information related to the administration of compensation at all levels of the Association, including the CEO and senior officers. The information consists of surveys for market-based merit increases, peer comparisons, salary levels, and incentive plans. The Compensation Committee also has access to a compensation consultant.

Expense Reimbursement – All employees are reimbursed for travel and subsistence expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Retirement Plan Overview – The CEO and certain Senior Officers participate in the Ninth Farm Credit District Pension Plan (Pension Plan) which is a qualified defined benefit plan and the Ninth District Employers Pension Restoration Plan (Pension Restoration Plan), which is a nonqualified retirement plan. Additionally, substantially all employees participate in the 401(k) Plan, which has an employee matching contribution. Certain eligible employees participate in the Farm Credit Foundations Nonqualified Deferred Compensation Plan, which allows individuals to defer compensation, and which restores the benefits limited in the 401(k) Plan by restrictions in the Internal Revenue Code.

Information on pension benefits attributable to the CEO, senior officers, and other highly compensated individuals as of December 31, 2022 follows.

President and CEO[1]	Plan	Years of Credited Service	Present Value of Accumulated Benefits[2]	Payments Made During the Reporting Period[3]
Michael Grauberger	Pension Plan	38.33	$ 2,677,426	$ –
	Nonqualified Pension	38.33	$ 150,016	$ –

Aggregate Number of Senior Officers/ Highly Compensated Individuals[1]	Plan	Average Years of Credited Service	Present Value of Accumulated Benefits[2]	Payments Made During the Reporting Period[3]
4	Pension Plan	35.54	$ 5,597,247	$ –
1	Nonqualified Pension	38.23	$ 274,694	$ –

1 The senior officers and the highly compensated employees included in the pension benefits disclosure are those defined by FCA regulations Section 619.9310 and Section 620.6.
2 For the Pension or Retirement Plan, this represents the total for the aggregate senior officer and highly compensated employee group.
3 Represents post-retirement benefit payments made during the last fiscal year.

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.

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.

FINANCIAL EXPERT

In October 2012, the Board appointed Lyndsey D. Graves, a CPA, to fill the role of financial expert on the Board. Mrs. Graves is an owner of an accounting firm and has experience in corporate auditing and banking.

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.

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.

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 202 Poplar Street, Sterling, Colorado 80751, or may be contacted by calling (970) 522-5295. The reports may also be obtained free of charge by visiting CoBank's website at www.cobank.com.