Fresno Madera Farm Credit

2021 Annual Report

Our Mission. Your Success.



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Our Mission

To provide access to credit and related services to farmers and ranchers in our region as an efficient organization that delivers service with people that are passionate about creating the best possible customer experience to the generations of farmers and ranchers that we proudly serve.

Our Vision

To be the premier lender of choice in our region.

Our Values

- Collaborative
- Committed
- Customer Focused
- Excellence
- Responsible
- Strategic

Your lender for generations.

100 years of ag experience	We always put customers first	We are here in good times and bad	All decisions are made locally

Letter to Shareholders

Dear Shareholders,

It is our pleasure to share with you the results of operations for the fiscal year ended 2021. I want to begin by making clear that we understand our financial success is the direct result of your ongoing support – we appreciate the opportunity to support the agriculture in our region through our partnership with you.

Over the course of 2021, our operating environment was impacted by the persistence of COVID-19, water scarcity, and disruptions in the supply chain. These factors impacted our region and our member-customers at many levels. Despite these risks, our board, management team, and staff were highly productive in serving our membership as well as making the investments necessary to preserve our ability to serve you well into the future.

Overall Conditions

Lower Farm Profit Margins

Conditions in our region now reflect an elevation in input costs including those costs associated with compliance, water, labor, and other farm inputs. Prices for agricultural products grown and marketed in the area were resilient overall but more mixed than in recent years as we have observed softening and pricing weakness in some commodities grown in the area. Profit margins are narrowing because of the overall softening observed on revenues, combined with the elevated costs of nearly every expense input. Our region remains quite commodity-diverse despite some increased concentration in tree nuts which has occurred over the years.

Foreign Trade

According to data provided by the USDA, agricultural exports set record highs in 2021 and increases from prior year were experienced for most of the commodities grown in the region including for tree nuts, dairy products, and for both processed and fresh fruits and vegetables. While the growth from previous year was influenced by the pandemic-related dips, the value of exports was high by historic measure. Supply chain disruption has impacted the timely marketing of some crops and will have further impacts into 2022.

Supply Chain Disruption

There have been strains on several aspects of the supply chain including the availability of shipping containers and chassis, as well as some bottlenecks experienced across every part of the export logistics chain. Farm production, processing and marketing operations all rely on supply chains for the inputs required to produce, process, and market crops. Disruption has been persistent and far-reaching – it has impacted virtually all aspects of the agricultural supply chains. These disruptions drive increases in the cost of inputs as well as the prices for some of the commodities grown in the region, however – disruption also prevents producers and marketers from timely participation in pricing opportunities that arise when these disruptive conditions persist. These disruptions can provide more broad economic risks as prices climb against a general absence of broad economic growth.

Interest Rates

Our customers continued to experience a low interest rate environment for both short and long-term interest rates for the duration of 2021. Many customers were able to take advantage of opportunities to lock in low rates on long-term debt particularly in the first half of the year. The U.S. economy experienced a significant amount of measurable inflation in the second

half of the year and particularly in November and December. The Fed has telegraphed their intention to manage price inflation by increasing short-term interest rates early in 2022 by increasing the Fed Funds Rate, and they may begin tapering their purchase of U.S. Treasuries and other securities which could lift long-term interest rates depending on the pace of these adjustments. Many economists have predicted significant increases to short-term interest rates during 2022.

Water Scarcity

Our area has been impacted by significant water challenges as farmers and ranchers have struggled to acquire the water necessary to support their operations. The costs of available water have increased significantly, and the supply of water has been reduced because of ongoing drought conditions, reductions in the amount of surface water available for delivery, as well as restrictions that have been placed on the amount of groundwater that may be used to irrigate crops. Our member-customers have been dealing with water scarcity in perpetuity and are consistently adapting and making adjustments to protect the viability of their farms and ranches.

Investing in our Future

Our staff complete work each year to expand our capacity to meet your evolving needs. As a board and management team, we believe this is an important responsibility that plays a key role in the long-term viability of our organization and protects our ability to deliver the value you expect both today, and into the future.

Online Banking Upgrade

We successfully completed a major upgrade to our online banking platform early in 2021. Members are now able to perform more transactions including directing available loan funds to your checking account, viewing your billing statements, and making ACH payments. In 2022, we will be adding more features, including the ability to remotely deposit checks from your mobile device.

Madera Office

We wrote last year about our plans to update our presence in Madera. I'm pleased to report that we have purchased a lot near the intersection of Hwy 99 and Avenue 17 and the planned construction process for our new building commenced late in 2021. We look forward to updating you on our progress to complete this project and begin serving our customers out of our new location on Avenue 17.

Change in Patronage Methodology for 2022

The Fresno Madera Farm Credit board of directors committed significant discussion to evaluating the method used to calculate patronage each year. There are two general approaches – "equitable", and "equal". Each approach has its unique strengths; since 2012 we have paid according to the "equitable" method – which can be complicated for customers to calculate on their own or even estimate based on their average borrowing over the course of a year. The "equal" method is quite simple to calculate and is the method in use by most Farm Credit associations in the U.S. including all of them in the Western U.S. After much discussion the Fresno Madera Farm Credit board of directors approved a change to the patronage program for 2022 – adopting the more common and easy-to-calculate "equal" method. Patronage is a key part of our value proposition with our member-customers, and we believe this change will increase the transparency and ease of our patronage program.

COVID-19

We were pleased that the ongoing pandemic had less of an impact on our operations than in 2020. We operated in a reliable work posture and staff demonstrated a strong level of resilience as we were able to serve our customers as well as make the long-term investments that we identify through our strategic planning process.

In the first quarter of the year, our staff were able to support the third round of funding for the payroll protection program as well as support the administrative process of addressing the related forgiveness applications for loans originated from the first two rounds of funding. Supporting this program has been an important part of our service outreach over the past few pandemic-impacted years.

Financial Results

Our financial position was strong overall at the end of the fiscal year – and our earnings were adequate to cover our non-interest expense and capitalize our loan growth. During the year we observed strong levels of loan growth from new loans to both new and existing customers – which combined with increased utilization on our revolving loans to create revenue growth from loans outstanding. As we finished the year, we noted overall improvements to credit quality despite some observed weakness in the overall environment which will likely persist into 2022.

Earnings

The amount of loans outstanding over any given period can vary with the factors that influence the food and agribusiness sector in our region. These factors are discussed in detail in the management discussion and analysis that are contained in this annual report to shareholders.

Net Interest Income

Our net interest income for 2021 increased from last year by 6.4% driven by an increase in our average outstanding loan volume of 5.6% combined with a narrow increase in our net interest margin as it improved to 2.68% from 2.66% in the previous year. Low interest rates limit how much we earn from our capital, and rates were at historic lows during 2021 - limiting how much earnings from our capital contributed to our net interest margin and overall earnings.

Non-Interest Income

We observed a minor increase in the amount of noninterest income from the previous year. Performance in this area was driven overall by an increase in patronage we received from other Farm Credit institutions, especially CoBank – our funding bank; overall patronage received increased by 14% from the previous year. The elevated level of patronage received was sufficient to offset decreases we experienced in the amount of fees we collected – lower by 27%, as well as offset advanced payment fees we were charged on our direct note because of excess prepayments made to certain loan pools. The decrease in collected loan fees was the result of a decrease in the activity related to the payroll protection program; this activity began in earnest in the first half of 2020 with the onset of the pandemic.

Non-Interest Expense

Our operating expenses increased by 11.6% or $2.3 million from 2020; most of the increase was the result of increased expense for salaries and benefits which increased by 6.1% from 2020, and premiums paid to the Farm Credit Insurance Corporation ("FCSIC"). The amount of premiums we paid to FCSIC increased by 80% from the previous year, a total increase of $676 thousand – the amount of premiums assessed can be volatile and are based largely on the amount of growth being experienced in the Farm Credit System as a whole.

Allowance for Loan Loss and Credit Quality

Our credit quality improved slightly from 2020, as a result we experienced a net reversal in the amount of our allowance for loan loss of ($358) thousand compared to the increase we took last year of $443 thousand. Our overall credit quality finished strong at the end of the year with 98.97% of our loans rated Acceptable or potentially weak; 1.03% of our outstanding loans were rated Substandard.

Net Income

Overall, our net income increased by 2.6% from the previous year to $24.9 million, driven by the 6.4% increase in net interest income, steady non-interest income, and improvement in credit quality which was reflected in the decrease in our allowance for loan loss. Our board targets a return on average assets (ROA) of between 1.60% and 1.80% - our fiscal year 2021 net income result drove an ROA of 1.80% a slight decrease from the previous year of 1.85%.

We believe that strong earnings are a key to our long-term financial success and a critical financial resource that enables us to make investments in the future and capitalize our loan growth so that we can support the financial risks that are necessary for us to bear as we meet the needs of our member-customers.

Capital and Patronage

The Fresno Madera Farm Credit board of directors understand how important capital planning is to the process of making certain that we have enough high-quality capital to support the risks in our institution. After meeting our present and future needs, our remaining earnings are available for distribution through our patronage program.

Patronage

After accounting for the current year's loan growth, we forecast our loan growth for our and other future needs over our planning period; after accounting for these needs, the remainder of our earnings for the current year are distributed as patronage.

There is no question that our patronage program is one of the most compelling and important aspects of our value proposition to our member-customers. As a board and staff, we take great pride in delivering on this proposition each year.

This year, after completing our capital planning exercise, the board approved a record-high patronage distribution of $14.1 million, or 0.85% of patronage sourced volume for 2021. The amount of patronage paid represents 57% of our total net income for fiscal year 2021.

Capital

Member capital increased to $300.1 million at the end of the fiscal year 2021; this 3.7% increase is the result of earnings that were retained after patronage was allocated. Our board of directors has established both a minimum and a target level for capital held in relationship to risk adjusted assets; our Total Capital Ratio was 17.21% at the end of 2021, well in excess of the board-approved range for capital as well as the regulatory minimums established by the Farm Credit Administration, our regulator. In addition to the strong amount of capital relative to our assets – the quality of our capital is very strong as our Tier 1 capital ratio was 16.74% compared to the 6.00% regulatory minimum for Tier 1 capital.

Summary

Fresno Madera Farm Credit takes tremendous pride in our mission to serve the agriculture in our region – as we say, "Agriculture is our only business." We appreciate the trust you place in us to be a key source of capital to support your operation and are working hard to make future investments to remain your first choice for partnership as you position your farm operation to thrive today and into the future.

Jeff Jue
Chairman of the Board
Fresno Madera Farm Credit, ACA
Fresno Madera PCA, FLCA

Keith Hesterberg
President & Chief Executive Officer
Fresno Madera Farm Credit, ACA
Fresno Madera PCA, FLCA

Board of Directors


Jeff Jue
Board Chairman


Jeff Yribarren
Board Vice Chair

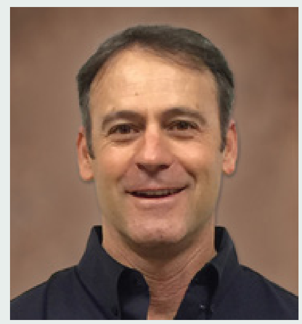

Jeff Boldt
Board Member


Wayne Carstens
Board Member


Daniel Errotabere
Board Member


Kevin Herman
Board Member


Steve Schafer
Board Member


Lance Shebelut
Board Member


Allan Kantrowitz
Appointed Director


Sandi Schmiesing
Appointed Director


Denise Waite
Appointed Director

Senior Leadership Team

Keith Hesterberg
President & Chief Executive Officer

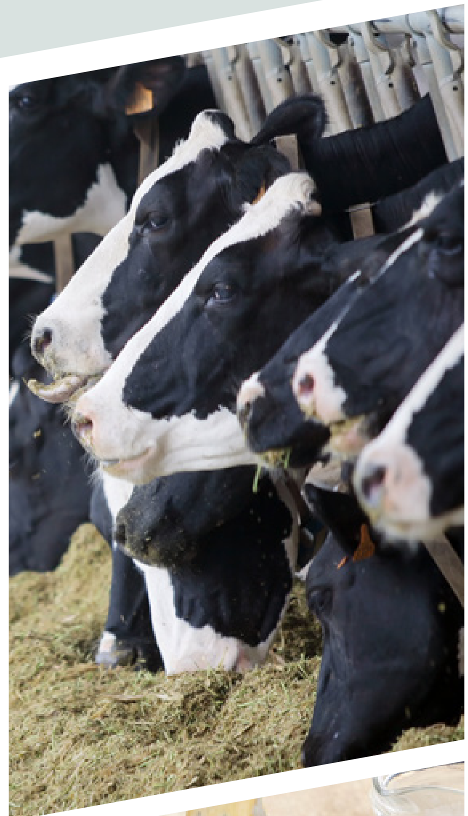
Joe Soto
SVP, Chief Financial Officer

Stephanie Graham
SVP, Chief Administrative Officer

Dan Kiggens
SVP, Chief Risk Officer and Chief Credit Officer

David Ylarregui
SVP, Relationship Management

Ken Brown
SVP, Appraisal Program Manager



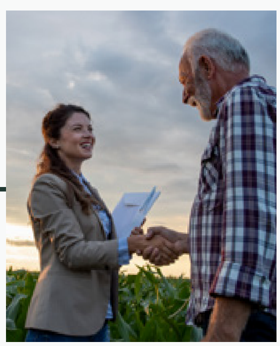
2021 Year in Review

Dollars in Thousands

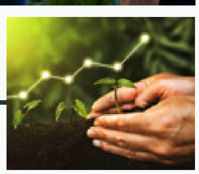
	2021	2020	2019	2018	2017
Patronage Distribution Declared	$14,121	$12,650	$12,539	$10,402	$10,251
Net Income	$24,922	$24,288	$23,266	$19,953	$19,910
Loan Principal	$1,351,411	$1,291,568	$1,225,675	$1,247,297	$1,115,862
Permanent Capital Ratio	16.81%	16.93%	16.94%	16.98%	18.25%
Total Capital Ratio	17.21%	17.36%	17.36%	17.40%	18.67%
Return on Average Assets	1.80%	1.85%	1.82%	1.62%	1.81%
Efficiency Ratio	47.0%	44.0%	44.3%	47.5%	43.4%
Total Assets	$1,425,421	$1,363,512	$1,305,935	$1,326,325	$1,174,974
Total Member Capital	$300,110	$289,306	$277,666	$266,958	$257,390
Acceptable/OAEM Volume *As % of P & I*	98.97%	98.39%	97.17%	97.11%	99.5%
Nonaccrual Loans *As % of Total Loans*	0.15%	0.39%	1.16%	0.93%	0.00%

Loan Volume by Commodity

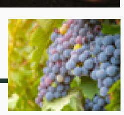
17% Ag Related Business



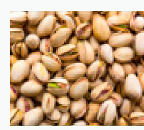
10% Other



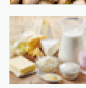
6% Wine & Table Grapes



33% Almonds



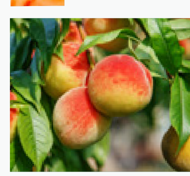
8% Pistachios



5% Dairy

7% Raisins

4% Vegetables & Melons

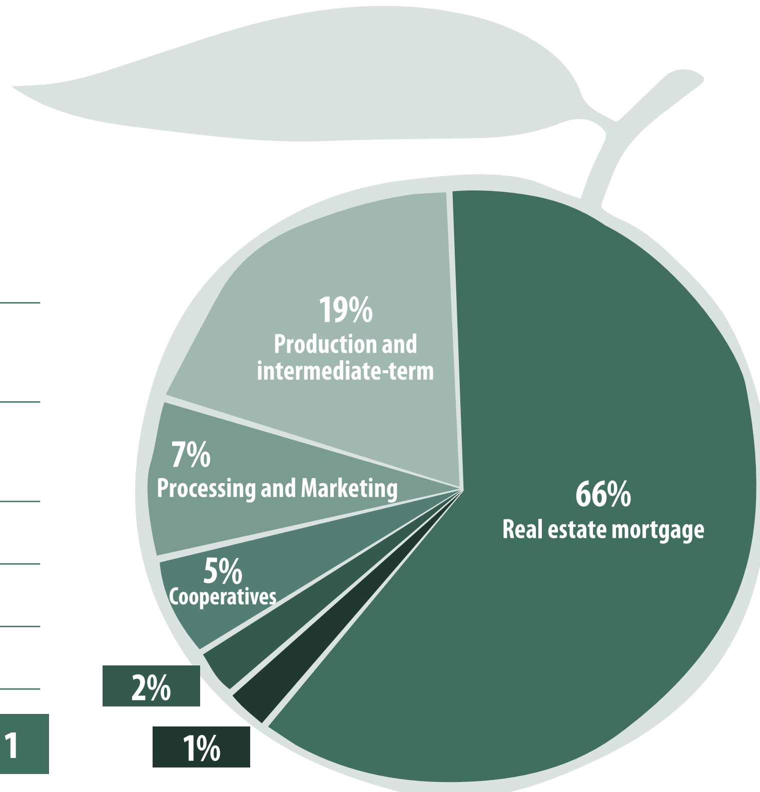


10% Tree Fruit

Loan Principal Composition by Type

Dollars in Thousands

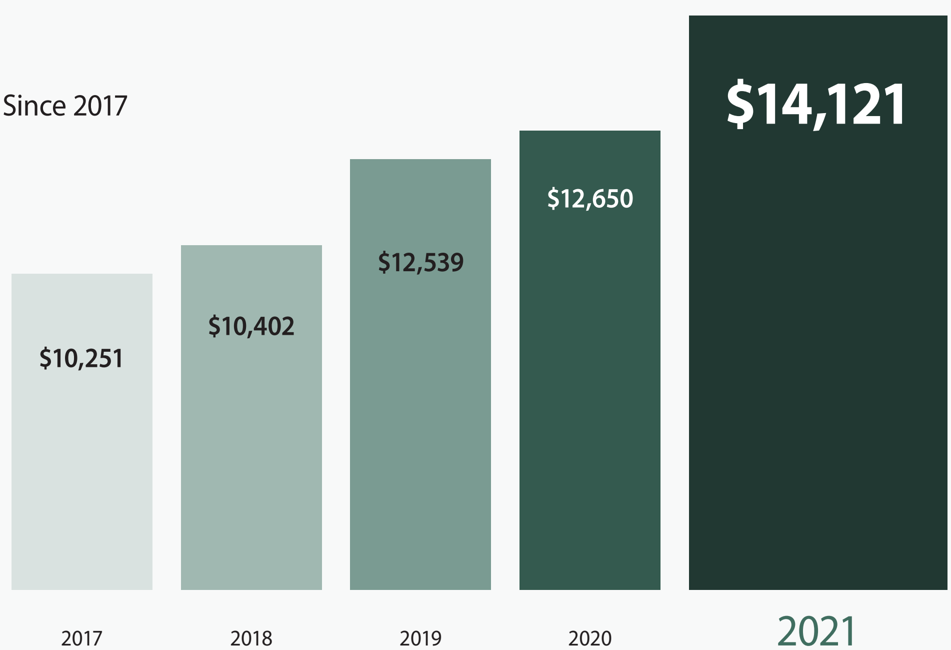
Real estate mortgage	66%	$881,129
Production and intermediate-term	19%	$259,859
Processing and marketing	7%	$101,080
Cooperatives	5%	$68,930
Farm related business	2%	$22,246
Lease receivables	1%	$18,167
TOTAL	**100%**	**$1,351,411**



Patronage Distributions

More than $59 Million Declared Since 2017

Dollars in Thousands



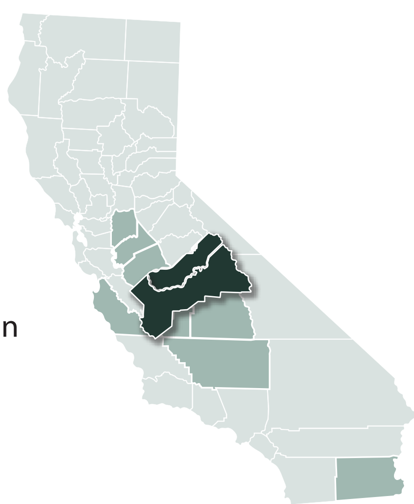
Our Members Helped Feed the Nation

"When looking at the statistics, keep in mind that each year's agricultural output represents incredible human effort on the part of farmers, ranchers, farmworkers, processors, distributors, civil servants, university staff and many others who collaborate and devote their creative energy and industry towards shepherding this extraordinary state's agricultural bounty."

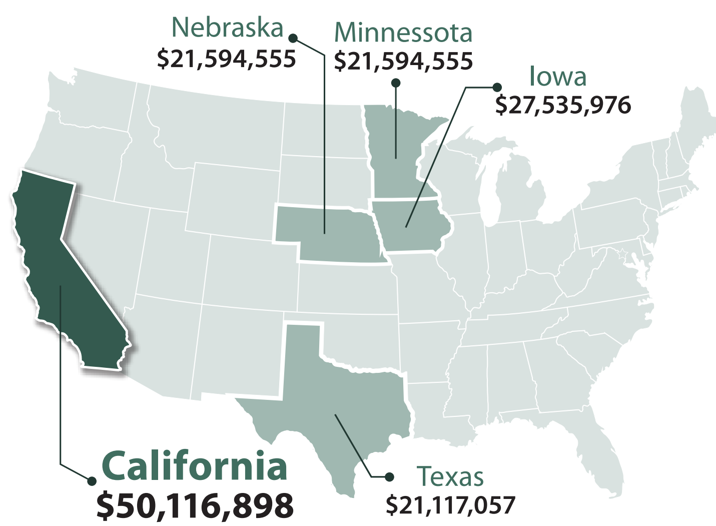
- ***Karen Ross,*** *California Department of Food and Agriculture*

Top 10 Agricultural Counties in California

Fresno
Kern
Tulare
Monterey
Stanislaus
Merced
San Joaquin
Kings
Imperial
Madera



Top 5 Agricultural States in Crop Cash Receipts



California is the Nation's Sole Producer

Almonds
Artichokes
Celery
Figs
Garlic
Grapes, Raisins
Kiwifruit
Melons, Honeydew
Nectarines
Olives
Peaches, Clingstone
Pistachios
Plums, Dried
Rice, Sweet
Seed, Ladino Clover
Walnuts

Statistics from the California Agricultural Statistics Review 2019-2020

FMFC Helped Feed Our Neighbors

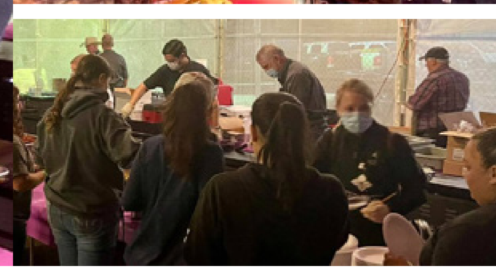
$30,000 DOLLARS = **210,000** MEALS

We partnered with CoBank to donate $30,000 to Central California Food Bank.

Our donation helped to provide more than 210,000 meals to Central California residents during a year when the food bank saw a 25% increase in need in our community.

25 EMPLOYEES = **1,500** BREAKFASTS

25 of our Employees cooked and served more than 1,500 breakfasts to the ag youth involved in 4-H and FFA during the Big Fresno Fair livestock events in October.



Report of Management

The consolidated financial statements of Fresno Madera Farm Credit, ACA (Association) are prepared and reviewed by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. In the opinion of management, the accompanying consolidated financial statements fairly present the financial condition and results of operations of the Association, in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the 2021 Annual Report is consistent with that in the consolidated 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, the Association engaged Deloitte & Touche LLP to perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as appropriate. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent auditors. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the Board of Directors has overall responsibility for the Association's system of internal controls and financial reporting. The Audit Committee meets and consults regularly with management and the auditors to review the manner in which these groups are performing their responsibilities and to carry out the Board's oversight role with respect to auditing, internal controls, and financial reporting matters. The independent auditors also have direct access to the Audit Committee.

The undersigned certify that the Fresno Madera Farm Credit, ACA 2021 Annual Report has been prepared and reviewed 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.

March 16, 2022

Denise Waite

Denise Waite, Audit Committee Chair
Fresno Madera Farm Credit, ACA
Fresno Madera PCA, FLCA

Keith Hesterberg, President and
Chief Executive Officer
Fresno Madera Farm Credit, ACA
Fresno Madera PCA, FLCA

Wayne Carstens, Audit Committee Vice Chair
Fresno Madera Farm Credit, ACA
Fresno Madera PCA, FLCA

Joe Soto, Senior Vice President and
Chief Financial Officer
Fresno Madera Farm Credit, ACA
Fresno Madera PCA, FLCA

Daniel Errotabere, Audit Committee Member
Fresno Madera Farm Credit, ACA
Fresno Madera PCA, FLCA

Jeff Jue, Chairman of the Board
Fresno Madera Farm Credit, ACA
Fresno Madera PCA, FLCA

Management's Report on Internal Control Over Financial Reporting

Fresno Madera Farm Credit's principal executives and principal financial officers are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

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

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

March 16, 2022

Keith Hesterberg, President and
Chief Executive Officer
Fresno Madera Farm Credit, ACA
Fresno Madera PCA, FLCA

Joe Soto, Senior Vice President and
Chief Financial Officer
Fresno Madera Farm Credit, ACA
Fresno Madera PCA, FLCA

Audit Committee Report

The Audit Committee (Committee) is comprised of four members from the Board of Directors of Fresno Madera Farm Credit, ACA (Association). In 2021, 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 Controls Policy and the Audit Committee Charter.

The Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as the Association's independent auditors for 2021. The fees for professional services rendered for the Association by its independent auditor, PwC, during 2021 were $135,000 for audit services and $18,600 for tax services. The Committee reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence.

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

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

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

March 16, 2022

Denise Waite

Denise Waite, Audit Committee Chair

<u>Audit Committee Members</u>

Denise Waite, Audit Committee Chair
Wayne Carstens, Audit Committee Vice Chair
Daniel Errotabere, Audit Committee Member
Jeff Jue. Chairman of the Board

Five-Year Summary of Selected Consolidated Financial Data

Dollars in Thousands, Unaudited

	December 31				
	2021	2020	2019	2018	2017
Consolidated Statement of Condition Data					
Loans	**$ 1,351,411**	$ 1,291,568	$ 1,225,675	$ 1,247,297	$ 1,115,862
Less allowance for loan losses	**7,012**	7,370	6,927	6,787	6,058
Net loans	**1,344,399**	1,284,198	1,218,748	1,240,510	1,109,804
Investment in CoBank, ACB	**40,876**	40,398	38,703	36,840	32,001
Other assets	**40,146**	38,916	48,484	48,975	33,169
Total assets	**$ 1,425,421**	$ 1,363,512	$ 1,305,935	$ 1,326,325	$ 1,174,974
Obligations with maturities of one year or less	**$ 1,124,436**	$ 1,073,338	$ 1,027,519	$ 1,058,601	$ 916,877
Obligations with maturities longer than one year	**498**	474	459	443	443
Reserve for unfunded commitments	**377**	394	291	323	264
Total liabilities	**1,125,311**	1,074,206	1,028,269	1,059,367	917,584
Capital stock and participation certificates	**760**	757	755	774	757
Unallocated retained earnings	**299,350**	288,549	276,911	266,184	256,633
Total members' equity	**300,110**	289,306	277,666	266,958	257,390
Total liabilities and members' equity	**$ 1,425,421**	$ 1,363,512	$ 1,305,935	$ 1,326,325	$ 1,174,974

	For the Year Ended December 31				
	2021	2020	2019	2018	2017
Consolidated Statement of Income Data					
Net interest income	**$ 35,300**	$ 33,184	$ 33,026	$ 32,157	$ 29,163
Patronage distribution from Farm Credit institutions	**9,795**	8,594	7,888	7,869	5,950
(Loan loss reversal) provision for loan losses	**(391)**	342	204	1,221	310
Noninterest expense, net	**20,562**	17,200	17,442	18,850	14,891
Provision for (benefit from) income taxes	**2**	(52)	2	2	2
Net income	**$ 24,922**	$ 24,288	$ 23,266	$ 19,953	$ 19,910
Key Financial Ratios					
For the Year					
Return on average assets	**1.80%**	1.85%	1.82%	1.62%	1.81%
Return on average members' equity	**8.23%**	8.36%	8.28%	7.37%	7.71%
Net interest income as a percentage of average earning assets	**2.68%**	2.66%	2.72%	2.74%	2.79%
Net (recoveries) charge-offs as a percentage of average loans	**(<0.01%)**	(0.01%)	0.01%	0.04%	<0.01%
At Year End					
Members' equity as a percentage of total assets	**21.05%**	21.22%	21.26%	20.13%	21.91%
Debt as a ratio to members' equity	**3.75:1**	3.71:1	3.70:1	3.97:1	3.57:1
Allowance for loan losses as a percentage of loans	**0.52%**	0.57%	0.57%	0.54%	0.54%
Common equity tier 1 (CET1) capital ratio	**16.74%**	16.84%	16.85%	16.90%	18.16%
Tier 1 capital ratio	**16.74%**	16.84%	16.85%	16.90%	18.16%
Total capital ratio	**17.21%**	17.36%	17.36%	17.40%	18.67%
Tier 1 leverage ratio	**19.41%**	19.45%	19.79%	19.40%	21.08%
Unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio	**20.64%**	20.63%	20.86%	20.10%	21.81%
Permanent capital ratio	**16.81%**	16.93%	16.94%	16.98%	18.25%
Other					
Cash patronage distributions declared	**$ 14,121**	$ 12,650	$ 12,539	$ 10,402	$ 10,251
Cash patronage distributions paid	**$ 9,387**	$ 15,802	$ 10,402	$ 10,251	$ 9,251

Management's Discussion and Analysis

Unaudited

Introduction

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

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

Our quarterly reports to members 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.fmfarmcredit.com, or upon request. We are located at 4635 West Spruce, P.O. Box 13069, Fresno, California 93794-3069 or may be contacted by calling (559) 277-7000.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

We are one of 67 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System's mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is accomplished by providing loans and 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 Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be provided by the Association. 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. Members are farmers, ranchers, rural residents, and agribusinesses under eligibility as prescribed in the Farm Credit Act. Members of the Association include all holders of legal title to capital stock or participation certificates of the Association. The territory we serve extends across a diverse agricultural region of the San Joaquin Valley in California, specifically within Fresno and Madera counties. We provide production and intermediate-term loans for agricultural production or operating purposes and long-term real estate mortgage loans. Additionally, we provide other related services to our borrowers, such as funds held accounts, credit life insurance, multi-peril crop and crop hail insurance, lease placement, and appraisal services. 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 one of the four banks in the System — CoBank, ACB (CoBank). In addition to providing lines of credit, CoBank is responsible for providing oversight to ensure compliance with its general financing agreements with the Association and each subsidiary.

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 4635 West Spruce, P.O. Box 13069, Fresno, California 93794-3069 or calling (559) 277-7000. 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 Financial Partners, Inc. (FPI), which is a technology service corporation. Our services agreement with FPI expires on October 8, 2023. Additionally, we purchase payroll and human resource services from Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions.

ECONOMIC OVERVIEW

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 more flexibility to dairy operations. The Farm Bill also clarifies the Insurance Corporation's 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.

From year to year, certain agricultural sectors have experienced economic stress, which has negatively impacted credit quality measures. Factors that can negatively impact the profitability of agricultural producers are higher operating costs, availability of labor and water, rising market interest rates, adverse weather conditions, unfavorable trade conditions, and commodity price volatility. In an environment of less favorable economic and agricultural conditions, our financial performance and credit quality measures may be negatively impacted.

Although the California agricultural economy continues to be a significant contributor to the overall California economy, it continued to experience downward pressure in general from disruption in supply chains as a result of the COVID-19 pandemic, along with persistent labor, regulation, and trade issues.

While certain commodities experienced breakeven or below prices primarily due to supply chain disruption, other products grown and produced within our loan service area (LSA) saw strong pricing due to increased product demand. Continued shipping delays coupled with increased freight costs have put downward pricing pressure on crops reliant on export markets, including almonds. The labor supply has remained adequate, with crops harvested and processed in a timely manner with limited disruption reported. Further, many of our members were able to access capital through government funded support programs including the U.S. Small Business Administration's (SBA) Payroll Protection Program and the Coronavirus Food Assistance Program, which helped offset lost revenue. Though operating margins are expected to remain tight, it is anticipated that most of our members will report positive cash flow and maintain stable financial positions. Additional commodity details can be found in the Portfolio Diversification section.

Water availability continues to be an ongoing concern in the San Joaquin Valley, as water users rely on a complex water distribution system to irrigate their crops. Growers rely on two sources of water to irrigate their crops, pumped ground water and surface water deliveries from a system of reservoirs and interconnected canals that carry water from areas that typically receive a greater amount of precipitation in the form of rain and snow. Many factors influence the amount of water that is available to farmers, including the following:

- Annual precipitation rates that in drought years may not be sufficient to fill the reservoirs that capture the spring runoff;
- Ground water legislation referred to as the Sustainable Groundwater Management Act (SGMA);
- Critical issues related to environmental demands and regulatory restrictions of water;
- Ground water quality requirements for dairy and Ag processing businesses; and,

- Continued challenges related to increased competition for existing water supplies by metropolitan / industrial users, quality control, and fisheries.

The 2020/2021 season was defined by extreme drought conditions throughout the state, resulting in the curtailment of surface water deliveries in all of the irrigation districts in the Central San Joaquin Valley. Surface water delivery seasons and allocations were cut back in all area districts, with zero surface water allocations noted for properties served by the Central Valley Project. With limited surface water supplies, those properties with irrigation wells relied on increased groundwater extractions to meet crop water demands while growers with no wells or limited groundwater supplies were forced to fallow open land acreage or resort to deficit irrigation for permanent planting crops. Management views the risks associated with drought conditions and regulations related to the implementation of the SGMA as risks that could lead to the deterioration of the loan portfolio. The full effects of the legislation will not be known for several years but will be monitored closely as implementation plans that were submitted in 2020 are analyzed.

Land values, which are strongly influenced by the profitability of the crops suitable for production, have been stable and remain well above historical averages. Areas that are dependent on groundwater are most likely to be negatively impacted by the implementation of SGMA and thus far have seen greater declines in value. Properties that have access to reliable surface water are expected to remain stable to increasing in value.

RESULT OF OPERATIONS

During 2021, we recognized net income of $24.9 million as compared to $24.3 million and $23.3 million for 2020 and 2019, respectively. The increase in 2021 is primarily due to an increase in net interest income due to increased average loan volume, an increase in patronage from our funding bank, CoBank, and a reduction in our allowance for loan losses as a result of improvements in overall credit quality. This was partially offset by an increase in our noninterest expense. The increase in net income in 2020 was primarily the result of increased loan fee income and increased patronage distributions from Farm Credit institutions. The following table reflects key performance results as of December 31:

($ in thousands)	**2021**	2020	2019
Net income	**$ 24,922**	$ 24,288	$ 23,266
Net interest income	**$ 35,300**	$ 33,184	$ 33,026
Net interest margin	**2.68%**	2.66%	2.72%
Return on average assets	**1.80%**	1.85%	1.82%
Return on average members' equity	**8.23%**	8.36%	8.28%

Change in the significant components impacting the results of operations are summarized in the following table:

($ in thousands)	**2021 vs 2020**	2020 vs 2019
Net income, prior year	**$ 24,288**	$ 23,266
Increase (decrease) due to:		
Interest income	**(1,672)**	(14,841)
Interest expense	**3,788**	14,999
Net interest income	**2,116**	158
Provision for loan losses	**733**	(138)
Noninterest income	**99**	1,705
Noninterest expense	**(2,260)**	(757)
Provision for income tax	**(54)**	54
Total increase in net income	**634**	1,022
Net income, current year	**$ 24,922**	$ 24,288

Net Interest Income

Net interest income for 2021 was $35.3 million compared with $33.2 million for 2020 and $33.0 million for 2019. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets, and cost of debt. Net interest income increased $2.1 million or 6.4% from the prior year primarily due to higher average loan volume. This was partially offset by a decrease in earnings from our loanable funds as a result of the lower interest rate environment beginning in 2020. These earnings are reflected in net interest income as a reduction to interest expense.

The following table provides an analysis of the individual components of the change in net interest income during 2021 and 2020:

($ in thousands)	**2021 vs. 2020**	2020 vs. 2019
Net interest income, prior year	**$ 33,184**	$ 33,026
Increase (decrease) due to:		
Interest rates earned	**(4,502)**	(16,721)
Interest rates paid	**4,236**	15,244
Volume of interest-bearing assets & liabilities	**1,829**	928
Interest income on nonaccrual loans	**553**	707
Increase in net interest income	**2,116**	158
Net interest income, current year	**$ 35,300**	$ 33,184

The following table illustrates net interest margin (net interest income as a percentage of average earning assets), the average interest rates on loans and debt cost, and interest rate spread.

	2021	2020	2019
Net interest margin	**2.68%**	2.66%	2.72%
Interest rate on:			
Average loan volume	**3.28%**	3.60%	4.92%
Average debt	**0.74%**	1.15%	2.69%
Interest rate spread	**2.54%**	2.45%	2.23%

As a result of the Federal Reserve managing the Fed Funds Rate, short-term interest remained at all-time lows in 2021. Fluctuations in the Fed Funds Rate can have an indirect impact on our cost of funds.

The rates the Association charges on loans indexed to variable rates remained at all-time lows during 2021, consistent with the decrease in our variable cost of funds. Our net interest margin increased from previous years primarily due to higher average loan volume and income recovered on nonaccrual loans. This was partially offset by a decrease in earnings associated with our invested capital. Our loan portfolio continues to be well diversified in Variable, Indexed Rate, and Fixed rate loan products.

Provision for Loan Losses

We monitor our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio. We recorded a loan loss reversal of $391 thousand in 2021 and a provision for loan loss of $342 thousand and $204 thousand in 2020 and 2019, respectively. The loan loss reversal recorded in 2021 was primarily the result of loan upgrades, along with updating underlying risk factors utilized for the allowance for loan losses estimate as of year-end. This was partially offset by an increase in loan volume. Further discussion of the provision for loan losses can be found in Note 3, "Loans and Allowance for Loan Losses," of the accompanying consolidated financial statements.

Noninterest Income

During 2021, we recorded noninterest income of $11.0 million, compared with $10.9 million in 2020 and $9.1 million in 2019. Noninterest income is primarily comprised of patronage distributions, which reflect patronage income on direct borrowings from CoBank as well as loan participation activity with CoBank and other Farm Credit associations. Patronage income increased compared to 2020 due to an increase in the patronage allocation from CoBank. The Association also received a larger special patronage distribution from CoBank in the current year which contributed to the increase. This was partially offset by a decrease in loan fees and an increase in note payable prepayment fees. Loan fees decreased primarily due to the conclusion of the Paycheck Protection Program (PPP) administered by the U.S. Business Administration (SBA), which officially ended on May 31, 2021. Note payable prepayment fees increased due to loan prepayments made above our allowable amount per our prepayment agreement with CoBank. The increase in borrower prepayments was driven by the lower interest rate environment.

Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and received from CoBank in the following year. CoBank patronage is distributed in cash and stock. Patronage earned from CoBank was $7.7 million in 2021, $6.5 million in 2020, and $5.9 million in 2019. This comprises 70%, 60%, and 64% of total noninterest income for 2021, 2020, and 2019, respectively.

The Association also receives patronage income from other Farm Credit entities. We may receive patronage from Farm Credit Foundations, the organization that provides our payroll and human resource services, and from loan participation activity with other Farm Credit associations.

Patronage from these entities and CoBank are included in Patronage distribution from Farm Credit institutions on the Consolidated Statements of Income.

In 2021, noninterest income was positively impacted by $473 thousand in loan fees collected related to our participation in the CARES Act – SBA Paycheck Protection Program compared to $968 thousand collected in the previous year.

Noninterest Expense

Noninterest expense for 2021 increased $2.2 million, or 12%, to $21.7 million compared with $19.5 million in 2020 primarily due to increases in salaries and employee benefits expense, information technology expense, and Farm Credit Insurance Fund premium expense. Salaries and employee benefits expense increased primarily due to annual merit increases and an increase in the accrual of short-term and long-term incentive compensation programs. The increase in information technology expense is attributable to increased service charges from our technology provider and other IT vendors. The Association's insurance premiums paid to the Farm Credit System Insurance Corporation also increased compared to prior year.

Provision for/Benefit from Income Taxes

We recorded a provision for income taxes of $2 thousand in 2021 compared to a benefit from income taxes of $52 thousand in 2020 and a provision for income taxes of $2 thousand in 2019. The provision for income taxes in 2021 and 2019 are franchise state taxes. The prior year income tax benefit was a result of the CARES Act, which allowed the Association to amend its 2013 tax return to carryback the net operating loss generated in 2018 and claim the related federal tax refund in the amount of $54 thousand, partly offset by the franchise state tax. For additional information refer to Note 10, "Income Taxes", of the accompanying consolidated financial statements.

Loan Portfolio

Total loans outstanding were $1.35 billion at December 31, 2021, an increase of $59.8 million, or 4.6%, from total loans at December 31, 2020 of $1.29 billion. Our loan volume increase was driven by new loan originations across multiple segments of the portfolio along with increased utilization of existing loan commitments. The types of loans outstanding are reflected in the following table.

As of December 31	**2021**	2020	2019
Real estate mortgage	**66%**	63%	64%
Production and intermediate-term	**19%**	21%	21%
Agribusiness:			
Cooperatives	**5%**	7%	6%
Processing and marketing	**7%**	7%	7%
Farm related business	**2%**	0%	0%
Energy	**0%**	0%	0%
Lease receivables	**1%**	2%	2%
Total	**100%**	100%	100%

Real estate mortgage loans account for 66% of total loan volume, which represents an increase of $63.7 million over the previous year. The increase is attributed to new loan originations partially offset by scheduled payments and pay downs on revolving equity lines of credit in the existing portfolio. These long-term mortgage loans are primarily used to purchase, refinance, or improve real estate. These loans have maturities ranging from 5 to 40 years.

Production and intermediate-term loans account for 19% of total loan volume. Volume in this category decreased by $5.5 million as a result of decreased utilization of seasonal lines, partially offset by new loan originations. Production loans are used to finance the timing gaps that exist in the production cycle for agricultural producers 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.

The agribusiness segment accounted for 14% of our total loan portfolio, which is consistent with prior year. The total loan volume in this category increased by $6.3 million as a result of new loan originations.

We experienced an increase in average accruing loan volume of 6.4% with average volume at $1.31 billion for 2021 compared to $1.23 billion for 2020. This was driven by new business development within both the direct loan and purchased participation portfolios, partially offset by decreased seasonal line utilization and unscheduled loan payoffs. Overall new business developed in 2021 amounted to $357 million with 74% in direct loans and 26% in participations purchased.

Portfolio Diversification

We provide loans and financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities. We manage this risk of being a single industry lender through strong credit administration and portfolio diversification. Our loan portfolio is diversified to mitigate this risk through utilization of loan participations purchased and sold, as well as diversification in geographic locations served, commodities financed, and loan size, as illustrated in the following four tables.

In order to meet the growing needs of our membership, we maintain strategic relationships that allow for the purchase of loan assets 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 manage risk related to individual loan concentrations and comply with regulatory and internal lending limits. 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. Total volume in participations purchased and sold as of December 31 follows:

($ in thousands)	**2021**	2020	2019
Purchased	**$ 340,361**	$ 340,605	$ 305,482
Sold	**$ (447,357)**	$(424,753)	$(439,362)

We primarily serve Fresno and Madera counties in the state of California. We also make loans outside of our chartered territory in accordance with concurrence agreements with other Farm Credit associations; these loans are included in "Other" in the following table, along with purchased participation volume. The geographic distribution of the loan portfolio by county as of December 31 is as follows:

Counties	**2021**	2020	2019
Fresno	**50%**	47%	47%
Madera	**17%**	18%	19%
Other	**33%**	35%	34%
Total	**100%**	100%	100%

As a percentage of the portfolio, loans originated in Fresno County increased by 3% while loans originated in Madera County decreased by 1% when compared to prior year. Loans outside of our chartered territory were diversified within geographic locations with no concentration in any one county at or exceeding 10% of total loan volume.

Commodity and industry categories are 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.

The following table shows the primary agricultural commodities produced by our borrowers as of December 31:

Commodities	**2021**	2020	2019
Almonds	**33%**	31%	29%
Agribusiness	**17%**	19%	19%
Tree fruit	**10%**	10%	11%
Pistachios	**8%**	7%	6%
Raisins	**7%**	7%	8%
Wine & table grapes	**6%**	6%	8%
Dairy	**5%**	5%	6%
Vegetables & melons	**4%**	5%	5%
Other	**10%**	10%	8%
Total	**100%**	100%	100%

Overall, we maintain a well-diversified loan portfolio. Repayment ability of our borrowers is closely related to their debt leverage and to the production and profitability of the commodities they produce. 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 may be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities impacted and the magnitude and duration of the adverse agricultural conditions to our borrowers. Our risk in commodity concentrations is reduced by the fact that many of our borrowers are diversified into multiple commodities. Almonds comprise 33% of our loan portfolio. While almond growers enjoyed strong pricing for many years, recent record crop sizes, combined with reduced exports mainly attributed to supply chain challenges and increased shipping costs, have negatively impacted prices. Though the current pricing remains above breakeven for many growers, operations with higher cost structures (including elevated water costs and high debt service requirements) may see tighter margins and could be more susceptible to operating losses. Ongoing export issues may keep prices sluggish in the short term, although the industry has historically been successful in working through inventory surpluses. Management continues to closely monitor the economics of the industry, and work with borrowers who are experiencing operational challenges.

Agribusiness represents 17% of our loan portfolio, though the segment is highly diversified between different industries. Generally, the agribusinesses that are doing well are those that have formed alliances directly with the food or fiber retailers and/or wholesalers. They are able to provide flexible customized packages of product or bulk commodities when and where the buyer needs them. Additionally, costs are more controlled due to the economies of scale achieved through increased throughput.

Tree fruit represents 10% of our total portfolio, which is consistent with prior year-end. The tree fruit industry can be volatile from year-to-year, with returns to growers improving in 2021 coming off below average results the previous two years. Product demand attributed to government support programs and a shift in consumer purchasing have resulted in stronger prices with most of our tree fruit growers reporting preliminary earnings that support a return to profitability.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers who 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.

Our portfolio is also diversified through loan size. The table below details loan principal by dollar size as of December 31.

	Amount outstanding		
($ in thousands)	**2021**	2020	2019
$1 - $250	**$ 60,590**	$ 66,369	$ 57,550
$251 - $500	**105,718**	104,805	99,405
$501 - $1,000	**174,317**	163,801	156,193
$1,001 - $5,000	**701,371**	658,335	605,888
$5,001 - $25,000	**309,415**	298,258	306,639
Total	**$ 1,351,411**	$ 1,291,568	$ 1,225,675

	Number of loans		
($ in thousands)	**2021**	2020	2019
$1 - $250	**598**	669	573
$251 - $500	**293**	284	273
$501 - $1,000	**239**	227	218
$1,001 - $5,000	**336**	315	288
$5,001 - $25,000	**41**	40	42
Total	**1,507**	1,535	1,394

The principal balance outstanding at December 31, 2021 for loans $500 thousand and less account for 12.3% of loan volume but 59% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. Loans above $5 million comprise 23% of our loan volume and are attributable to 41 loans. Due to their size, financial deterioration or the loss of volume within a combination of large loans may adversely affect the portfolio and our future operating results. As such, we closely monitor all large loans.

Through Federal Agricultural Mortgage Corporation (Farmer Mac), we have reduced the credit risk of certain long-term real estate loans by entering into agreements that provide long-term standby purchase commitments in the event of default. Under this program, we continue to hold the loans in our portfolio, and we pay commitment fees to Farmer Mac for the right to sell a loan designated in these agreements to Farmer Mac in the event the loan becomes significantly delinquent (typically four months past due). If the borrower cures the default, we must repurchase the loan and the commitment remains in place. Farmer Mac long-term standby purchase commitment agreements are further described in Note 3, "Loans and Allowance for Loan Losses". Other than the contractual obligations arising from these business transactions with Farmer Mac, Farmer Mac is not liable for any debt or obligation of ours and we are not liable for any debt or obligation of Farmer Mac. For more information on Farmer Mac, refer to its website at www.farmermac.com. The amount of loans subject to these Farmer Mac credit enhancements was $5.1 million at December 31, 2021, $12.7 million at December 31, 2020, and $16.8 million at December 31, 2019. The decrease in 2021 is primarily due to paydowns on loans subject to Farmer Mac credit enhancements. Included in other operating expenses were fees paid for these Farmer Mac commitments totaling $43 thousand in 2021, $52 thousand in 2020, and $97 thousand in 2019.

In addition, we obtained Federal Guarantees through the Farm Service Agency and State of California Guarantees through Valley Small Business Development Corporation. Additionally in 2020 and 2021, the Association originated loans made available through PPP, which include a 100% guarantee from the SBA. The Association originated 76 and 138 PPP loans with an aggregate volume of $11.0 million and $28.6 million in 2021 and 2020, respectively.

In the event of default, Federal Guarantees cover a specific percent of principal and interest due on the loan while State Guarantees cover a specific percent of principal and the same percentage of post-default interest (up to ninety days from the default date). The Association had guaranteed volume with government agencies outstanding of $12.4 million at year-end 2021, $26.1 million at year-end 2020, and $5.0 million at year-end 2019. The decrease in 2021 is due to the repayment and/or forgiveness of SBA PPP loans during the year.

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 table below summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2021.

($ in thousands)	Commitments to extend credit	Standby letters of credit	Total commitments
Less than 1 year	$ 143,413	$ 7,392	$ 150,805
1 – 3 years	154,774	-	154,774
3 – 5 years	68,280	-	68,280
Over 5 years	228,414	-	228,414
Total	$ 594,881	$ 7,392	$ 602,273

The total commitments do not necessarily represent future cash requirements since many of these commitments are expected to expire without being drawn upon. However, these credit-related financial instruments have off-balance sheet credit risk because their contractual amounts are not reflected on the Consolidated Statements 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, as deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments.

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. Our high risk assets are primarily comprised of nonaccrual loans. Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or interest. Comparative information regarding high risk assets (including related accrued interest) in the portfolio as of December 31 follows:

($ in thousands)	2021	2020	2019
Nonaccrual loans:			
Real estate mortgage	$ 396	$ 2,567	$ 7,159
Production and intermediate-term	-	-	3,895
Agribusiness	1,630	2,528	3,155
Total nonaccrual loans	2,026	5,095	14,209
Accruing restructured loans	-	-	-
Accruing loans 90 days past due	-	-	-
Total impaired loans	2,026	5,095	14,209
Other property owned	-	-	-
Total high risk assets	$ 2,026	$ 5,095	$ 14,209
Nonaccrual loans to total loans	0.15%	0.39%	1.16%
High risk assets to total loans	0.15%	0.39%	1.16%
High risk assets to total members' equity	0.68%	1.76%	5.12%

Total high risk assets decreased $3.1 million to $2.0 million as of December 31, 2021 from $5.1 million as of December 31, 2020. High risk assets decreased primarily due to the paydowns of nonaccrual loans. For the years ended December 31, 2021, 2020, and 2019, there were four, eight, and sixteen loans classified as nonaccrual, respectively.

The following table provides additional information on nonaccrual loans as of December 31.

($ in thousands)	2021	2020	2019
Nonaccrual loans current	$ 2,026	$ 2,315	$ 2,991
Nonaccrual loans past due	-	2,780	4,880
Cash basis nonaccrual loans	-	-	6,338
Total nonaccrual loans	$ 2,026	$ 5,095	$ 14,209

Other property owned is real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure, or other means. We had no other property owned at December 31, 2021, 2020, or 2019.

Credit Quality

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS), which is used by all Farm Credit System institutions. Below 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 to substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents statistics related to credit quality of the loan portfolio including accrued interest at December 31:

	2021	2020	2019
Acceptable	94.82%	93.40%	94.61%
OAEM	4.15%	4.99%	2.56%
Substandard	1.03%	1.61%	2.83%
Doubtful	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%

During 2021, overall credit quality increased slightly with loans classified as "Acceptable" and "OAEM" accounting for 98.97% of volume at December 31, 2021 compared to 98.39% at December 31, 2020. The slight decrease in "OAEM" and "Substandard" volume was attributed to a moderate improvement to the operating results of our members, which led to a net upgrade of volume to the "Acceptable" classification. We had no loans classified as Doubtful or Loss in 2021, 2020, or 2019. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans were at 0.0% at December 31, 2021, 2020, and 2019.

To ensure the quality of our loan portfolio remains strong, we maintain a safe credit culture with robust underwriting standards. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs, and commodity prices, each of which can be significantly impacted by uncontrollable events. While credit quality has remained strong, less favorable economic conditions, including impacts driven by the ongoing COVID-19 pandemic, have led to softening prices in certain commodities, which is expected to cause tighter operating margins for some of our borrowers. This could lead to some portfolio deterioration and lower credit quality than achieved in recent years. We believe our robust capital position, adequate allowance for loan loss, and effective credit administration will allow us to successfully manage this risk.

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:

($ in thousands)	2021	2020	2019
Balance at beginning of year	$ 7,370	$ 6,927	$ 6,787
Charge-offs:			
Real estate mortgage	-	-	32
Production and intermediate-term	-	1	33
Total Charge-offs	-	1	65
Recoveries:			
Real estate mortgage	33	-	-
Production and intermediate-term	-	102	1
Total Recoveries	33	102	1
Net (recoveries) charge-offs	(33)	(101)	64
(Loan loss reversal)/provision for loan losses	(391)	342	204
Balance at December 31	$ 7,012	$ 7,370	$ 6,927
Net (recoveries) charge-offs to average net loans	(<0.01%)	(0.01%)	0.01%

The following table presents the allowance for loan losses by loan type as of December 31:

($ in thousands)	2021	2020	2019
Real estate mortgage	$ 680	$ 386	$ 410
Production and intermediate-term	3,943	4,874	3,919
Agribusiness	1,993	1,675	1,311
Energy	-	-	87
Lease receivables	396	435	1,200
Total	$ 7,012	$ 7,370	$ 6,927

The allowance for loan losses decreased $358 thousand to $7.0 million as of December 31, 2021 from $7.4 million as of December 31, 2020. The decrease in the allowance was primarily the result of loan upgrades, along with updating underlying risk factors utilized for the allowance for loan losses estimate as of year-end. This was partially offset by an increase in loan volume.

Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table:

	2021	2020	2019
Allowance as a percentage of:			
Total Loans	0.52%	0.57%	0.57%
Nonaccrual Loans	346.10%	144.65%	48.75%
High Risk Loans	346.10%	144.65%	48.75%

The overall allowance as a percentage of loans has decreased to 0.52% at December 31, 2021 compared to 0.57% at December 31, 2020 and December 31, 2019. The Association continues to provide an adequate and sound allowance for loan losses. Further discussion of the Allowance can be found in Note 3, "Loans and Allowance for Loan Losses," of the accompanying consolidated financial statements.

We maintain a separate reserve for unfunded commitments, which is included in Other liabilities on the Consolidated Statements of Condition. The related provision for the reserve for unfunded commitments is included as part of other noninterest expense on the Consolidated Statements of Income.

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 developed and 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 are updated periodically to reflect market and industry conditions.

By regulation, loan commitments to one borrower cannot be more than 15% of our regulatory capital. To further mitigate loan concentration risks, we have established internal lending limits that are below the regulatory requirements that are based on the risk associated with individual borrowers.

Exposure through loan participations are further limited by parameters based on specific business relationships.

We have established internal lending delegations to properly control the loan approval process. All approvals require a minimum of two voters, with increased voter participation required based on loan size, complexity, type, and risk. Larger and more complex loans or loans perceived to have higher risk are typically approved by our Executive 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 also typically secured by crops, livestock, equipment, and real estate. Collateral evaluations are completed in compliance with FCA and Uniform Standards of Professional Appraisal Practices requirements, with all collateral appraised at market value. All collateral evaluations must be performed by a qualified appraiser, with certain appraisals required to 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

We are committed to sound and constructive financing. We believe these standards, processes, and tools allow us to maintain a successful credit administration function. This has allowed us to maintain high credit quality throughout the various economic cycles.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Obligations that require liquidity include paying our note with CoBank, funding loans and other commitments, and funding operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction, and liquidate nonearning assets expeditiously. Our direct loan with CoBank, cash on hand, and loan repayments provide adequate liquidity to fund ongoing 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 the Bank 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 that is subject to periodic renewal in accordance with normal business practices. The annual average principal balance of the note payable to CoBank was $1.02 billion in 2021, $944.2 million in 2020, and $914.3 million in 2019.

We plan to continue to fund lending operations through the utilization of our funding arrangement with CoBank, retained earnings from current and prior years, and from borrower stock investments. CoBank's primary source of funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Banks Funding Corporation (Funding Corporation).

Due to the Funding Corporation's effectiveness, 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. The Association's continued liquidity is directly dependent upon the Farm Credit System's ability to sell debt securities at competitive rates and the Association maintaining a sound financial position and borrowing relationship with CoBank. We anticipate continuation of strong liquidity levels that will be adequate to meet our obligations.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank and 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 portions of our loanable funds at fixed rates through CoBank. These earnings are reflected in net interest income as a reduction to interest expense. This enables us to increase our earnings without significantly increasing our overall interest rate risk position.

Funds Management

We offer competitively priced variable, fixed, adjustable, and Prime-based rate loans to borrowers. The Association has a differential pricing model based on loan size, type, credit quality, financial condition, and risk. The Board's fiduciary responsibility is to provide our members with the most competitive pricing possible while maintaining the short and long term fiscal integrity of the Association. Our Asset Liability Management Committee, under the direction of our Board of Directors, determines the interest rate charged based on the following factors: 1) the interest rate charged by CoBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability and capital objectives.

Uncertainty Surrounding the Future of LIBOR

The Association recognizes that the discontinuance of LIBOR represents significant risks and challenges that could have an impact to our business. In 2020, in accordance with the Informational Memorandum issued by the FCA, the Association established a workgroup under the guidance of our Asset Liability Management Committee, that is responsible for adopting and managing a LIBOR transition plan, with objectives that include the following: reducing LIBOR exposures; stopping the inflow of new LIBOR volume; development of alternative reference rate loan products; assess, and if necessary, revise fallback language in LIBOR indexed loans; assess operational processes, including accounting and management information systems, ability to support alternative rate products; and communicate with our customers as appropriate.

In December 2021, the FCA issued another informational memorandum to provide additional guidance to Farm Credit System institutions on their transition away from LIBOR. The guidance encourages Farm Credit System institutions to stop entering into new contracts that reference LIBOR as soon as practicable and in any event no later than December 31, 2021. Entering into new LIBOR-reference contracts after that date would present safety and soundness risk. The guidance also provides clarity on what the FCA considers a new LIBOR-indexed contract; whether purchases of legacy LIBOR-indexed loans and investments are deemed new contracts; limited exceptions for entering into new LIBOR contracts that reduce or hedge risk in legacy LIBOR contracts; and the due diligence and other procedures required before using other benchmark/reference rate alternatives to LIBOR, beyond the Secured Overnight Financing Rate (SOFR), including credit-sensitive alternative rates.

On November 30, 2020, the Prudential Regulators (Federal Reserve, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency) issued a statement to encourage banks to transition away from LIBOR as soon as practicable. The Prudential Regulators believe entering into new contracts that use LIBOR as a reference rate after December 31, 2021, would create safety and soundness risks and will examine bank practices accordingly. Therefore, the Prudential Regulators encourage banks to cease entering into new contracts that use LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021. New contracts entered into before December 31, 2021 should either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate after LIBOR's discontinuation.

On October 20, 2021, the Prudential Regulators issued another statement to reemphasize the expectation that supervised institutions with LIBOR exposure continue to progress towards an orderly transition away from LIBOR. Given LIBOR's discontinuance, the agencies believe that entering into new contracts, including derivatives, that use LIBOR as a reference rate after December 31, 2021, would create safety and soundness risks, including litigation, operations, and consumer protection risks. The Prudential Regulators further clarified a new contract would include an agreement that creates additional LIBOR exposure for a supervised institution or extends the term of an existing LIBOR contract. A draw on an existing agreement that is legally enforceable, for example, a committed credit facility would not be viewed as a new contract.

In the United States, the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York approved the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR and the Federal Reserve Bank of New York began publishing SOFR in April of 2018. In July 2021, the ARRC recommended the CME Group's forward looking SOFR term rates, which provides a key tool to market participants as the end of LIBOR approaches.

The Association has exposure to various LIBOR-indexed financial instruments that mature after 2021. This exposure includes loans made to our customers, and loans purchased from other entities. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the terms of the financial instruments. Beginning in 2020, the Association worked closely with our borrowers to convert LIBOR loans to an alternative interest rate product, with only one loan remaining priced on LIBOR as of December 31, 2021. The principal balance outstanding for loans priced on LIBOR decreased $18.5 million to $591 thousand as of December 31, 2021, from $19.1 million as of December 31, 2020. The Association also participates in district level LIBOR transition workgroups that are tasked with creating alternative SOFR based interest rate products, as well as working with our technology service provider to ensure adequate capabilities will be in place to support new alternative interest rate products. Additionally, in 2020, the Association replaced the LIBOR component of our variable cost of funds with a SOFR product on a quarterly basis, with the LIBOR component completely replaced by SOFR as of December 31, 2020. The impact of this transition to our variable cost of funds was not material as the SOFR rate trended lower than LIBOR as of December 31, 2020.

We will continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational, and compliance risks. At this time, we are unable to completely predict when LIBOR will become unrepresentative. However, the Association has assessed the risk associated with the LIBOR transition and does not consider it will have a material financial impact, with most of the effort undertaken being operational in nature.

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 cyclical nature of agriculture. We have been able to build capital primarily through net income retained after patronage.

Members' equity at December 31, 2021 totaled $300.1 million, compared with $289.3 million at December 31, 2020 and $277.7 million at December 31, 2019. Members' equity includes stock purchased by our members and retained earnings accumulated through net income less patronage distributed to members. Refer to Note 8, "Members' Equity", of the accompanying consolidated financial statements for additional information related to our capital and related requirements and restrictions.

Our capital position is reflected in the following ratio comparisons:

	2021	2020	2019
Debt to members' equity	**3.75:1**	3.71:1	3.70:1
Members' equity as a % of net loans	**22.32%**	22.53%	22.78%
Members' equity as a % of total assets	**21.05%**	21.22%	21.26%

Retained Earnings

Our retained earnings increased $10.8 million to $299.3 million at December 31, 2021 from $288.5 million at December 31, 2020. The increase was a result of net income of $24.9 million partially offset by a $14.1 million patronage distribution declared.

Patronage Program

We have a patronage program that allows us to distribute a portion of our net earnings to our members. This program provides for the allocation of net earnings in the manner described in our Bylaws. When determining the amount and method of patronage to be distributed, the Board considers the setting aside of funds to increase retained earnings in order to (1) meet capital adequacy standards established by Farm Credit regulations, (2) meet our internal capital adequacy standards to support competitive pricing at targeted earnings levels, and (3) maintain reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of $9.4 million in 2021, $15.8 million in 2020, and $10.4 million in 2019. In 2020, the Association distributed a partial advance of the 2020 patronage dividend in September 2020 totaling $3.3 million in order to provide members earlier access to these funds due to the COVID-19 pandemic. The Association distributed the remaining balance of $9.4 million in March 2021. During 2021, we declared patronage distributions of $14.1 million to be paid in March 2022.

Stock

Our total stock and participation certificates increased $3 thousand to $760 thousand at December 31, 2021 from $757 thousand at December 31, 2020. We require a one thousand dollar stock investment for each borrower.

Capital Plan and Regulatory Requirements

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors.

FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

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

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

	December 31, 2021	Regulatory Minimum	Capital Conservation Buffer	Total
Risk Adjusted:				
Common equity tier 1 ratio	**16.74%**	4.50%	2.5%	7.00%
Tier 1 capital ratio	**16.74%**	6.00%	2.5%	8.50%
Total capital ratio	**17.21%**	8.00%	2.5%	10.50%
Permanent capital ratio	**16.81%**	7.00%	–	7.00%
Non-risk-adjusted:				
Tier 1 leverage ratio	**19.41%**	4.00%	1.00%	5.00%
Unallocated retained earnings and equivalents leverage ratio	**20.64%**	1.50%	–	1.50%

As shown in the table above, the Association exceeded the minimum regulatory requirements. The 2021 capital ratios also exceed the minimum targets established by the Board.

We do not foresee any future events that would materially impact our capital adequacy in an adverse manner. Due to our strong capital position, we anticipate that we will be able to continue retiring at-risk stock.

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

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

REGULATORY MATTERS

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

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, refer to Note 2, "Summary of Significant Accounting Policies", of the accompanying consolidated financial statements. The development and selection of critical policies, and related disclosures, have been reviewed by our Audit Committee. The following is a summary of critical policies relating to determination of the Allowance for Loan Losses:

Allowance for Loan Losses

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. We determine the allowance for loan losses based on a regular evaluation of the loan portfolio, 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. For detailed information regarding the allowance for loan losses refer to Notes 2 and 3, "Summary of Significant Accounting Policies" and "Loans and Allowance for Loan Losses," of the accompanying consolidated financial statements.

FORWARD-LOOKING STATEMENTS

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. 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, 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.

Report of Independent Auditors

To the Board of Directors of Fresno Madera Farm Credit, ACA

Opinion

We have audited the accompanying consolidated financial statements of Fresno Madera Farm Credit, ACA and its subsidiaries (the “Association”), which comprise the consolidated statements of condition as of December 31, 2021, 2020 and 2019, and the related consolidated statements of income, changes in members’ equity and cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the 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

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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 2021 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

March 16, 2022

Consolidated Statements of Condition

Dollars in Thousands

	December 31		
	2021	2020	2019
ASSETS			
Loans	**$ 1,351,411**	$ 1,291,568	$ 1,225,675
Less allowance for loan losses	**7,012**	7,370	6,927
Net loans	**1,344,399**	1,284,198	1,218,748
Cash	**1,159**	4,418	10,137
Accrued interest receivable	**15,078**	14,434	20,872
Investment in CoBank, ACB	**40,876**	40,398	38,703
Premises and equipment, net	**6,188**	5,574	5,596
Other assets	**17,721**	14,490	11,879
Total assets	**$ 1,425,421**	$ 1,363,512	$ 1,305,935
LIABILITIES			
Note payable to CoBank, ACB	**$ 1,059,017**	$ 1,009,100	$ 946,569
Funds held	**47,066**	51,251	64,260
Accrued interest payable	**309**	402	1,334
Patronage distributions payable	**14,121**	9,387	12,539
Other liabilities	**4,798**	4,066	3,567
Total liabilities	**1,125,311**	1,074,206	1,028,269
Commitments and Contingencies (See Note 14)			
MEMBERS' EQUITY			
Capital stock and participation certificates	**760**	757	755
Unallocated retained earnings	**299,350**	288,549	276,911
Total members' equity	**300,110**	289,306	277,666
Total liabilities and members' equity	**$ 1,425,421**	$ 1,363,512	$ 1,305,935

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

Consolidated Statements of Income

Dollars in Thousands

	For the Year Ended December 31		
	2021	2020	2019
INTEREST INCOME			
Loans	**$ 43,206**	$ 44,878	$ 59,719
INTEREST EXPENSE			
Note payable to CoBank, ACB	**7,869**	11,305	24,962
Funds held	**37**	389	1,731
Total interest expense	**7,906**	11,694	26,693
Net interest income	**35,300**	33,184	33,026
(Loan loss reversal) provision for loan losses	**(391)**	342	204
Net interest income after (loan loss reversal) provision for loan losses	**35,691**	32,842	32,822
NONINTEREST INCOME			
Financially related services income	**184**	234	334
Loan fees	**1,129**	1,540	500
Note payable prepayment fees	**(435)**	(9)	-
Patronage distribution from Farm Credit institutions	**9,795**	8,594	7,888
Farm Credit Insurance Fund rebate	**-**	258	272
Other noninterest income	**280**	237	155
Total noninterest income	**10,953**	10,854	9,149
NONINTEREST EXPENSE			
Salaries and employee benefits	**11,952**	11,269	10,491
Occupancy and equipment	**713**	577	501
Farm Credit Insurance Fund premium	**1,521**	845	788
Information technology	**4,572**	4,091	3,698
Supervisory and examination costs	**472**	464	453
Other noninterest expense	**2,490**	2,214	2,772
Total noninterest expense	**21,720**	19,460	18,703
Income before income taxes	**24,924**	24,236	23,268
Provision for (benefit from) income taxes	**2**	(52)	2
Net income	**$ 24,922**	$ 24,288	$ 23,266

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

Consolidated Statements of Changes in Members' Equity

Dollars in Thousands

	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Total Members' Equity
Balance at December 31, 2018	$ 774	$ 266,184	$ 266,958
Net income		23,266	23,266
Capital stock and participation certificates issued	56		56
Capital stock and participation certificates retired	(75)		(75)
Patronage Distributions: Cash		(12,539)	(12,539)
Balance at December 31, 2019	$ 755	$ 276,911	$ 277,666
Net income		24,288	24,288
Capital stock and participation certificates issued	73		73
Capital stock and participation certificates retired	(71)		(71)
Patronage Distributions: Cash		(12,650)	(12,650)
Balance at December 31, 2020	$ 757	$ 288,549	$ 289,306
Net income		**24,922**	**24,922**
Capital stock and participation certificates issued	**78**		**78**
Capital stock and participation certificates retired	**(75)**		**(75)**
Patronage Distributions: Cash		**(14,121)**	**(14,121)**
Balance at December 31, 2021	**$ 760**	**$ 299,350**	**$ 300,110**

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

Consolidated Statements of Cash Flows

Dollars in Thousands

	For the Year Ended December 31		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 24,922**	$ 24,288	$ 23,266
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**739**	663	632
(Loan loss reversal) provision for loan losses	**(391)**	342	204
Stock patronage from CoBank, ACB	**(479)**	(493)	(492)
Gain on disposal of premises and equipment	**(92)**	(49)	(8)
Change in assets and liabilities:			
(Increase) decrease in accrued interest receivable	**(644)**	6,438	1,319
Increase in other assets	**(3,230)**	(2,625)	(1,618)
Decrease in accrued interest payable	**(93)**	(932)	(435)
Increase (decrease) in other liabilities	**732**	499	(1,547)
Total adjustments	**(3,458)**	3,843	(1,945)
Net cash provided by operating activities	**21,464**	28,131	21,321
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net (increase) decrease in loans	**(59,810)**	(65,792)	21,558
Increase stock in CoBank, ACB	**-**	(1,188)	(1,369)
Proceeds from sale of premises and equipment	**98**	49	8
Purchase of premises and equipment	**(1,359)**	(641)	(237)
Net cash (used in) provided by investing activities	**(61,071)**	(67,572)	19,960
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on (repayment of) note payable to CoBank, ACB	**50,352**	62,540	(29,582)
Note payable prepayment fees	**(435)**	(9)	-
Net decrease in funds held	**(4,185)**	(13,009)	(1,671)
Capital stock and participation certificates retired	**(75)**	(71)	(75)
Capital stock and participation certificates issued	**78**	73	56
Cash patronage distributions paid	**(9,387)**	(15,802)	(10,402)
Net cash provided by (used in) financing activities	**36,348**	33,722	(41,674)
Net decrease in cash	**(3,259)**	(5,719)	(393)
Cash at beginning of year	**4,418**	10,137	10,530
Cash at end of year	**$ 1,159**	$ 4,418	$ 10,137
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid (received) during the year for:			
Interest	**$ 7,999**	$ 12,626	$ 27,128
Income taxes, net of refunds	**$ (22)**	$ 2	$ 2
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:			
Cash patronage distributions payable	**$ 14,121**	$ 9,387	$ 12,539

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

Notes to Consolidated Financial Statements

Dollars in Thousands, Except as Noted

1. Organization and Operations

Organization

Fresno Madera Farm Credit, ACA and its wholly-owned subsidiaries, Fresno Madera Federal Land Bank Association, FLCA (FLCA), and Fresno Madera 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/members for qualified agricultural purposes in the counties of Fresno and Madera in the state of California.

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

CoBank, ACB (funding bank or the Bank), its related associations (including Fresno Madera Farm Credit, ACA) 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. The CoBank District consists of CoBank, 20 Agricultural Credit Associations (ACA), which each have two wholly-owned subsidiaries, a FLCA and a PCA, and AgVantis.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and 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 System-wide 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.

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 serves as an intermediary in offering related services to our borrowers, such as credit life insurance and multi-peril crop insurance, and providing additional services to borrower such as funds held accounts, lease placement, and appraisal services.

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.

Upon request, stockholders of the Association will be provided with a CoBank Annual Report to Stockholders, which includes the combined financial statements of the Bank and its related Associations. The Association's financial condition may be impacted by factors that affect the Bank. The CoBank Annual Report discusses the material aspects of the 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.

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 4635 W. Spruce, P.O. Box 13069, Fresno, California 93794-3069 or by calling (559) 277-7000. Upon request, Association members will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of the Bank's and District's financial condition, changes in financial condition, and results of operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires Association Management (Management) to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements. Actual results may differ from these estimates. Significant estimates are discussed in these footnotes as applicable.

The consolidated financial statements include the accounts of Fresno Madera Farm Credit, ACA; and its wholly-owned subsidiaries, Fresno Madera FLCA and Fresno Madera PCA. All significant inter-company transactions have been eliminated in consolidation.

Recently Issued Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, 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 this new standard as it related to loans in the first quarter of 2021. The impact of adoption was not material to the Association's financial condition or its results of operations.

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

Loans and Allowance for Loan Losses
Long-term real estate mortgage loans generally have original maturities ranging from five to 25 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. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. 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.

Impaired loans are loans for which it is probable that principal and interest will not 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.

Impaired 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 , have been initiated to collect the outstanding principal and interest. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

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

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 applied against accrued interest receivable and then the remainder is recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The Association purchases loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk. Additionally, the Association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. Loans are accounted for following the accounting requirements for sale treatment.

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. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of those circumstances. 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.

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.

Investment in CoBank

The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.00 percent of the prior five-year average of direct loan volume. The investment in CoBank is comprised of patronage-based stock and purchased stock.

Premises and Equipment

Land is carried at cost and premises and equipment are carried at cost less accumulated depreciation. We capitalize software meeting certain criteria and carry these assets at cost less accumulated amortization. Depreciation and amortization is determined principally by the straight-line method over the estimated useful lives of the assets. Estimated useful lives for buildings are 40 years and range from 3 to 7 years for furniture, equipment, and automobiles. Estimated useful life for software ranges from 3 to 5 years. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed and improvements above certain thresholds are capitalized. Fixed assets under construction represent construction in progress and are recorded in a similar named account. They remain in such an account until the assets are put in service, at which time the costs of these assets are transferred into their respective premises and equipment accounts to be depreciated. The Association purchases certain software to enhance or perform internal business functions. Software development costs, as well as costs for software that is part of a cloud computing arrangement incurred in the preliminary and post-implementation project stages are charged to noninterest expense. Costs associated with designing software configuration, installation, coding programs, and testing systems are capitalized and amortized using the straight-line method over 3 to 5 years. Long-lived assets are reviewed for impairment whenever events or circumstances indicate the carrying amount of an asset group may not be recoverable.

Other Assets and Other Liabilities
Other assets are comprised primarily of accounts receivable, prepaid expenses, and equity investments. Equity investments classified within other assets primarily includes the Association's limited partnership in Rural Business Investment Companies (RBICs), investment in the Farm Credit System Association Captive Insurance Corporation, and investments in Farm Credit institutions other than CoBank. Other liabilities primarily include Insurance Fund premiums payable, accounts payable, employee benefits, and reserve for unfunded commitments.

Funds Held
The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. Amounts received are recorded in the Consolidated Statements of Condition as interest-bearing liabilities. Borrowers generally have unrestricted access to these amounts. Funds Held accounts are not insured. Interest is generally paid by the Association on Funds Held accounts.

Employee Benefit Plans
Substantially all employees of the Association participate in the Eleventh District Defined Benefit Retirement Plan (Defined Benefit Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (Defined Contribution Plan).

The Defined Benefit Plan is a noncontributory multi-employer defined benefit retirement plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Defined Benefit Plan was closed to employees hired after December 31, 1997.

The Defined Contribution Plan has two components. Employees who do not participate in the Defined Benefit Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions.

Employees hired on or after January 1, 1998 are eligible to participate only in the Defined Contribution Plan and Salary Deferral Plan. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also provides certain health and life insurance benefits to eligible current and retired employees through the Farm Credit Foundations Retiree Medical and Retiree Life Plans. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the Association. The anticipated costs of these benefits are accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

Further discussion of the Employee Benefit Plans can be found in Note 11, "Employee Benefit Plans".

Patronage Distribution from CoBank

Patronage distributions from CoBank are accrued by the Association in the year earned.

Income Taxes

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

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.

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

Advertising Costs

The Association expenses advertising costs as they are incurred. For the years ended December 31, 2021, 2020, and 2019, advertising costs included in other noninterest expense were $88, $94, and $101, respectively.

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 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 certain impaired loans and loans acquired in an acquisition or merger and other property owned. The fair value disclosures are reported in Note 15, "Fair Value Measurements."

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.

We maintain a reserve for unfunded commitments at a level that, in the opinion of Management, is adequate to absorb probable losses associated with the Association's commitment to lend funds under these agreements. The reserve 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, and current production conditions. These estimates are evaluated regularly to determine if any necessary increases or decreases to the reserve are warranted, and changes in the reserve are reflected in the provision for unfunded commitments and included in noninterest expense on the Consolidated Statements of Income. Further discussion of the reserve for unfunded commitments can be found in Note 14, "Commitments and Contingencies."

Dollars in Thousands, Except as Noted

3. Loans and Allowance for Loan Losses

A summary of loans follows:

As of December 31	2021	2020	2019
Real estate mortgage	**$ 881,129**	$ 817,439	$ 783,124
Production and intermediate-term	**259,859**	265,319	254,647
Agribusiness:			
Cooperatives	**68,930**	87,497	72,807
Processing and marketing	**101,080**	94,777	82,234
Farm-related business	**22,246**	3,637	2,251
Energy	**-**	-	5,311
Lease receivables	**18,167**	22,899	25,301
Total loans	**$ 1,351,411**	$ 1,291,568	$ 1,225,675

Unamortized deferred loan fees and costs totaled $3.6 million, $3.8 million, and $3.8 million as of December 31, 2021, 2020, and 2019, respectively.

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. We account for these transfers of financial assets as sales when control over the transferred financial assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from us, (2) the transferee has the right to pledge or exchange the assets (or beneficial interests) it received, free of conditions that constrain it from taking advantage of that right, and (3) we do not maintain effective control over the transferred financial assets or third-party beneficial interest related to those transferred assets. No gain or loss has been recognized by us on the sale of these participation interests. The following table presents information regarding participations purchased and sold as of December 31, 2021:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 150,185	$ 213,835	$ -	$ -	$ 150,185	$ 213,835
Production and intermediate-term	21,870	174,457	-	-	21,870	174,457
Agribusiness	143,499	59,065	6,640	-	150,139	59,065
Lease receivables	18,167	-	-	-	18,167	-
Total loans	$ 333,721	$ 447,357	$ 6,640	$ -	$ 340,361	$ 447,357

A substantial portion of the Association's loans are collateralized. Accordingly, the Association's exposure to credit loss associated with lending activities is considerably less than the recorded loan balances. An estimate of the Association's current loss exposure is indicated in the consolidated financial statements in the allowance for loan losses.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on Management's credit evaluation of the borrower.

Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed or enhanced by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

The Association has obtained credit enhancements by entering into Standby Commitment to Purchase Agreements (Agreements) with the Federal Agricultural Mortgage Corporation (Farmer Mac), covering loans with principal balance outstanding of $5.1 million, $12.7 million, and $16.8 million at December 31, 2021, 2020, and 2019, respectively. The decrease in 2021 and 2020 is primarily due to paydowns on loans subject to Farmer Mac credit enhancements. Under the Agreements, Farmer Mac agrees to purchase loans from the Association in the event of default (typically four months past due), subject to certain conditions, thereby mitigating the risk of loss from covered loans. In return, the Association pays Farmer Mac commitment fees based on the outstanding balance of loans covered by the Agreements. Such fees, totaling $43 for 2021, $52 in 2020 and $97 in 2019 are reflected in noninterest expense.

In addition, the Association obtains Federal Guarantees through the Farm Service Agency and U.S. Small Business Administration (SBA) and State of California Guarantees through Valley Small Business Development Corporation. In the event of default, Federal Guarantees cover a specific percent of principal and interest due on the loan while State guarantees cover a specific percent of principal and the same percentage of post-default interest (up to ninety days from the default date). The Association had guaranteed volume with government agencies outstanding of $12.4 million, $26.1 million, and $5.0 million at December 31, 2021, 2020, and 2019, respectively. Guaranteed volume decreased in 2021 due to the conclusion of the CARES Act – SBA Paycheck Protection Program (PPP), which officially ended on May 31, 2021, along with the repayment and/or forgiveness of PPP loans during the year.

The Association's participation in this program generated 76 PPP loans with an aggregate volume of $11.0 million in 2021 compared to 138 PPP loans with an aggregate volume of $28.6 million in 2020.

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; and,
- Loss – assets are considered uncollectible.

Dollars in Thousands, Except as Noted

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

As of December 31	2021	2020	2019
Real estate mortgage			
Acceptable	**97.04%**	95.77%	96.17%
OAEM	**1.98%**	3.15%	1.41%
Substandard	**0.98%**	1.08%	2.42%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**90.25%**	87.26%	91.37%
OAEM	**8.38%**	9.25%	4.40%
Substandard	**1.37%**	3.49%	4.23%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**90.24%**	90.84%	95.30%
OAEM	**8.86%**	7.71%	2.55%
Substandard	**0.90%**	1.45%	2.15%
Total	**100.00%**	100.00%	100.00%
Energy			
OAEM	**0.00%**	0.00%	100.00%
	0.00%	0.00%	100.00%
Lease receivables			
Acceptable	**100.00%**	100.00%	93.63%
Substandard	**0.00%**	0.00%	6.37%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**94.82%**	93.40%	94.61%
OAEM	**4.15%**	4.99%	2.56%
Substandard	**1.03%**	1.61%	2.83%
Total	**100.00%**	100.00%	100.00%

Dollars in Thousands, Except as Noted

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:

As of December 31	2021	2020	2019
Nonaccrual loans:			
Current as to principal and interest	$ 2,026	$ 2,315	$ 9,329
Past due	-	2,780	4,880
Total impaired loans	$ 2,026	$ 5,095	$ 14,209

There were no loans classified as accruing restructured or accruing loans 90 days or more past due 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) and related credit quality are as follows:

	2021	2020	2019
Nonaccrual loans:			
Real estate mortgage	$ 396	$ 2,567	$ 7,159
Production and intermediate-term	-	-	3,895
Agribusiness	1,630	2,528	3,155
Total nonaccrual loans	2,026	5,095	14,209
Accruing restructured loans	-	-	-
Accruing loans 90 days past due	-	-	-
Total impaired loans	2,026	5,095	14,209
Other property owned	-	-	-
Total high risk assets	$ 2,026	$ 5,095	$ 14,209

A restructuring of a debt constitutes a troubled debt restructuring 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 recorded no troubled debt restructurings during 2021, 2020, and 2019.

Dollars in Thousands, Except as Noted

Additional impaired loan information is as follows:

December 31, 2021	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 396	$ 447	$ -	$ 1,183	$ 431
Agribusiness:					
Processing and marketing	1,630	1,863	-	1,917	132
Total Impaired Loans	$ 2,026	$ 2,310	$ -	$ 3,100	$ 563

December 31, 2020	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,567	$ 2,613	$ -	$ 2,560	$ 502
Agribusiness:					
Processing and marketing	2,528	2,691	-	2,861	-
Total Impaired Loans	$ 5,095	$ 5,304	$ -	$ 5,421	$ 502

December 31, 2019	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 7,159	$ 7,448	$ -	$ 5,499	$ 46
Production and intermediate-term	3,895	4,606	-	3,864	164
Agribusiness:					
Processing and marketing	3,155	3,155	-	259	-
Total Impaired Loans	$ 14,209	$ 15,209	$ -	$ 9,622	$ 210

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2021, 2020, and 2019.

Dollars in Thousands, Except as Noted

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2, "Summary of Significant Accounting Policies." The following table presents interest income recognized on impaired loans and average impaired loans.

For the Year Ended December 31	**2021**	2020	2019
Interest income recognized on:			
Nonaccrual loans	**$ 553**	$ 707	$ 210
Accrual loans 90 days or more past due	**10**	-	163
Interest income recognized on impaired loans	**$ 563**	$ 707	$ 373

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

For the Year Ended December 31	**2021**	2020	2019
Interest income which would have been recognized under the original loan terms	**$ 632**	$ 1,097	$ 924
Less: interest income recognized	**(553)**	(707)	(210)
Foregone interest income	**$ 79**	$ 390	$ 714

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

December 31, 2021	**Current Loans**	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Loans Outstanding**	**Accrual Loans 90 Days or More Past Due**
Real estate mortgage	$ 893,585	$ 271	$ -	$ 893,856	$ -
Production and intermediate-term	261,339	320	-	261,659	-
Agribusiness	192,501	95	-	192,596	-
Lease receivables	18,378	-	-	18,378	-
Total	$ 1,365,803	$ 686	$ -	$ 1,366,489	$ -

Dollars in Thousands, Except as Noted

December 31, 2020	Current Loans	30-89 Days Past Due	90 Days or More Past Due	Total Loans Outstanding	Accrual Loans 90 Days or More Past Due
Real estate mortgage	$ 827,327	$ 47	$ 2,132	$ 829,506	$ -
Production and intermediate-term	267,007	14	-	267,021	-
Agribusiness	185,489	162	648	186,299	-
Lease receivables	23,176	-	-	23,176	-
Total	$ 1,302,999	$ 223	$ 2,780	$ 1,306,002	$ -

December 31, 2019	Current Loans	30-89 Days Past Due	90 Days or More Past Due	Total Loans Outstanding	Accrual Loans 90 Days or More Past Due
Real estate mortgage	$ 798,431	$ 56	$ 2,082	$ 800,569	$ -
Production and intermediate-term	255,017	41	2,150	257,208	-
Agribusiness	157,154	650	-	157,804	-
Energy	5,315	-	-	5,315	-
Lease receivables	25,651	-	-	25,651	-
Total	$ 1,241,568	$ 747	$ 4,232	$ 1,246,547	$ -

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

	Real estate mortgage	Production and intermediate-term	Agribusiness	Lease receivables	Total
Allowance for Credit Losses:					
Balance at December 31, 2020	$ 386	$ 4,874	$ 1,675	$ 435	$ 7,370
Charge-offs	-	-	-	-	-
Recoveries	33	-	-	-	33
Provision for loan losses (loan loss reversal)	261	(931)	318	(39)	(391)
Balance at December 31, 2021	$ 680	$ 3,943	$ 1,993	$ 396	$ 7,012
Ending balance: Allowance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance: Allowance collectively evaluated for impairment	680	3,943	1,993	396	7,012
Balance at December 31, 2021	$ 680	$ 3,943	$ 1,993	$ 396	$ 7,012
Recorded Investments in Loans Outstanding:					
Ending balance: Loans individually evaluated for impairment	$ 396	$ -	$ 1,630	$ -	$ 2,026
Ending balance: Loans collectively evaluated for impairment	893,460	261,659	190,966	18,378	1,364,463
Balance at December 31, 2021	$ 893,856	$ 261,659	$ 192,596	$ 18,378	$ 1,366,489

Dollars in Thousands, Except as Noted

	Real estate mortgage	Production and intermediate-term	Agribusiness	Energy	Lease receivables	Total
Allowance for Credit Losses:						
Balance at December 31, 2019	$ 410	$ 3,919	$ 1,311	$ 87	$ 1,200	$ 6,927
Charge-offs	-	(1)	-	-	-	(1)
Recoveries	-	102	-	-	-	102
Provision for loan losses (loan loss reversal)	(24)	854	364	(87)	(765)	342
Balance at December 31, 2020	$ 386	$ 4,874	$ 1,675	$ -	$ 435	$ 7,370
Ending balance: Allowance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: Allowance collectively evaluated for impairment	386	4,874	1,675	-	435	7,370
Balance at December 31, 2020	$ 386	$ 4,874	$ 1,675	$ -	$ 435	$ 7,370
Recorded Investments in Loans Outstanding:						
Ending balance: Loans individually evaluated for impairment	$ 2,567	$ -	$ 2,528	$ -	$ -	$ 5,095
Ending balance: Loans collectively evaluated for impairment	826,939	267,021	183,771	-	23,176	1,300,907
Balance at December 31, 2020	$ 829,506	$ 267,021	$ 186,299	$ -	$ 23,176	$ 1,306,002

	Real estate mortgage	Production and intermediate-term	Agribusiness	Energy	Lease receivables	Total
Allowance for Credit Losses:						
Balance at December 31, 2018	$ 439	$ 3,781	$ 1,699	$ 26	$ 842	$ 6,787
Charge-offs	(32)	(33)	-	-	-	(65)
Recoveries	-	1	-	-	-	1
Provision for loan losses (loan loss reversal)	3	170	(388)	61	358	204
Balance at December 31, 2019	$ 410	$ 3,919	$ 1,311	$ 87	$ 1,200	$ 6,927
Ending balance: Allowance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: Allowance collectively evaluated for impairment	410	3,919	1,311	87	1,200	6,927
Balance at December 31, 2019	$ 410	$ 3,919	$ 1,311	$ 87	$ 1,200	$ 6,927
Recorded Investments in Loans Outstanding:						
Ending balance: Loans individually evaluated for impairment	$ 7,159	$ 3,895	$ 3,155	$ -	$ -	$ 14,209
Ending balance: Loans collectively evaluated for impairment	793,410	253,313	154,649	5,315	25,651	1,232,338
Balance at December 31, 2019	$ 800,569	$ 257,208	$ 157,804	$ 5,315	$ 25,651	$ 1,246,547

Dollars in Thousands, Except as Noted

4. INVESTMENT IN COBANK

At December 31, 2021, the Association's investment in CoBank is in the form of Class A stock with a par value of $100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.00 percent of the Association's prior five-year average direct loan balance. Under the current CoBank capital plan applicable to such participations sold, patronage from CoBank related to these participation 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 or 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.

5. PREMISES AND EQUIPMENT

Premises and equipment consist of land, buildings, leasehold improvements, furniture, fixtures, equipment, and software. The following table presents the major components of premises and equipment:

As of December 31	2021	2020	2019
Land, buildings and improvements	**$ 6,890**	$ 6,071	$ 5,863
Furniture and equipment	**2,214**	2,011	2,044
Software	**2,678**	2,410	2,324
Automobiles	**34**	65	68
Construction in progress	**337**	314	140
	12,153	10,871	10,439
Less: accumulated depreciation and amortization	**(5,965)**	(5,297)	(4,843)
Total	**$ 6,188**	$ 5,574	$ 5,596

The Association began construction of a new office branch in Madera with the plan to relocate from its existing Madera branch once construction is complete.

The Association is obligated for rental payments under certain non-cancelable operating leases. Rental payments for the years ended December 31, 2021, 2020, and 2019 totaled $66, $67, and $66, respectively. Future minimum lease payments on all non-cancelable operating leases with initial or remaining terms in excess of one year are as follows:

As of December 31,	
2022	$ 66
2023	69
2024	54
2025	30
2026	30
Total	$ 249

6. OTHER ASSETS AND OTHER LIABILITIES

A summary of other assets and other liabilities follows:

Other Assets	2021	2020	2019
Accounts receivable	**$ 7,737**	$ 6,532	$ 5,909
Prepaid benefit expense	**7,692**	6,021	4,570
Equity investments	**1,753**	1,436	967
Other	**539**	501	433
Total	**$ 17,721**	$ 14,490	$ 11,879

Other Liabilities	2021	2020	2019
Accrued salaries and employee benefits	**$ 2,111**	$ 1,991	$ 1,800
Accounts payable	**1,851**	1,275	1,008
Reserve for unfunded commitments	**377**	394	291
Other	**459**	406	468
Total	**$ 4,798**	$ 4,066	$ 3,567

7. 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) which provides for an open-ended revolving line of credit. The GFA and promissory note are subject to periodic renewals in the normal course of business. The GFA matures on December 31, 2022. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2021.

Dollars in Thousands, Except as Noted

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. The weighted average interest rate was 0.77 percent for the year ended December 31, 2021, compared with 1.20 percent for the year ended December 31, 2020, and 2.73 percent at December 31, 2019.

The Association has the opportunity to commit 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 loanable funds are netted against the note payable to CoBank.

The committed funds as of December 31 are as follows:

	2021	2020	2019
Committed funds	**$299,964**	$ 291,006	$ 274,511
Average rates	**0.59%**	0.99%	1.87%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2021, the Association's note payable is within the specified limitations.

8. MEMBERS' EQUITY

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

Capital Stock and Participation Certificates

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. In accordance with the Farm Credit Act, such equities are unprotected and at risk. Retirement of such equities will be solely at the discretion of the Board of Directors and generally be at the lower of par or book value. Repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or two (2) to ten (10) percent of the member's collective loan or commitment balance. 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 one thousand dollars per customer.

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.

Dollars in Thousands, Except as Noted

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2021:

	December 31, 2021	Regulatory Minimum	Capital Conservation Buffer	Total
Risk Adjusted:				
Common equity tier 1 ratio	**16.74%**	4.50%	2.5%	7.00%
Tier 1 capital ratio	**16.74%**	6.00%	2.5%	8.50%
Total capital ratio	**17.21%**	8.00%	2.5%	10.50%
Permanent capital ratio	**16.81%**	7.00%	–	7.00%
Non-risk-adjusted:				
Tier 1 leverage ratio	**19.41%**	4.00%	1.00%	5.00%
Unallocated retained earnings and equivalents leverage ratio	**20.64%**	1.50%	–	1.50%

System regulation empowers FCA 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.

Description of Equities

Each owner of class C capital stock is entitled to a single vote. Other classes of borrower equities do not provide voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock.

At December 31, 2021, the Association had the following classes of equity outstanding, all at a par value of $5 per share/unit.

Class	Number of Shares	Voting	Protected
C - common stock	151,000	yes	no
F - participation certificates	1,000	no	no

The Association has the authority to issue other classes of stock, no shares of which are outstanding. The voting rights, duties, and liabilities of such classes of stock are similar to the classes of stock discussed above.

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

Any assets remaining after such distribution will be shared, pro-rata, by all stock and certificate holders of record immediately before the liquidation distribution.

Patronage Program

The Association has a patronage program that allows it to distribute available net earnings to its members. 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 patronage-sourced net income to its members by declaring a cash patronage distribution. For 2021, the Association allocated 61 percent of its patronage sourced net income to its patrons. In accordance with Subchapter T of the Internal Revenue Code, the portion of patronage-sourced net income not distributed in cash may also be allocated to members in the form of nonqualified written notices of allocation. The Board of Directors considers these nonqualified allocations as retained earnings to be permanently invested in the Association. As such, there is no current plan to revolve or redeem these amounts. No express or implied right to have such capital retired or revolved at any time is granted.

9. Patronage Distribution from Farm Credit Institutions

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

As of December 31	2021	2020	2019
CoBank	**$ 7,665**	$ 6,494	$ 5,881
Farm Credit Foundations	**20**	12	10
District Associations	**2,110**	2,088	1,997
Total	**$ 9,795**	$ 8,594	$ 7,888

Patronage distributed from CoBank was in cash and stock. These distributions are accrued monthly based on estimates provided by CoBank. The amount earned in 2021 was accrued and will be paid by CoBank in March 2022. The amount earned and accrued in 2020 was paid by CoBank in March 2021.

Dollars in Thousands, Except as Noted

The amount earned and accrued in 2019 was paid by CoBank in March 2020.

Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides the Association's payroll and human resource services. Patronage distributed by Farm Credit Foundations was in cash and was recorded in the year received.

Patronage distributions from District Associations were in cash and recorded in the year received. These distributions represent patronage related to loan participation activity with other District Associations.

10. Income Taxes

The provision for (benefit from) income taxes follows:

As of December 31	**2021**	2020	2019
Current			
Federal	**$ -**	$ (54)	$ -
State	**2**	2	2
Deferred			
Federal	**-**	-	-
State	**-**	-	-
Provision for (benefit from) income taxes	**$ 2**	$ (52)	$ 2

The provision for (benefit from) income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	2021		2020		2019	
As of December 31	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Federal tax at statutory rate	**$ 5,234**	**21%**	$ 5,090	21%	$ 4,887	21%
State tax, net	**1**	**0%**	1	0%	1	0%
Effect of non-taxable FLCA income	**(4,969)**	**-20%**	(4,961)	-20%	(5,137)	-22%
Change in tax law	**-**	**-**	(54)	0%	-	-
Prior year tax adjustments	**38**	**0%**	-	-	-	-
Adjustments to valuation allowance	**(302)**	**-1%**	(128)	-1%	251	1%
Provision for (benefit from) income taxes	**$ 2**	**0%**	$ (52)	0%	$ 2	0%

Dollars in Thousands, Except as Noted

Deferred tax assets and liabilities are comprised of the following:

As of December 31	**2021**	2020	2019
Gross deferred tax asset:			
Allowance for loan losses	**$ 1,304**	$ 1,380	$ 1,285
Nonaccrual loan interest	**-**	17	100
Net loss carryforward	**1,211**	1,328	1,439
Gross deferred tax asset	**2,515**	2,725	2,824
Less: valuation allowance	**(1,563)**	(1,865)	(1,993)
Deferred tax assets, net of valuation allowance	**952**	860	831
Gross deferred tax liability:			
Bank patronage allocations	**(391)**	(299)	(270)
Stock patronage distributions from System banks	**(561)**	(561)	(561)
Gross deferred tax liability	**(952)**	(860)	(831)
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 $1,563 in 2021, $1,865 in 2020, and $1,993 in 2019. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. At December 31, 2021, the Association had deferred tax assets related to federal and state net operating losses of $686 that have an indefinite carryforward period and $525 that expire between 2032 and 2037.

The Association has no uncertain tax positions as of December 31, 2021, 2020, or 2019. The Association accounts for income taxes in accordance with Accounting Standards Codification (ASC) 740, which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements.

ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Association's tax returns to determine whether the tax positions are more-likely-than-not of being sustained upon examination by the applicable tax authority, based on the technical merits of the tax position, and then measuring the tax benefit that is more-likely-than-not to be realized. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current reporting period. The tax years that remain open for federal and major state income tax jurisdictions are 2018 and forward.

11. Employee Benefit Plans

Certain employees participate in the Eleventh District Defined Benefit Retirement Plan, a multi-employer defined benefit retirement plan (Defined Benefit 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 Plan reflects an unfunded liability totaling $7.8 million at December 31, 2021. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the plan was $298.8 million at December 31, 2021, $318.4 million at December 31, 2020, and $299.3 million at December 31, 2019. The fair value of the plan assets was $291.1 million at December 31, 2021, $271.7 million at December 31, 2020, and $228.4 million at December 31, 2019. The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan contra-expense for participating employers was $1.3 million in 2021. The contra-expense was due to a decrease in interest cost resulting from a lower rate environment. The Association's allocated share of plan contra-expense included in salaries and employee benefits was $7 for 2021. Total plan expense for participating employers was $1.3 million in 2020 and $3.6 million in 2019. The Association's allocated share of plan expenses included in salaries and employee benefits was $151 for 2020 and $300 for 2019. Participating employers contributed $23.0 million to the plan in 2021, $23.0 million in 2020, and $16.0 million in 2019. The Association's allocated share of these pension contributions was $1.7 million in 2021, $1.6 million in 2020, and $1.3 million in 2019. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants.

The amount of the total employer contributions expected to be paid into the pension plans during 2022 is $23 million. The Association's allocated share of these pension contributions is expected to be $1.7 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Dollars in Thousands, Except as Noted

Postretirement benefits other than pensions are also provided through the Farm Credit Foundations Retiree Medical and Retiree Life Plans to eligible current and retired employees of the Association. Benefits provided are determined on a graduated scale, based on years of service. The anticipated costs of these benefits are accrued during the period of the employee's active service. Postretirement benefits expense (primarily health care benefits and life insurance) included in salaries and employee benefits were $8 in 2021, $6 in 2020, and $7 in 2019. These expenses are equal to the Association's cash contributions for each year.

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan (Contribution Plan). The Contribution Plan has two components. Employees who do not participate in the Defined Benefit Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employer contributions to the Contribution Plan were $909 in 2021, $857 in 2020, and $842 in 2019.

12. Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with 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 must be maintained at an Acceptable or Other Assets Especially Mentioned (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 30 days. If not, the director must resign from the Board of Directors.

The Association has a policy that employees, including senior officers, may not enter into loan transactions with the Association. Loan information to related parties is shown below:

As of December 31	**2021**	2020	2019
Beginning balance	**$ 47,200**	$ 33,130	$ 33,333
New Loans	**172,846**	141,932	92,419
Repayments	**(146,356)**	(127,862)	(91,939)
Reclassifications [1]	**(3,925)**	-	(683)
Ending balance	**$ 69,765**	$ 47,200	$ 33,130

[1]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 directors at December 31, 2021, involved more than a normal risk of collectability.

The Association also has business relationships with certain other System entities. We purchase technology and other operational services from Financial Partners, Inc. (FPI), which is a technology service corporation. The Association is not a shareholder of FPI. The Association paid $144 in 2021, $134 in 2020, and $122 in 2019 to Farm Credit Foundations for human resource services.

During 2016, the Association entered into an operating lease agreement with Farm Credit Leasing Services (FCL), which is a wholly-owned subsidiary of CoBank, for the construction of a solar power system. In December 2016, the solar equipment was placed into service and the lease agreement commenced with rental payments beginning in January 2017. The Association paid rental payments of $30 to CoBank in 2021, 2020, and 2019. Future rental payments associated with the above operating lease are detailed in Note 5, "Premises and Equipment".

13. Regulatory Enforcement Matters

There are no regulatory enforcement actions in effect for the Association.

14. Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities. The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract.

Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2021, $594.9 million of commitments to extend credit were outstanding.

As commitments may expire before being fully 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 Statements 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 Management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on Management's credit evaluation of the borrower.

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2021, the Association had $7.4 million of standby letters of credit outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2022 to 2024. The maximum potential amount of future payments the Association is required to make under the guarantees is $7.4 million.

The Association has set aside a reserve for unfunded commitments in the amount of $377 thousand at December 31, 2021, which is included in other liabilities on the Consolidated Statements of Condition. The adequacy of the reserve is evaluated regularly to determine if any increase or decrease to the reserve is warranted and, when necessary, the provision expense is recorded in other noninterest expense in the Consolidated Statements of Income.

With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

15. 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, "Summary of Significant Accounting Policies" for additional information. The Association has no assets or liabilities measured at fair value on a recurring or non-recurring basis as of the years ended December 31, 2021, 2020, and 2019.

Dollars in Thousands, Except as Noted

16. Quarterly Financial Information (Unaudited)

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

	2021				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 8,310**	**$ 9,099**	**$ 8,965**	**$ 8,926**	**$ 35,300**
(Loan loss reversal) provision for loan losses	**(434)**	**150**	**33**	**(140)**	**(391)**
Noninterest expense, net	**1,130**	**3,369**	**3,676**	**2,594**	**10,769**
Net income	**$ 7,614**	**$ 5,580**	**$ 5,256**	**$ 6,472**	**$ 24,922**

	2020				
	First	Second	Third	Fourth	Total
Net interest income	$ 8,728	$ 8,161	$ 8,190	$ 8,105	$ 33,184
Provision for loan losses (loan loss reversal)	(62)	216	112	76	342
Noninterest expense, net	1,135	1,948	3,182	2,289	8,554
Net income	$ 7,655	$ 5,997	$ 4,896	$ 5,740	$ 24,288

	2019				
	First	Second	Third	Fourth	Total
Net interest income	$ 8,491	$ 8,240	$ 8,210	$ 8,085	$ 33,026
Provision for loan losses (loan loss reversal)	171	62	108	(137)	204
Noninterest expense, net	1,363	2,531	2,634	3,028	9,556
Net income	$ 6,957	$ 5,647	$ 5,468	$ 5,194	$ 23,266

17. Subsequent Events

The Association has evaluated subsequent events through March 16, 2022, which is the date the consolidated financial statements were issued, and no material subsequent events were identified.

Disclosure Information

Unaudited

Description of Business

The description of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1, "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
4635 W. Spruce Fresno, California	Corporate Headquarters and Credit Delivery Office Building	Owned
305 North "I" Street Madera, California	Credit Delivery - Madera Office Building	Owned
1698 Draper Street Kingsburg, California	Credit Delivery - Kingsburg Office Building	Leased

Legal Proceedings and Enforcement Actions

Information required to be disclosed in this section is incorporated herein by reference from Note 13 to the financial statements, "Regulatory Enforcement Matters," and Note 14 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 8 to the financial statements, "Members' 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 7 to the financial statements, "Notes Payable to CoBank," included in this annual report to shareholders.

The description of funds held 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 14 to the financial statements, "Commitments and Contingencies," included in this annual report to shareholders.

Selected Financial Data

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

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.

Governance

The Association is governed by an 11 member board that delegates the day to day management and operation of the Association to the CEO. Of these directors, 8 are elected by the members and 3 are appointed by the elected directors. The Board of Directors represents the interests of our members and has a fiduciary responsibility to them and to the Farm Credit System.

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, marketing plan, human capital plan, capital adequacy plan, financial plan and approves the annual operating plan and budget;
- sets policies, and monitors the performance of the Association in accordance with their policies;
- advises management on significant issues; and,
- oversees the financial reporting process, communications with members, and our legal and regulatory compliance.

Director Independence
All directors must exercise sound judgment in deciding matters in the Association's 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. A borrowing relationship with a director could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established disclosure reporting requirements to ensure that a loan relationship does not compromise the independence of our Board.

Annually, the independence of each Board member is reviewed and determined.

Audit Committee
The Audit Committee's responsibilities 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; and,
- the establishment and maintenance of procedures for the receipt, retention, and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls and auditing matters.

The Audit Committee Report published on page 14 of this report describes the Committee's activities during 2021.

Human Capital Committee
The Human Capital Committee is composed of three members and is responsible for:

- the oversight of employee and director compensation;
- annually reviewing and evaluating the compensation policies, programs, and plans for senior officers, employees and directors;
- annually performing the CEO evaluation process and providing a recommendation to the Board on the overall compensation program for the CEO;
- reviewing and approving the overall compensation program for senior officers (including the CEO); and,
- monitoring the Association's human capital plan.

Risk Committee
The Risk Committee is composed of four members and is responsible for overseeing the risk management practices of the Association surrounding capital, credit, interest rate, liquidity, environmental, market, technology, operational, reputational, and legal and compliance risks. The committee creates a transparent environment of open communication between Management and the Board to effectively manage the Association's risk.

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 have implemented 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 the President/CEO, Chief Financial Officer, Chief Credit Officer and all other senior financial professionals, all employees and the Board of Directors;
- open lines of communication between the independent auditors, Management, and the Audit Committee;
- "plain English" disclosures;
- officer certification of accuracy and completeness of the consolidated financial statements; and,
- information disclosure through our website.

DIRECTORS AND SENIOR OFFICERS

The following represents certain information regarding the directors of the Association.

DIRECTORS

Jeff Jue, Chair
Term of Office: 2019 – 2022
Committees: CoBank Association Leadership Committee, Farm Credit Council Legislative Representative, and serves as ex-officio member of the Board's Audit, Human Capital, and Risk Committees.
Board or Officer Experience: Fresno Madera Farm Credit Director since 2007 with designation as a Financial Expert since 2008 and Board Chairman since 2012; Jue, LLC (Member and Manager); Jeff and Velvet Jue Family Trust (Trustee); SunMaid Raisin Growers of California (Member-Owner and Past Chairman); and Sequoia Walnut Growers (Member-Owner and Past Director).

Mr. Jue is a fourth generation farmer and president of Jue, LLC which is a farming and agricultural limited liability company. Mr. Jue produces almonds, raisins, pecans, walnuts, and tangerines. He also operates a fruit dehydrator specializing in golden raisins and raisin reconditioning.

Jeff Yribarren, Vice Chair
Term of Office: 2021 – 2024
Committees: Human Capital (Chair)
Board or Officer Experience: Fresno Madera Farm Credit Director since 2012 and Second Vice Chair from May 2014 to April 2016, and since June 2020 to June 2021; and Vice Chair since June 2021; J. Yribarren Farms, Inc. (Owner and President); Jeffrey & Wendy Yribarren Family Trust (Trustee); Yribarren Winery, Inc. (Owner and President); Farmer's Hemp, LLC (Member); FH Farms, LLC (Member-Manager); Riverbend West, LLC (Member); Western Custom Ag, LLC (Member), and Reclamation District #1606 (Trustee).

Mr. Yribarren is a fourth generation farmer and farms almonds, grapes (raisins), and row crops. Mr. Yribarren is also a vintner.

Jeff Boldt, Director
Term of Office: 2021-2023
Committees: Risk
Board or Officer Experience: Fresno Madera Farm Credit since 2021; Jeff Boldt Farms, Inc. (President); Twin Palms Packing (President); 1991 Boldt Family Trust (Surviving Trustee); and Clay Joint Elementary School District (Board Trustee).

Mr. Boldt is a member of a fifth-generation farming family, with a history dating back to 1907 in Reedley. Mr. Boldt has extensive experience in all aspects of agricultural and financial operations. Mr. Boldt farms peaches, nectarines, almonds, and walnuts.

Wayne Carstens, Director
Term of Office: 2019-2022
Committees: Audit (Vice Chair)
Board or Officer Experience: Fresno Madera Farm Credit Director since 2019; Carstens Appraisal Services (Owner); Carstens Family Trust (Trustee); SunMaid Raisin Growers of California (Member-Owner and Director), Fowler Lions Club (Board Member); Raisin Administrative Committee (Alternate Board Member); and Real Estate Appraiser Association (Board Member and Class Instructor); Past affiliation with Accu-Rate Realty (Owner).

Mr. Carstens is a third generation farmer and farms grapes (juice and raisins), almonds, and walnuts. He is also an appraiser and real estate broker.

Daniel Errotabere, Director
Term of Office: 2020 - 2023
Committees: Audit
Board or Officer Experience: Fresno Madera Farm Credit Director since 2014; Errotabere Ranches (General Partner); El Dorado Almonds (Shareholder); Errotabere Exports, Inc. (Stockholder); Errotabere Westside Trust (Trustee); Jean Errotabere Family Trust (Co-Trustee and Beneficiary), Crescent Canal Company (Shareholder); 3 Family Farms (Director & Secretary); AE Farms (Member); AEF Farms (Member); West Coast Hemp (Member); Westlands Water District (Board Member);and CSUF Agriculture Foundation (Treasurer & Board Member).

Mr. Errotabere is a third generation farmer and farms almonds, barley, pistachios, wine grapes, pima cotton, tomatoes, garlic, garbanzos, and seed lettuce.

Kevin Herman, Director
Term of Office: 2021 – 2024
Committees: Risk (Vice Chair)
Board or Officer Experience: Fresno Madera Farm Credit Director since 2018; 53 Pistachio Ranch, LP (General Partner); APC Avenue 20, LLC (Member & Manager); APC MidValley Operations, LLC (Member & Manager); Herman 2008 Revocable Trust (Co-Trustee); Herman Family Exports (President); Kevin Herman Ranches (Owner); The Growers Fig Company (Director); The Specialty Crop Company (President); Central Avenue Orchards, LLC (Ownership Interest); California Fig Advisory Board (Board Member); California Fresh Fig Commission (Chairman); California Fresh Fruit Association (Chairman); Madera Compact (Chairman); Madera Subbasin Groundwater Advisory Committee (Board Member); State Center Community College Foundation (Board Member); and Le Grand-Athlone Water District (Board Member).

Mr. Herman is a third generation farmer and farms almonds, citrus, figs, kiwi, persimmons, pistachios, pomegranates, and walnuts.

Allan Kantrowitz, Outside Appointed Director
Term of Office: 2020 – 2023
Committees: Risk (Chair)
Board or Officer Experience: Fresno Madera Farm Credit Appointed Director since 2017; and Hangar Lofts (Director).

Mr. Kantrowitz is retired from a 38-year legal career in the Farm Credit System. During that time, he served as General Counsel for CoBank for almost 15 years with primary responsibility to provide all legal services, together with an effective team of lawyers and paralegals, to further the bank's objectives through regulatory interpretations, loan transactions and legal training for employees, directors, and customers.

Steve Schafer, Director
Term of Office: 2019 – 2022
Committees: Human Capital (Vice Chair)
Board or Officer Experience: Fresno Madera Farm Credit Director since 2004; Schafer Ranch, Inc. (Officer); Almond Tree Hulling, Inc. (Stockholder); Nolo LLC (Manager); MSM Airport Ranch, LLC (Member); Schafer & Schafer (Partner); San Joaquin Wine Co. Inc. (Owner); Wine Institute (Board Member); and Madera Community Hospital Governing (Board Member). Past affiliation with Nolo Farms II, LLC (Member).

Mr. Schafer is a fourth generation farmer and farms wine grapes, almonds, raisins, and figs. Mr. Schafer is a vintner and also manages farm operations and is a co-owner in an almond huller operation.

Sandra Schmiesing, Outside Appointed Director
Term of Office: 2021 - 2024
Committees: Human Capital
Board or Officer Experience: Fresno Madera Farm Credit Director since 2021, with a designation of Human Resources; and The SandCastle Group, LLC (President).

Ms. Schmiesing was appointed to the Fresno Madera Farm Credit Board of Directors in May 2021. Ms. Schmiesing is an innovative leader with a demonstrated history of success in Human Resources in the Farm Credit System. She has successfully built a strong career with various high-profile institutions, where she held a variety of leadership assignments. She led the creation of the Farm Credit Foundations, which provides shared business services such as employee benefits, asset management, technology, and payroll operations for 60% of the Farm Credit System.

Lance Shebelut, Director
Term of Office: 2020 - 2023
Committees: Risk
Board or Officer Experience: Fresno Madera Farm Credit Director since 2014; Del Shebelut Farms (General Partner); El Lancer Farms (Partner); LSW Farming, Inc. (Stockholder); S & W Farming, Inc. (Stockholder); Hat Trick Farming, Inc. (Stockholder); Trinity Packing Company (Stockholder); S & W Pom Partners (Partner); The Orchards LLC (Member); and XI River Ranch (Partner).

Mr. Shebelut is a third generation farmer and farms almonds, apricots, apples, cherries, table grapes, citrus, nectarines, peaches, persimmons, plums, pomegranates, and Asian pears. Mr. Shebelut is also an employee involved in grower relations for Trinity Fruit Sales.

Denise Waite, Outside Appointed Director
Term of Office: 2019 – 2022
Committees: Audit (Chair)
Board or Officer Experience: Fresno Madera Farm Credit Appointed Director with designation as a Financial Expert since 2013; and Remington Properties, LLC (Member). Past affiliation with Dritsas Groom McCormick LLP (Partner).

Mrs. Waite is a Certified Public Accountant in the State of California and has significant experience with audit and assurance engagements. Her areas of expertise include: audit, review and compilation services, controllership services, and tax preparation services for a broad range of businesses, including agriculture, construction and employee benefit plans.

COMPENSATION OF DIRECTORS

During 2021 directors were compensated based on an annual retainer paid monthly. The rates are based on position to accommodate those with additional time requirements and responsibilities. If a director falls into two position categories, the higher retainer is paid. The retainer amount paid to a director is adjusted for any position changes during the year. The annual retainers are as follows:

Position(s) Held	Annual Retainer (1)
Board Chair	$ 45,000
Board Leader, Appointed Director, Audit Committee	$ 42,100
Board Leader, Appointed Director, Non-Audit Committee	$ 37,900
Board Leader, Non-Appointed	$ 30,900
Appointed Director	$ 25,200
Director, Audit Committee	$ 22,400
Director	$ 18,200

(1) Effective June 1, 2021

The following table reflects the days served at board meetings and other official activities (including committee meetings not held in conjunction with a board meeting), and total compensation paid to each director for the year ended December 31, 2021.

Name of Director	Number of Days Served at Board Meetings	Number of Days Served in Other Official Activities	Compensation Paid for 2021
Jeff Jue	9	26	$ 44,062
Victor Sahatdjian(1)	4	4	12,187
Jeff Yribarren	9	13	30,212
Jeff Boldt(2)	5	8	11,367
Wayne Carstens	9	16	16,817
Daniel Errotabere	9	8	16,817
Kevin Herman	9	7	14,367
Allan Kantrowitz	9	19	32,108
Steve Schafer	9	5	14,367
Sandra Schmiesing(3)	5	9	16,700
Lance Shebelut	9	7	14,367
Denise Waite	10	24	37,892
Total Compensation	**96**	**146**	**$ 261,263**

(1) Mr. Sahatdjian retired from the Board at then end of his term in 2021.
(2) Mr. Boldt was elected to the board during 2021.
(3) Mrs. Schmiesing was appointed to the board during 2021.

Directors are also reimbursed for mileage, as well as documented business expenses while serving in an official capacity. The total compensation paid to directors for 2021, as outlined above, amounted to $261,263. The Association has adopted a policy concerning travel, subsistence, and other related expenses as they apply to directors and senior officers. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to all directors as a group for travel, subsistence and other related expenses were $11,927 in 2021, $7,203 in 2020, and $8,756 in 2019.

SENIOR OFFICERS

FCA regulations also require the following disclosure of the business experience for the last five years for each senior officer. The following summarizes the composition and experience of the Senior Leadership Team:

Keith Hesterberg, President and Chief Executive Officer

Mr. Hesterberg was hired on June 13, 2013 and serves as President and Chief Executive Officer. He has 29 years of experience working in the Farm Credit System. Prior to joining Fresno Madera Farm Credit, he worked for CoBank, ACB for 14 years primarily based in Denver, Colorado and Sacramento, California. Mr. Hesterberg's CoBank experience included management of credit administration teams in Denver and Sacramento, and also portfolio management, including managing two regional banking centers serving 14 states in the West, Midwest, and Southeastern U.S. Mr. Hesterberg began his Farm Credit service in Illinois in various roles including Branch Manager, and Vice President of Commercial Lending.

Dan Kiggens, Senior Vice President and Chief Risk Officer/Chief Credit Officer

Mr. Kiggens serves as ACA Senior Vice President and Chief Risk Officer/ Chief Credit Officer and has 25 years of Farm Credit experience. Mr. Kiggens is responsible for i) ensuring the Association's lending and loan quality objectives are met and compliance to the Association's credit standards, quality control programs and policies and procedures, ii) management of the credit administration function of the Association, including ensuring loans are properly structured, documented and are in compliance with applicable laws and regulations prior to closing, iii) ensuring that the Association's lending policies and guidelines comply with FCA regulations and Board approved policies, as well as overseeing the operations of the loan documentation department, iv) oversight of the Association's business intelligence reporting to create a program that ensures strong controls around data and fosters effective risk management within the organization, and v) oversight in the development and execution of the Association's annual internal audit program. He was hired in October 1996 and has served in various capacities including Loan Officer, Portfolio Manager, Fresno Branch Manager and Assistant Chief Credit Officer. He has served in his current capacity as Chief Risk Officer since September 1, 2020, and Chief Credit Officer since November 2012. Mr. Kiggens Farm Credit experience includes complex direct lending, branch management, credit administration, development of supervisory controls and loan approvals.

Joe Soto, Senior Vice President and Chief Financial Officer

Mr. Soto serves as ACA Senior Vice President and Chief Financial Officer and has 6 years of Farm Credit experience. He is responsible for the Association's fiscal operations including regulatory and financial reporting, development and monitoring of internal control systems, and asset / liability management functions. Mr. Soto also serves as the executive sponsor to oversee the Association's outsourced technology operations. He is a Certified Public Accountant, licensed in the state of California and is also a member of the American Institute of Certified Public Accountants (AICPA) and California Society of Certified Public Accountants. Mr. Soto's prior experience includes over 13 years of public accounting experience including service as a Senior Manager leading teams in performing financial statement audits, consulting, internal control evaluations, and merger and acquisition services for numerous financial institutions located within California, including Fresno.

Stephanie Graham, Senior Vice President and Chief Administrative Officer

Ms. Graham serves as ACA Senior Vice President, Chief Administrative Officer, Information Security Officer, Business Recovery Officer, and Corporate Secretary and has 24 years of Farm Credit Experience. Ms. Graham directs administrative operations including human resources, training and staff programs, marketing, and other designated Association administrative and corporate functions. Additionally, she has oversight responsibilities of the Association's loan accounting operations. She was hired in January 1998 and has served in various capacities within the organization including Loan Accounting Manager and Administrative Services/HR Manager. She has served in her current capacity as Chief Administrative Officer since March 15, 2012. Prior to joining Fresno Madera Farm Credit, Ms. Graham worked in public accounting.

David Ylarregui, Senior Vice President, Relationship Management
Mr. Ylarregui serves as ACA Senior Vice President, Relationship Management and has 31 years of Farm Credit experience. Mr. Ylarregui is responsible for loan origination and servicing, branch management, and achieving individual and branch portfolio credit quality standards and profitability. He was hired in September 1990 and has served in various capacities including Loan Officer, Portfolio Manager, and Madera Branch Manager. He has served in his current capacity since February 1, 2014.

Ken Brown, Senior Vice President and Appraisal Program Manager
Mr. Brown serves as ACA Senior Vice President and Appraisal Program Manager and has 31 years of Farm Credit experience. Mr. Brown is responsible for the operation of the real estate and chattel appraisal department and ensures the delivery of credible, accurate and timely appraisals which are developed independently from credit delivery operations to mitigate risk. Additionally, he directs the Association's facilities and fleet operations. He was hired in April 1991 and has held his current position as Appraisal Program Manager since August 16, 1999. He is a Certified General Real Estate appraiser and is designated as an Accredited Rural Appraiser (ARA). Prior to joining Fresno Madera Farm Credit, Mr. Brown worked for Farmers Home Administration in agricultural lending and appraisal as an Assistant County Supervisor.

Compensation of Senior Officers

Required senior officer compensation information is included in the Association's Annual Meeting Information Statement (AMIS) mailed to all shareholders. The AMIS is available for public inspection at the Association office. Disclosure of information on the total compensation paid during the last fiscal year to any senior officer, or to any other officer included, is available and will be disclosed to shareholders upon request.

Transactions with Senior Officers and Directors

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section are incorporated herein by reference from Note 12 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.

Relationship with 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 7 to the financial statements, "Note Payable to CoBank." Association requirement to invest in CoBank and CoBank's ability to access capital of the Association is discussed in Note 4, "Investment in CoBank." CoBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section on 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.

Relationship with Independent Auditors

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

Borrower Privacy

Borrower financial privacy and the security of your other nonpublic information are important to us. The Association holds your financial and other non-public information in strictest confidence. Federal regulations allow disclosure of such information by us only in certain situations. Examples of these situations include law enforcement or legal proceedings or when such information is requested by a Farm Credit System institution with which you do business. Borrower privacy and the security of the borrowers' personal information are vital to our continued ability to serve our member's ongoing credit needs.

FINANCIAL STATEMENTS

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 16, 2022, and the Report of Management, appearing as part of this Annual Report to Shareholders, are incorporated herein by reference.

COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

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 4635 West Spruce, P.O. Box 13069, Fresno, California 93794-3069 or calling (559) 277-7000. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

Young, Beginning and Small Farmers and Ranchers Program

Unaudited

Overview

A new generation of well-educated, hands-on managers and owners is essential for a successful and viable Ag industry. This demographic factor, coupled with the ever-decreasing number of existing family farms, requires us to focus on market segmentation so that entry-level products and services can be offered to young and beginning farmers as well as part-time farmers in a constructive, sound and economical manner.

To facilitate credit offerings to this specialized customer base, we support targeted financing programs and use of government-guaranteed loan programs. We are actively looking for opportunities to develop and sponsor educational opportunities, leadership training, and business financial training for YBS farmers and ranchers.

YBS Mission

The YBS mission of Fresno Madera Farm Credit, ACA, is to be the premier lender of choice in our market area. In order to ensure the emergence of young and beginning farmers into the marketplace, we will finance all eligible young, beginning, and small farmers in a constructive, consistent, and reliable manner. We will utilize this program to establish our relationships with these borrowers so that we can continue to fully serve our market territory.

Program Definitions

The FCA regulatory definitions for YBS farmers and ranchers are shown below.

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

Education and Financial Literacy

FMFC staff engages the marketplace through active participation in local and state events making contacts and interacting with others in the industry to provide knowledge and information. Staff has been encouraged to speak to groups ranging from Ag Youth Organizations to Farm Bureau Young Farmers and Ranchers to industry ag roundtables. When available, we also attend and participate in numerous local conference such as the California Certified Organic Farms (CCOF), National Small Farm Resource and Organic Fertilizer Association of California, the National Hmong American Farmers Conference, and the Latino Conference to gain greater insight and understand possible opportunities to meet market demand with alternative food marketing groups. We utilize these opportunities to educate and create greater awareness for the Farm Credit System. To assist in our efforts in this area, we also have the following partnership in place:

Valley Small Business Development Corporation (VSBDC) is a nonprofit, public benefit, small business development corporation and has been in existence since 1981. Their mission is to provide small businesses and family farms with increased access to capital and is 100% focused on agriculture in the central valley, including FMFC's full loan service area. Their staff include many experienced lenders, including several that are performing outreach in YBS and alternative food production areas. VSBDC continually conducts, co-sponsors, and participates in workshops and events that benefit growers as well as Ag-related and rural businesses. In partnership with CoBank, Golden State Farm Credit, and Farm Credit West, FMFC allocated funds to support the establishment of the Center for Agriculture, Dairy, and Rural Development by VSBDC. The project included funds for a mobile resource that is utilized to create a regional presence that provides support to our rural communities in the valley whether through access to loans to finance small farming operations, or local and personal access to people that can provide insight regarding how to complete a budget or undertake a process to apply for a loan.

Agricultural Youth Programs Participation

FMFC has a commitment to support agricultural education programs that inspire, educate, and cultivate future generations of farmers, agricultural leaders and natural resource stewards. We are proud to sponsor programs like the Center for Land-Based Learning, 4-H and FFA as they provide important tools for helping young people grow. Below are some of the positive results:

- Fair Participation - FMFC has allocated budget funds to contribute to 4-H and FFA livestock purchases at fairs throughout the Central Valley. During 2021, in addition to fair sponsorships, belt buckles, and animal purchases; FMFC staff members volunteered countless hours as Ag Youth Leaders, judging fair events, preparing and cooking meals for fair participants and assisting and coordinating livestock auctions.
- Grants – Normally, at our springtime Annual Meeting we award three to five $500 grants to the Ag programs associated with the high schools or 4-H programs located in our loan servicing area (LSA). The awards are based upon activities completed by the group for the betterment of their community and the best efforts by a group or individual within the program at the state or national level. Although we were not able to facilitate the typical format for our Annual meeting in 2021, we did award five grants to local 4-H and FFA programs and will continue this for the planning period.
- Awards - Each year, FMFC sponsors the banking and finance competition for FFA's California West Central Section and East Fresno Madera Section. The competition is directed toward agriculture and finance. The winners receive $500 from FMFC for future college expenses.

YBS Outreach Program

The purpose of the YBS Outreach Program is to assist and increase FMFC's capacity to fulfill our mission responsibilities of providing credit to YBS farmers and ranchers who might be declined for credit under the Association's traditional loan underwriting standards and lending guidelines. The program allows for approval of credit under specialized loan underwriting standards that are tailored to meet the unique characteristics of YBS farmers and ranchers. While the program is open to both new and existing members, the primary applicant/borrower must meet at least two of the three criteria for a YBS farmers to be eligible for the program.

Guarantee and Participation Programs

Federal and State government guarantees will continue to be utilized as appropriate to increase our capacity to meet the market demands of these segments. FMFC also coordinates credit with other Farm Credit institution lenders for participation in loans that benefit young and beginning farmers and ranchers.

YBS Advisory Council

The YBS Advisory Council of FMFC is established by and reports to the Board of Directors to assist the Board in fulfilling its intention to attract YBS farmers and ranchers. The YBS Advisory Council will be utilized to gain insight from attendees regarding the needs of our YBS farmers and ranchers. The insight will be utilized to create alignment between the needs of these categories with program features.

Demographics

The following table outlines our percentage of YBS loans as a percentage of our loan portfolio (by number) as of December 31. 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	**2021**	2020	2019
Young	10.11%	**10.10%**	10.73%	11.89%
Beginning	27.55%	**17.97%**	17.28%	18.07%
Small	67.22%	**17.01%**	16.31%	18.27%

Our percentages are based on the number of loans in our portfolio, while the USDA percentages are based on the number of farmers and ranchers.

Goals and Results

Efforts to increase our market penetration in this area are ongoing as we look to provide all services to all customers within our LSA. Based on our market information, efforts and historical results, we have included growth in loan numbers and volume for all segments for the three year planning period. In addition to specific growth targets for each of the segments, development of an outreach program to further educate and promote the Farm Credit System will be a focus. Periodic 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. The following chart outlines our 2021 goals and results:

	Goal Number	Actual Number	Percent of Plan
Young	181	158	87%
Beginning	291	281	97%
Small	274	266	97%

	Goal Volume	Actual Volume	Percent of Plan Volume
Young	$ 148,226	$ 123,429	83%
Beginning	$ 182,380	$ 191,191	105%
Small	$ 62,017	$ 64,721	104%

We have established 2022 minimum goals based on our market information, efforts and historical results, we have included 2% growth in loan numbers and volume for all segments for the three year planning period. We will continue to seek opportunities to enhance YBS programs in an effort to enable YBS farmers in our LSA to begin, grow, and remain in agriculture production as well as to facilitate the transfer of agricultural operations from one generation to the next.

Fresno Madera Farm Credit

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