# ANNUAL REPORT

2023

FRESNO MADERA
FARM CREDIT

AGRICULTURE IS OUR ONLY BUSINESS

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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**

**EXCELLENCE**

**STRATEGIC**

**CUSTOMER FOCUSED**

**RESPONSIBLE**

# YOUR **LENDER** FOR **GENERATIONS**

MARCH 15, 2024

# LETTER TO SHAREHOLDERS

## Dear Shareholders,

On behalf of the board of directors, management, and our staff, we are pleased to report a year of strong financial performance and progress in achieving our strategic objectives. Our cooperative structure is a key factor in our success, providing essential strategic guidance and oversight through our board which includes elected farmers and ranchers as well as appointed outside directors. Our board's composition provides the assurance that we will never stray from our mission – which is to serve the agriculture in our region. In addition, our cooperative structure provides for our patronage program, which returns a substantial portion of our annual earnings from serving the membership – back to the membership.

As we share our financial results with you, we want to acknowledge our understanding that our financial strength comes from the ongoing trust you place in Fresno Madera Farm Credit to be your partner whether it's weathering adversity or leveraging opportunities that position your operation for the long run. We understand trust is earned and appreciate the opportunity to earn yours every day.

## OVERALL CONDITIONS

The vast majority of our members operate farming operations and agricultural businesses in the Central Valley of California. In general, the farming and economic conditions over the course of our 2023 fiscal year were mixed, and in many cases challenging, mostly driven by persistently higher costs including higher interest rates, challenging growing conditions due to untimely rains, as well as mixed pricing dynamics experienced by many commodities. Overall, farm margins were under consistent pressure in 2023.

### Farm, Processing, and Marketing Costs Remain Elevated

Farm profit margins continued to compress in 2023, driven in part by persistently elevated input costs. Our members continue to experience a high-cost environment where many costs remain elevated above historic levels. The average price of diesel in 2023 for example was 11% lower than in 2022, but still 17% higher than the 5-year average. Fertilizer costs followed a similar pattern where on average 2023 costs were somewhat lower than the peak seen in early 2022; however, costs for most fertilizers and application rates were much higher than 5-year averages. Supply side dynamics for farm inputs including fertilizers remain mixed with continued influence from global uncertainty and regional conflicts which have in some cases removed supply or otherwise impacted the timely availability of inputs which creates support for the elevated pricing levels.

**Improved Water Availability**

While our area remains vulnerable to drought patterns, water availability was substantially improved in 2023 because of high rain and snow levels experienced during the 2022-2023 water year. There was a clear change from 2022 where water concerns were focused on acquiring water at any cost, versus 2023 where water was readily available and less expensive to acquire, which positively impacted acres planted and the bottom-line costs related to water. Many crops, however, were impacted by a wet spring and untimely rains during harvest, which elevated costs and decreased revenue for many commodities grown in the area.

**Gross Farm Revenues**

Our region is among the most diverse in the world, which significantly reduces the common risks associated with growing agricultural commodities. The south San Joaquin valley has transitioned in recent years toward a heavier concentration of tree nuts, including almonds and pistachios, while still maintaining strong overall diversity in most cropping plans. While almond prices experienced softening over much of 2022, many commodities experienced strong demand, which created some lift in pricing such as citrus and stone fruit. Overall, gross revenue was mixed for many producers and lower overall for many commodities.

## INTEREST RATES

The U.S. Federal Reserve Board ("Fed") continues to use increases to the Fed Funds Rate to reduce the rate of inflation to the 2% target. During 2022, the Fed increased the Fed Funds rates from near zero to 4.375% by the end of the year. The Fed took further action in 2023, increasing the Fed Funds rate to 5.375%, or by about 23% from the end of 2022. High interest rates have contributed significantly to reduced farm margins.

Many economists believe the Fed will begin reducing interest rates sometime in 2024, as the implied probabilities using futures pricing suggest Fed Funds could be managed down by as much as 1.50%, which is somewhat aggressive given recent comments made by the Fed suggesting a more cautious tone regarding decreases.

## INVESTING IN OUR FUTURE

Our staff completes 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 today, and into the future. Over the course of 2024, we'll be continuing our efforts to improve our efficiency and impact the customer experience by leveraging the investments we've made in technology.

**Madera Office**

Originally announced in 2020, we completed our plan to open our new location in Madera, with the opening of our new building near the intersection of Highway 99 and Avenue 17. Our previous location served us for more than 50 years – we were pleased to open the new location to the public in July 2023.

## FINANCIAL RESULTS

We are pleased to report that we continue to serve the membership with a strong overall financial position as capital, earnings, and portfolio quality all remain strong as of the fiscal year ended December 31, 2023.

**Earnings**

Earnings are our most vital financial resource because they enable us to maintain adequate capital levels, fund our allowance for credit loss, and make the future investments that are necessary for us to serve your future needs.

**Net Interest Income**

Our net interest income is driven by the principal outstanding on our loans over the course of the year, as well as the net interest margin percentage applied to outstanding loans. Our net interest income increased by 8.14% from $37.3 million in 2022 to $40.3 million in 2023. The increase was driven by a 7.77% increase in our loans outstanding year over year and increases in the interest we earn on our invested capital. The increases in volume and capital earnings helped offset decreases in our net interest spread which resulted primarily from our liabilities repricing at a faster pace than our loan assets.

Additionally, we recorded a $940 thousand credit loss reversal, following an update of the factors we use to estimate loan losses.

**Non-Interest Income**

Loan and appraisal fees combined with patronage are the primary sources of our non-interest income. We receive patronage on loans we've sold to other Farm Credit institutions as well as from our direct note with our funding bank, CoBank. Overall, our non-interest income decreased slightly, by 0.47% because of 2022 non-interest income being lifted by the non-recurring gain from the sale of our existing Madera location.

**Non-Interest Expense**

Our noninterest expense increased by $2.3 million or 9.23% in 2023 compared to 2022. The largest increase was in salaries and employee benefits, which increased by $1.5 million or 11.07%, mainly due to increased staff levels and annual merit increases. Information technology expenses also increased significantly by $598 thousand or 12.75%, reflecting increased costs charged by our providers.

**Credit Quality**

Overall, our credit quality remains strong as 96.83% of our loans are rated "Acceptable" or "OAEM" (potentially weak). Just 0.32% of our loans at the end of the year were in non-performing categories which include loan balances that are either non-accrual or 90-days past due. These levels are elevated from 2022 but still strong and reflect our prudent lending practices.

**Net Income**

Our net income increased by 2.20% from the previous year to $26.6 million, driven by the 8.14% increase in net interest income. Our board targets a return on average assets (ROA) of between 1.60% and 1.80%. Our fiscal year 2023 net income result drove an ROA of 1.69%, a slight decrease from the previous year of 1.78%.

We believe 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 we can support our financial risks and maintain our strong lending capacity to support our member-customers' needs.

## CAPITAL AND PATRONAGE

One of our key financial objectives is to balance maintaining strong capital and a strong patronage program. We believe that both are essential for our long-term success and sustainability. Strong capital enables us to withstand risks, support growth, and invest in the future. A strong patronage program allows us to share our profits with our members and reduce their borrowing costs. We strive to achieve an optimal balance between these two goals by managing our capital adequacy and profitability, in a manner that prioritizes our mission to serve agriculture in our region, over the long run.

**Patronage**

Each year, the board of directors take great care in determining the amount of earnings to return to the members versus the amount retained to support future needs and our lending capacity. This year, recognizing the multitude of headwinds faced by many of our members, the board made the conscious decision to increase the patronage payout.

In 2024, we will distribute a record-high patronage distribution of $19.4 million, or 1.00% of patronage sourced volume for 2023. The amount of patronage paid represents 72.93% of our 2023 total net income for fiscal year 2023 and reflects the board's clear commitment to our patronage program and the agriculture we serve in the region.

**Capital**

Member capital increased to $317.9 million at the end of the fiscal year 2023; this 2.87% 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 16.40% at the end of 2023, 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 16.21% 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. We understand the importance of your trust in our ongoing commitment to serve your needs today and in the future, so we can be the generational lender you expect us to be. We appreciate the opportunities you provide us to be your partner and humbly thank you for your ongoing support of Fresno Madera Farm Credit.

**JEFF YRIBARREN**
**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 Yribarren**
Board Chairman

**Jeff Jue**
Vice Chairman

**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

**Leili Ghazi**
SVP, Chief Lending Officer

**Dan Kiggens**
SVP, Chief Risk Officer and Chief Credit Officer

**Marta Decker**
SVP, Chief Financial Officer

**Stephanie Graham**
SVP, Chief Administrative Officer

**Ken Thomas**
SVP, Chief Operating Officer

**David Ylarregui**
SVP, Relationship Management

**Ken Brown**
SVP, Appraisal Program Manager

# 2023 YEAR IN REVIEW

DOLLARS IN THOUSANDS

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| **Patronage Distribution Declared** | $19,355 | $17,094 | $14,121 | $12,650 | $12,539 |
| **Net Income** | $26,639 | $26,066 | $24,922 | $24,288 | $23,266 |
| **Loan Principal** | $1,562,832 | $1,453,296 | $1,351,411 | $1,291,568 | $1,225,675 |
| **Permanent Capital Ratio** | 16.24% | 16.63% | 16.81% | 16.93% | 16.94% |
| **Total Regulatory Capital Ratio** | 16.40% | 16.99% | 17.21% | 17.36% | 17.36% |
| **Return on Avg. Assets** | 1.69% | 1.78% | 1.80% | 1.85% | 1.82% |
| **Efficiency Ratio** | 51.6% | 50.0% | 47.0% | 44.0% | 44.4% |
| **Total Assets** | $1,672,224 | $1,553,343 | $1,425,421 | $1,363,512 | $1,305,935 |
| **Total Member Capital** | $317,947 | $309,075 | $300,110 | $289,306 | $277,666 |
| **Acceptable/OAEM Vol. % of P&I** | 96.83% | 98.64%[1] | 98.97%[1] | 98.39%[1] | 97.17%[1] |
| **Nonaccrual Loans as % of Total Loans** | 0.15% | 0.14% | 0.15% | 0.39% | 1.16% |

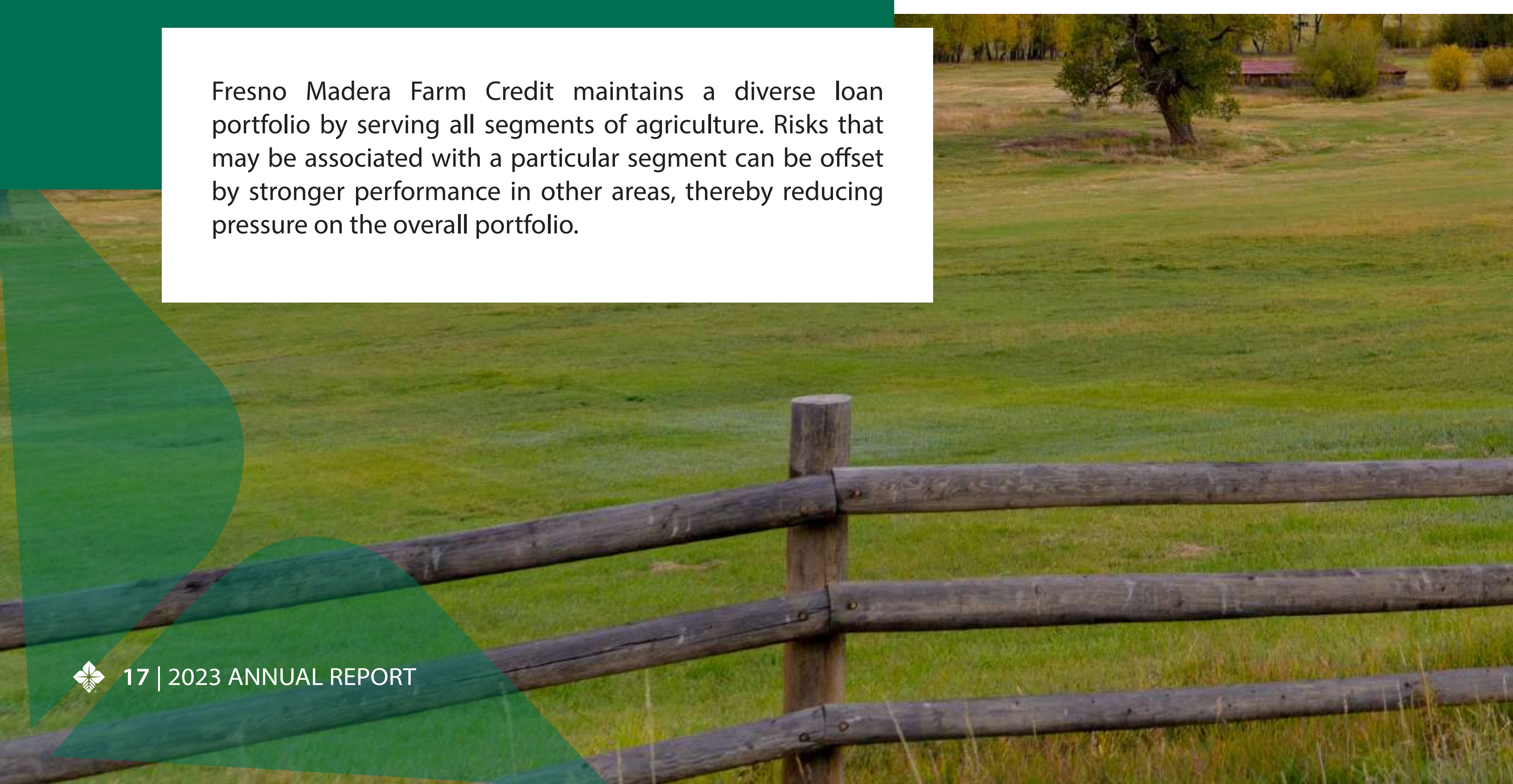
*[1]Prior to the adoption of CECL on January 1, 2023, loans were presented with accrued interest receivables.*

# LOAN VALUE BY COMPOSITION

*DOLLARS IN THOUSANDS*

| | | |
|---|---|---|
| REAL ESTATE MORTGAGE | 62% | $967,491 |
| PRODUCTION AND INTERMEDIATE-TERM | 17% | $269,728 |
| PROCESSING AND MARKETING | 10% | $155,981 |
| COOPERATIVES | 5% | $76,646 |
| ENERGY | 2% | $37,240 |
| FARM-RELATED BUSINESS | 2% | $25,568 |
| LEASE RECEIVABLES | 1% | $17,229 |
| COMMUNICATIONS | 1% | $12,949 |

Fresno Madera Farm Credit maintains a diverse loan portfolio by serving all segments of agriculture. Risks that may be associated with a particular segment can be offset by stronger performance in other areas, thereby reducing pressure on the overall portfolio.



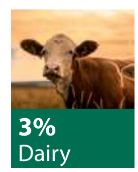
# COMMODITIES FINANCED

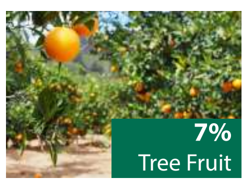
Fresno Madera Farm Credit's portfolio of commodities financed is a direct reflection of the diversity of agricultural commodities across Fresno and Madera counties. These neighboring Central Valley counties are renowned for their rich soil and favorable climate, allowing for the cultivation of a wide range of crops. Both counties' commitment to sustainable farming practices and innovative techniques ensures a steady supply of fresh and high-quality agricultural products, contributing significantly to California's reputation as a global agricultural powerhouse.







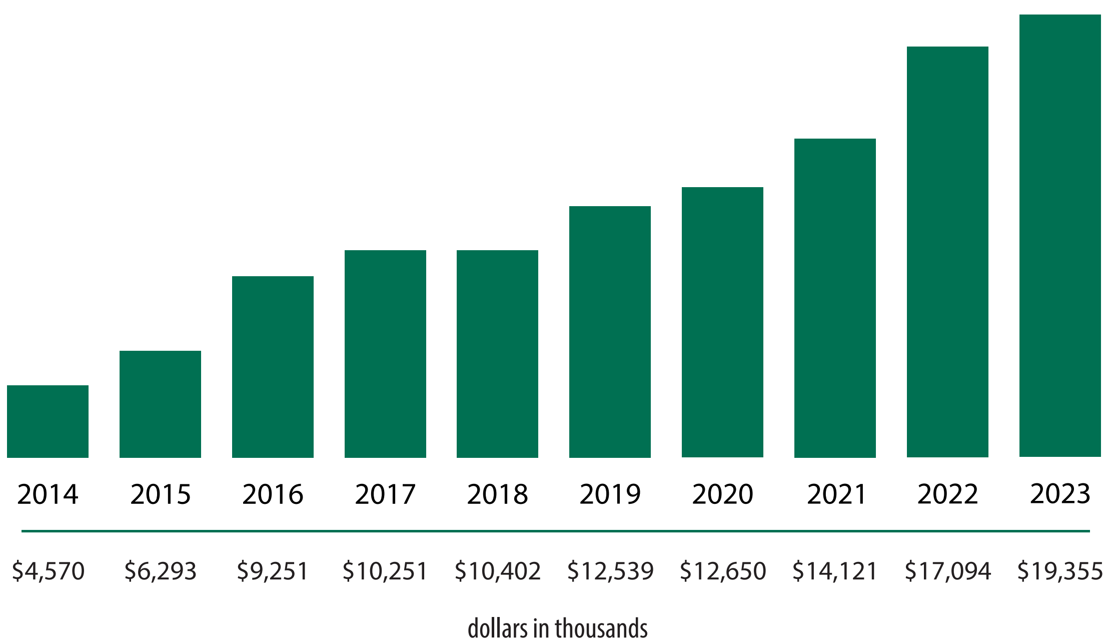




# PATRONAGE DISTRIBUTIONS

FMFC's board of directors, comprised of individuals deeply rooted in the agricultural community, has always strived to make decisions with an understanding of what members face economically, balanced with the future needs of the organization. This year, recognizing the multitude of headwinds faced by many of our members, the board made the conscious decision to increase the patronage payout.

After meeting all the association's financial needs – including the need to capitalize planned loan growth and other future needs – the board approved a patronage distribution in the amount of $19.4 million. This year, the $19.4 million patronage distribution represents 1.00% of members average loans outstanding for 2023, or 73% of the association's 2023 net income.




*More than $116 million in patronage paid over the last 10 years.*

# GIVING BACK TO **THE COMMUNITY**


# $207,116

IN CONTRIBUTIONS MADE TO 87 ORGANIZATIONS SUPPORTING AG AND OUR COMMUNITIES IN 2023.


**MORE THAN**
# 265
**HOURS**

**VOLUNTEERED BY STAFF IN 2023**

## 18%
**LOCAL COMMUNITY SUPPORT**

## 27%
**AG YOUTH**

## 55%
**ORGANIZATIONS ADVOCATING FOR AG**

# 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 2023 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 2023 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 15, 2024

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

Marta Decker, Senior Vice President and
Chief Financial Officer
Fresno Madera Farm Credit, ACA
Fresno Madera PCA, FLCA

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

Jeff Jue, Audit Committee Member
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, 2023. 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, 2023, 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, 2023.

March 15, 2024

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

Marta Decker, 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 2023, seven Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Controls Policy and the Audit Committee Charter.

The Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as the Association's independent auditors for 2023. The fees for professional services rendered for the Association by its independent auditor, PwC, during 2023 were $162,000 for audit services and $22,200 for tax services. The Committee reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence.

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

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2023 (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, 2023 and for filing with the Farm Credit Administration.

March 15, 2024

Denise Waite

Denise Waite, Audit Committee Chair

**Audit Committee Members**
Denise Waite, Audit Committee Chair
Wayne Carstens, Audit Committee Vice Chair
Jeff Jue, Audit Committee Member
Jeff Yribarren, Chairman of the Board

# FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

*Dollars in thousands, Unaudited*

| | December 31 | | | | |
|---|---|---|---|---|---|
| | **2023** | 2022 | 2021 | 2020 | 2019 |
| **Consolidated Statements of Condition Data** | | | | | |
| Loans | **$ 1,562,832** | $ 1,453,296 | $ 1,351,411 | $ 1,291,568 | $ 1,225,675 |
| Less: allowance for credit losses | **3,038** | 5,935 | 7,012 | 7,370 | 6,927 |
| Net loans | **1,559,794** | 1,447,361 | 1,344,399 | 1,284,198 | 1,218,748 |
| Investment in CoBank, ACB | **39,788** | 39,833 | 40,876 | 40,398 | 38,703 |
| Other assets | **72,642** | 66,149 | 40,146 | 38,916 | 48,484 |
| **Total assets** | **$ 1,672,224** | $ 1,553,343 | $ 1,425,421 | $ 1,363,512 | $ 1,305,935 |
| Obligations with maturities of one year or less | **$ 1,353,436** | $ 1,243,531 | $ 1,124,436 | $ 1,073,338 | $ 1,027,519 |
| Obligations with maturities longer than one year | **590** | 496 | 498 | 474 | 459 |
| Reserve for unfunded commitments | **251** | 241 | 377 | 394 | 291 |
| **Total liabilities** | **1,354,277** | 1,244,268 | 1,125,311 | 1,074,206 | 1,028,269 |
| Capital stock and participation certificates | **720** | 753 | 760 | 757 | 755 |
| Unallocated retained earnings | **317,227** | 308,322 | 299,350 | 288,549 | 276,911 |
| **Total members' equity** | **317,947** | 309,075 | 300,110 | 289,306 | 277,666 |
| **Total liabilities and members' equity** | **$ 1,672,224** | $ 1,553,343 | $ 1,425,421 | $ 1,363,512 | $ 1,305,935 |

| | For the Year Ended December 31 | | | | |
|---|---|---|---|---|---|
| | **2023** | 2022 | 2021 | 2020 | 2019 |
| **Consolidated Statements of Income Data** | | | | | |
| Net interest income | **$ 40,351** | $ 37,314 | $ 35,008 | $ 33,293 | $ 33,026 |
| Patronage distribution from Farm Credit institutions | **11,265** | 10,752 | 9,795 | 8,594 | 7,888 |
| (Credit loss reversal) provision for credit losses | **(940)** | (1,063) | (391) | 342 | 204 |
| Noninterest expense, net | **25,915** | 23,061 | 20,270 | 17,309 | 17,442 |
| Provision for (benefit from) income taxes | **2** | 2 | 2 | (52) | 2 |
| **Net income** | **$ 26,639** | $ 26,066 | $ 24,922 | $ 24,288 | $ 23,266 |
| **Key Financial Ratios** | | | | | |
| **For the Year** | | | | | |
| Return on average assets | **1.69%** | 1.78% | 1.80% | 1.85% | 1.82% |
| Return on average members' equity | **8.14%** | 8.29% | 8.23% | 8.36% | 8.28% |
| Net interest income as a percentage of average earning assets | **2.72%** | 2.69% | 2.66% | 2.67% | 2.72% |
| Net charge-offs (recoveries) as a percentage of average loans | **<0.01%** | <0.01% | (<0.01%) | (0.01%) | 0.01% |
| **At Year End** | | | | | |
| Members' equity as a percentage of total assets | **19.01%** | 19.90% | 21.05% | 21.22% | 21.26% |
| Debt as a ratio to members' equity | **4.26:1** | 4.03:1 | 3.75:1 | 3.71:1 | 3.70:1 |
| Allowance for credit losses as a percentage of loans | **0.19%** | 0.41% | 0.52% | 0.57% | 0.57% |
| Common equity tier 1 (CET1) capital ratio | **16.21%** | 16.57% | 16.74% | 16.84% | 16.85% |
| Tier 1 capital ratio | **16.21%** | 16.57% | 16.74% | 16.84% | 16.85% |
| Total capital ratio | **16.40%** | 16.99% | 17.21% | 17.36% | 17.36% |
| Tier 1 leverage ratio | **18.73%** | 18.97% | 19.41% | 19.45% | 19.79% |
| Unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio | **18.68%** | 18.92% | 20.64% | 20.63% | 20.86% |
| Permanent capital ratio | **16.24%** | 16.63% | 16.81% | 16.93% | 16.94% |
| **Other** | | | | | |
| Cash patronage distributions declared | **$ 19,355** | $ 17,094 | $ 14,121 | $ 12,650 | $ 12,539 |
| Cash patronage distributions paid | **$ 17,094** | $ 14,121 | $ 9,387 | $ 15,802 | $ 10,402 |

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Unaudited*

## INTRODUCTION

The following discussion summarizes the financial position and results of operations of Fresno Madera Farm Credit, ACA (Association) for the year ended December 31, 2023. 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

As of December 31, 2023, we are one of 56 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 service agreement with FPI was amended on October 30, 2023 and will expire on October 29, 2028. 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, which was extended to September 30, 2024, through congressional resolution, 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 state economy, the industry continues to experience challenges as farm earnings have been negatively impacted by several factors including persistently higher operating costs driven by inflation and an elevated interest rate environment along with persistent labor, regulation, and trade issues.

While certain commodities have experienced higher prices that have helped offset increased operating expenses, other products grown and produced in our loan service area (LSA), including almonds, have been impacted by lower demand driven by export challenges, which has caused pricing that is at or below breakeven levels. As tighter operating margins will negatively impact the profitability within certain segments of our loan portfolio, we anticipate modest deterioration of credit quality, though we believe the majority of our borrowers will maintain acceptable 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.

After several years of below average precipitation and snowfall that led to extreme drought conditions across much of California, the 2022/2023 season was well above average with the state enduring significant rain and snow events that resulted in a record snowpack and restored storage reservoirs to levels that are well above normal. Water districts were able to capture flood releases and divert the water to recharge basins, which will help achieve groundwater sustainability as required by SGMA. Most water districts provided full allocations in 2023, which reduced water costs for our borrowers in higher cost areas, while also reducing the amount of groundwater extraction and further improving groundwater recharge efforts.

Due to the elevated pumping of groundwater, the State of California passed the Sustainable Groundwater Management Act (SGMA) in 2014 to regulate groundwater usage. It aims to achieve sustainable groundwater management by requiring that groundwater basins be managed to avoid overdraft, land subsidence, and other undesirable results. The law mandates that local agencies, called Groundwater Sustainability Agencies (GSAs), develop and implement Groundwater Sustainability Plans (GSPs) to achieve sustainability goals by January 31, 2040. These plans must be reviewed and approved by California's Department of Water Resources (DWR).

As of December 31, 2023, the GSPs that cover the majority of the Association's LSA have been approved, with the level of pumping restrictions in line or lower than originally anticipated. While GSPs are subject to periodic review by the DWR and requirements will change based on actual conditions, the approval of the plans minimized some concern relative to the availability of groundwater to support surface allocations and brought some stability when assessing water scarcity risk.

The San Joaquin Valley continues to experience downward pressure on permanent planting and open land values primarily due to elevated interest rates, low commodity pricing, high input costs, and increased awareness of the impacts of SGMA (specifically increased water costs and decreased water availability). The softening land values are especially evident in the Southern San Joaquin Valley, Westside almond orchards, and Madera County "white areas" (lands entirely reliant on pumped groundwater for irrigation). Additionally, brokers are reporting resistance to current listing prices, and it appears many sellers are reluctant to accept the softening value trend in these areas. Sales data in these markets is currently limited; however, recent marketing periods, lower offers and limited transactions in the marketplace appear to support this softening trend.

Management views the risks associated with drought conditions, regulations related to the implementation of SGMA, and softening land values as risks that could lead to deterioration within the loan portfolio. While the full effects of the legislation continue to develop, management anticipates the areas within our LSA subject to more stringent pumping restrictions may experience long-term negative impacts, including diminished cash flow and greater volatility of the value of the real property that secures our long-term loans. Management is closely monitoring the status of the sustainability plans and continues to evolve our underwriting practices to ensure that water scarcity risk is properly identified and analyzed when loans are originated.

## RESULT OF OPERATIONS

During 2023, we recognized net income of $26.6 million as compared to $26.1 million and $24.9 million for 2022 and 2021, respectively. The increase in 2023 is primarily due to an increase in net interest income. This was partially offset by an increase in our noninterest expense.

The following table reflects key performance results as of December 31:

| ($ in thousands) | **2023** | 2022 | 2021 |
|---|---|---|---|
| Net income | **$ 26,639** | $ 26,066 | $ 24,922 |
| Net interest income | **$ 40,351** | $ 37,314 | $ 35,008 |
| Net interest margin | **2.72%** | 2.69% | 2.66% |
| Return on average assets | **1.69%** | 1.78% | 1.80% |
| Return on average members' equity | **8.14%** | 8.29% | 8.23% |

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

| ($ in thousands) | **2023 vs. 2022** | 2022 vs. 2021 |
|---|---|---|
| Net income, prior year | **$ 26,066** | $ 24,922 |
| Increase (decrease) due to: | | |
| Interest income | **43,254** | 18,487 |
| Interest expense | **(40,217)** | (16,181) |
| Net interest income | **3,037** | 2,306 |
| Credit loss reversal | **(123)** | 672 |
| Noninterest income | **(58)** | 1,172 |
| Noninterest expense | **(2,283)** | (3,006) |
| Total increase in net income | **573** | 1,144 |
| Net income, current year | **$ 26,639** | $ 26,066 |

## Net Interest Income

Net interest income for 2023 was $40.3 million compared with $37.3 million for 2022 and $35.0 million for 2021. 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 $3.0 million or 8.14% from prior year primarily due to higher average loan volume coupled with an increase in earnings associated with our invested capital due to the increasing interest rate environment. 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 2023 and 2022:

| ($ in thousands) | **2023 vs. 2022** | 2022 vs. 2021 |
|---|---|---|
| Net interest income, prior year | **$ 37,314** | $ 35,008 |
| Increase (decrease) due to: | | |
| Interest rates earned | **36,468** | 15,378 |
| Interest rates paid | **(35,097)** | (14,818) |
| Volume of interest-bearing assets and liabilities | **1,666** | 1,731 |
| Interest income on nonaccrual loans | **-** | 15 |
| Increase in net interest income | **3,037** | 2,306 |
| Net interest income, current year | **$ 40,351** | $ 37,314 |

Our net interest margin increased to 2.72% in 2023 from 2.69% in 2022 primarily due to higher average loan volume coupled with an increase 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 Credit Losses

We monitor our loan portfolio on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for credit losses is warranted based on our estimate of credit losses over the remaining expected life of loans. We recorded a credit loss reversal of $940 thousand, $1.1 million, and $391 thousand in 2023, 2022, and 2021, respectively. The credit loss reversal recorded in 2023 was primarily the result of the Association updating its probability of default (PD) loss factors to be consistent with the latest Farm Credit System's Combined System Risk Rating Guidance (Farm Credit Curve), along with a favorable adjustment from our loan and economic performance forecasts, which resulted in a lower allowance for credit losses. This was partially offset by an increase in loan volume. Further discussion of the provision for credit losses can be found in Note 3, "Loans and Allowance for Credit Losses," of the accompanying consolidated financial statements.

## Noninterest Income

We recorded noninterest income of $12.4 million in 2023 and 2022, and $11.2 million in 2021. 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 2022 due to an increase in the patronage allocation from both CoBank and other Farm Credit institutions. The increase in noninterest income was also driven by increased unused commitment fees recognized from our capital markets segment.

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 $8.8 million in 2023, $8.7 million in 2022, and $7.7 million in 2021. This comprises 71.20% of total noninterest income for 2023, and 69.90% and 68.15% for 2022 and 2021, 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.

## Noninterest Expense

In 2023, noninterest expense increased $2.3 million, or 9.23%, to $27.0 million, up from $24.7 million in 2022, primarily due to higher salaries and benefits, as well as an increase in information technology expenses. Salaries and employee benefits expense increased primarily due to planned increases in staff, in addition to annual merit increases and related increases in accruals of short-term and long-term incentive compensation programs. The increase in information technology was due to planned increases in service charges from our technology provider.

### Provision for Income Taxes

We recorded a provision for income taxes of $2 thousand in 2023, 2022, and 2021. The provision for income taxes in these years are franchise state taxes. For additional information, refer to Note 10, "Income Taxes," of the accompanying consolidated financial statements.

## LOAN PORTFOLIO

Total loans outstanding were $1.56 billion at December 31, 2023, an increase of $109.5 million, or 7.54%, from total loans at December 31, 2022 of $1.45 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** | **2023** | 2022 | 2021 |
|---|---|---|---|
| Real estate mortgage | **62%** | 64% | 66% |
| Production and intermediate-term | **17%** | 19% | 19% |
| Agribusiness: | | | |
| Cooperatives | **5%** | 4% | 5% |
| Processing and marketing | **10%** | 10% | 7% |
| Farm related business | **2%** | 1% | 2% |
| Communications | **1%** | 0% | 0% |
| Energy | **2%** | 1% | 0% |
| Lease receivables | **1%** | 1% | 1% |
| Total | **100%** | 100% | 100% |

Real estate mortgage loans account for 62% of total loan volume, which represents an increase of $35.8 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 17% of total loan volume. Volume in this category decreased by $1.5 million as a result of decreased utilization of seasonal lines coupled with increased repayment activity. 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 17% of our total loan portfolio, which is higher than prior year. The total loan volume in this category increased by $35.6 million as a result of new loan originations.

We experienced an increase in average accruing loan volume of 6.95% with average volume at $1.48 billion for 2023 compared to $1.38 billion for 2022. This was driven by new business development within both the direct loan and purchased participation portfolios, partially offset by unscheduled loan payoffs. Overall new business developed in 2023 amounted to $475.1 million with 52.62% in direct loans and 47.38% 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) | **2023** | 2022 | 2021 |
|---|---|---|---|
| Purchased | **$ 487,619** | $ 383,467 | $ 340,361 |
| Sold | **$ (509,819)** | $ (559,915) | $ (447,357) |

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** | **2023** | 2022 | 2021 |
|---|---|---|---|
| Fresno | **53%** | 50% | 50% |
| Madera | **15%** | 15% | 17% |
| Other | **32%** | 35% | 33% |
| Total | **100%** | 100% | 100% |

As a percentage of the portfolio, loans originated in Fresno County increased 3% while loans originated in Madera County remained at 15% 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** | **2023** | 2022 | 2021 |
|---|---|---|---|
| Almonds | **32%** | 33% | 33% |
| Agribusiness | **19%** | 18% | 17% |
| Pistachios | **10%** | 9% | 8% |
| Tree fruit | **7%** | 9% | 10% |
| Raisins | **6%** | 6% | 7% |
| Wine & table grapes | **6%** | 6% | 6% |
| Dairy | **3%** | 5% | 5% |
| Vegetables & melons | **3%** | 3% | 4% |
| Rural infrastructure | **2%** | 1% | 0% |
| Other | **12%** | 10% | 10% |
| 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.

After years of prosperity, almonds, which are the predominant commodity financed by the Association, have seen prices drop to below long-term averages driven by recent record crop sizes combined with reduced exports mainly attributed to unfavorable trade tariffs and challenges exporting product overseas due to shipping disruptions at the ports. At current prices, the majority of operations are operating at below break-even levels, particularly those that operate in areas with elevated water costs and/or have high debt service requirements. While the 2023 crop price is expected to remain depressed, there is optimism that prices will begin to rebound as the current year crop is estimated to be well below recent levels, with an anticipation that production will continue to decline as growers make long-term cropping choices as they align the size and scope of their operations with available water resources. Management continues to closely monitor the economics of the industry, and work with borrowers who are experiencing operational challenges.

Agribusiness represents 19% of our loan portfolio, which is a 1% increase from the prior year. 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 7% of our total portfolio, which is a 2% decrease from prior year. The tree fruit industry can be volatile from year-to-year, with returns to growers showing continued improvement over the past three seasons. 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 indicate strong results.

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) | **2023** | 2022 | 2021 |
| $1 - $250 | **$ 55,395** | $ 58,108 | $ 60,590 |
| $251 - $500 | **102,161** | 102,299 | 105,718 |
| $501 - $1,000 | **185,690** | 188,428 | 174,317 |
| $1,001 - $5,000 | **825,872** | 741,883 | 701,371 |
| $5,001 - $25,000 | **393,714** | 362,578 | 309,415 |
| Total | **$ 1,562,832** | $ 1,453,296 | $ 1,351,411 |

| | Number of loans | | |
|---|---|---|---|
| ($ in thousands) | **2023** | 2022 | 2021 |
| $1 - $250 | **534** | 554 | 598 |
| $251 - $500 | **283** | 281 | 293 |
| $501 - $1,000 | **261** | 262 | 239 |
| $1,001 - $5,000 | **387** | 348 | 336 |
| $5,001 - $25,000 | **51** | 50 | 41 |
| Total | **1,516** | 1,495 | 1,507 |

The principal balance outstanding at December 31, 2023 for loans $500 thousand and less account for 10.08% of loan volume but 53.89% 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 25.19% of our loan volume and are attributable to 51 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 Credit 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 $982 thousand at December 31, 2023, $4.5 million at December 31, 2022, and $5.1 million at December 31, 2021. The decrease in 2023 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 $9 thousand in 2023, $12 thousand in 2022, and $43 thousand in 2021.

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

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 $9.0 million at year-end 2023, $8.6 million at year-end 2022, and $12.4 million at year-end 2021. The increase in 2023 is due to new loan originations that are covered under the Federal Guarantees program. The decrease in 2022 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, 2023.

| ($ in thousands) | Commitments to extend credit | Standby letters of credit | Total commitments |
|---|---|---|---|
| Less than 1 year | $ 163,321 | $ 1,212 | $ 164,533 |
| 1 – 3 years | 171,813 | - | 171,813 |
| 3 – 5 years | 111,505 | - | 111,505 |
| Over 5 years | 233,135 | - | 233,135 |
| Total | $ 679,774 | $ 1,212 | $ 680,986 |

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.

## Nonperforming Assets

Nonperforming loans is comprised of nonaccrual loans and accruing loans 90 days or more past due. Nonperforming assets consist of nonperforming loans and other property owned. Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or interest.

Comparative information regarding nonperforming assets in the portfolio as of December 31 follows:

| ($ in thousands) | **2023** | 2022[1] | 2021[1] |
|---|---|---|---|
| Nonaccrual loans: | | | |
| Real estate mortgage | **$ 1,156** | $ 652 | $ 396 |
| Production and intermediate-term | **36** | - | - |
| Agribusiness | **1,104** | 1,401 | 1,630 |
| Lease receivables | **69** | - | - |
| Total nonaccrual loans | **2,365** | 2,053 | 2,026 |
| Accruing loans 90 days or more past due | **2,635** | 115 | - |
| Total nonperforming loans | **5,000** | 2,168 | 2,026 |
| Other property owned | **-** | - | - |
| Total nonperforming assets | **$ 5,000** | $ 2,168 | $ 2,026 |
| Nonaccrual loans to total loans | **0.15%** | 0.14% | 0.15% |
| Nonperforming assets to total loans | **0.32%** | 0.15% | 0.15% |
| Nonperforming assets to total members' equity | **1.57%** | 0.70% | 0.68% |

[1] Prior to the adoption of Current Expected Credit Loss (CECL) guidance on January 1, 2023, nonperforming assets included accruing restructured loans and were presented with accrued interest receivables.

Total nonperforming assets increased $2.8 million to $5.0 million as of December 31, 2023 from $2.2 million as of December 31, 2022. Nonperforming assets increased primarily due to the transfer of six loan complexes to nonaccrual loans during 2023, along with an increase in accruing loans 90-days or more past due as we work diligently with our borrowers who are experiencing distress through loan servicing plans that are focused on maintaining long-term viability. For the years ended December 31, 2023, 2022, and 2021, there were twelve, six, and four loans classified as nonaccrual, respectively.

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

| ($ in thousands) | **2023** | 2022 | 2021 |
|---|---|---|---|
| Nonaccrual loans current | **$ 1,655** | $ 1,758 | $ 2,026 |
| Nonaccrual loans past due | **710** | 295 | - |
| Total nonaccrual loans | **$ 2,365** | $ 2,053 | $ 2,026 |

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, 2023, 2022, or 2021.

## 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 at December 31:

| | **2023** | 2022[1] | 2021[1] |
|---|---|---|---|
| Acceptable | **94.40%** | 95.68% | 94.82% |
| OAEM | **2.43%** | 2.96% | 4.15% |
| Substandard | **3.17%** | 1.36% | 1.03% |
| Doubtful | **0.00%** | 0.00% | 0.00% |
| Total | **100.00%** | 100.00% | 100.00% |

[1] Prior to the adoption of CECL on January 1, 2023, loans were presented with accrued interest receivables.

During 2023, overall credit quality decreased with loans classified as "Acceptable" and "OAEM" accounting for 96.83% of volume at December 31, 2023 compared to 98.64% at December 31, 2022. The decrease is attributed to net portfolio deterioration driven by operating losses in certain segments of the loan portfolio, offset by improvement in other segments. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans were 0.40%, 0.10%, and 0.00% for 2023, 2022, and 2021, respectively.

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 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 credit loss, and effective credit administration will allow us to successfully manage this risk.

## Allowance for Credit Losses

Beginning January 1, 2023, the allowance for credit losses (ACL) represents the estimated current expected credit losses over the remaining contractual life of financial assets measured at amortized cost and certain off-balance sheet credit exposures. The ACL takes into consideration relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are not unconditionally cancellable. The ACL comprises:

- The allowance for credit losses on loans (ACLL), and
- The reserve for unfunded commitments, which is presented on the Consolidated Statement of Condition.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, considering macroeconomic conditions, forecasts, and other factors prevailing at the time, may result in significant changes in the ACL in those future periods.

The following table provides relevant information regarding the allowance for credit losses as of December 31:

| ($ in thousands) | 2023 | 2022 | 2021 |
|---|---|---|---|
| Balance at beginning of year | **$ 5,935** | $ 7,012 | $ 7,370 |
| Cumulative effect of a change in accounting principle | **(1,841)** | - | - |
| Adjusted balance at beginning of year | **4,094** | 7,012 | 7,370 |
| Charge-offs: | | | |
| Real estate mortgage | **-** | 14 | - |
| Production and intermediate-term | **116** | 2 | - |
| Total charge-offs | **116** | 16 | - |
| Recoveries: | | | |
| Real estate mortgage | **-** | - | 33 |
| Production and intermediate-term | **-** | 2 | - |
| Total recoveries | **-** | 2 | 33 |
| Net charge-offs (recoveries) | **116** | 14 | (33) |
| Credit loss reversal | **(940)** | (1,063) | (391) |
| Balance at December 31 | **$ 3,038** | $ 5,935 | $ 7,012 |
| Net charge-offs (recoveries) to average net loans | **<0.01%** | <0.01% | (<0.01%) |

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

| ($ in thousands) | 2023 | 2022 | 2021 |
|---|---|---|---|
| Real estate mortgage | **$ 773** | $ 423 | $ 680 |
| Production and intermediate-term | **353** | 3,854 | 3,943 |
| Agribusiness | **1,712** | 1,472 | 1,993 |
| Communications | **27** | - | - |
| Energy | **68** | - | - |
| Lease receivables | **105** | 186 | 396 |
| Total | **$ 3,038** | $ 5,935 | $ 7,012 |

The allowance for credit losses decreased $2.9 million to $3.0 million as of December 31, 2023 from $5.9 million as of December 31, 2022. The reversal in our allowance for credit losses is primarily due to the adoption of the Financial Accounting Standards Board (FASB) guidance, "Measurement of Credit Losses on Financial Instruments," on January 1, 2023. Upon adoption, the Association recorded a $1.6 million decrease in its allowance for credit losses (ACL) on January 1, 2023. The ACL decreased again during the year when the Association updated its probability of default (PD) factors to the most recent System Risk Rating Guidance. The updated System curve indicates a lower occurrence of default, which is in line with the Association's loss history. The net reversal in our allowance for credit losses indicates a favorable adjustment from our earlier loan and economic performance forecasts.

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

| | 2023 | 2022[1] | 2021[1] |
|---|---|---|---|
| Allowance as a percentage of: | | | |
| Total loans | **0.19%** | 0.41% | 0.52% |
| Nonaccrual loans | **128.46%** | 289.11% | 346.10% |
| Nonperforming assets | **164.58%** | 289.11% | 346.10% |

[1] Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans and were presented with accrued interest receivables.

The overall allowance as a percentage of loans has decreased to 0.19% at December 31, 2023 compared to 0.41% at December 31, 2022, and 0.52% at December 31, 2021. The Association continues to provide an adequate allowance for credit losses. Further discussion of the allowance can be found in Note 3, "Loans and Allowance for Credit Losses," of the accompanying consolidated financial statements.

We maintain a separate reserve for unfunded commitments, which is included 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 is 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 credit 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 CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank that is subject to periodic renewal in accordance with normal business practices. The annual average principal balance of the note payable to CoBank was $1.19 billion in 2023, $1.10 billion in 2022, and $1.02 billion in 2021.

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.

## 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, 2023 totaled $317.9 million, compared with $309.1 million at December 31, 2022 and $300.1 million at December 31, 2021. 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:

| | **2023** | 2022 | 2021 |
|---|---|---|---|
| Debt to members' equity | **4.26:1** | 4.03:1 | 3.75:1 |
| Members' equity as a % of net loans | **20.38%** | 21.35% | 22.32% |
| Members' equity as a % of total assets | **19.01%** | 19.90% | 21.05% |

### Retained Earnings

Our retained earnings increased $8.9 million to $317.2 million at December 31, 2023 from $308.3 million at December 31, 2022. The increase resulted from a net income of $26.6 million, combined with a $1.6 million increase in retained earnings upon adoption of the new allowance for credit losses standard on January 1, 2023. This was partially offset by a $19.4 million patronage distribution declared in December 2023.

### 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 $17.1 million in 2023, $14.1 million in 2022, and $9.4 million in 2021. During 2023, we declared patronage distributions of $19.4 million to be paid in March 2024.

### Stock

Our total stock and participation certificates decreased $33 thousand to $720 thousand at December 31, 2023 from $753 thousand at December 31, 2022. We require a $1 thousand 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, 2023, 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, 2023** | Regulatory Minimum | Capital Conservation Buffer | Total |
|---|---|---|---|---|
| **Risk Adjusted:** | | | | |
| Common equity tier 1 ratio | **16.21%** | 4.50% | 2.5% | 7.00% |
| Tier 1 capital ratio | **16.21%** | 6.00% | 2.5% | 8.50% |
| Total capital ratio | **16.40%** | 8.00% | 2.5% | 10.50% |
| Permanent capital ratio | **16.24%** | 7.00% | – | 7.00% |
| **Non-risk-adjusted:** | | | | |
| Tier 1 leverage ratio | **18.73%** | 4.00% | 1.00% | 5.00% |
| Unallocated retained earnings and equivalents leverage ratio | **18.68%** | 1.50% | – | 1.50% |

As shown in the table above, the Association exceeded the minimum regulatory requirements. The 2023 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.

## REGULATORY MATTERS

As of December 31, 2023, 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 Credit Losses:

### Allowance for Credit Losses

Beginning January 1, 2023, the allowance for credit losses (ACL) represents the estimated current expected credit losses over the remaining contractual life of financial assets measured at amortized cost and certain off-balance sheet credit exposures. The ACL takes into consideration relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are not unconditionally cancellable. The ACL comprises:

- The allowance for credit losses on loans (ACLL), and
- The reserve for unfunded commitments, which is presented on the balance sheet.

Determining the appropriateness of the allowance is complex and requires judgement by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, considering macroeconomic conditions, forecasts, and other factors prevailing at the time, may result in significant changes in the ACL in those future periods.

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in the Association's loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors were considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition, and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations, and appraisals to change over time. A number of factors were considered in determining and supporting the Association's allowance for loan losses, which included, but was not limited to, 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.

For detailed information regarding the allowance for credit losses refer to Notes 2 and 3, "Summary of Significant Accounting Policies" and "Loans and Allowance for Credit Losses," respectively 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, 2023, 2022 and 2021, and the related consolidated statements of income, of changes in members' equity and of 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, 2023, 2022 and 2021, 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.

### *Emphasis of Matter*

As discussed in Note 1 to the consolidated financial statements, the Association changed the manner in which it accounts for the allowance for credit losses. Our opinion is not modified with respect to this matter.

### *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

PricewaterhouseCoopers LLP, 405 Howard Street, Suite 600, San Francisco, CA 94015
T: (415) 498 5000, www.pwc.com/us

in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

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

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

***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2023 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 15, 2024

# CONSOLIDATED STATEMENTS OF CONDITION

*Dollars in thousands*

| | December 31 | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| **ASSETS** | | | |
| Loans | **$1,562,832** | $ 1,453,296 | $ 1,351,411 |
| Less: allowance for credit losses | **3,038** | 5,935 | 7,012 |
| Net loans | **1,559,794** | 1,447,361 | 1,344,399 |
| Cash | **3,028** | 11,199 | 1,159 |
| Accrued interest receivable | **39,096** | 24,724 | 15,078 |
| Investment in CoBank, ACB | **39,788** | 39,833 | 40,876 |
| Premises and equipment, net | **9,584** | 9,203 | 6,188 |
| Other assets | **20,934** | 21,023 | 17,721 |
| **Total assets** | **$1,672,224** | $ 1,553,343 | $ 1,425,421 |
| **LIABILITIES** | | | |
| Note payable to CoBank, ACB | **$1,281,119** | $ 1,174,098 | $ 1,059,017 |
| Funds held | **43,168** | 43,875 | 47,066 |
| Accrued interest payable | **5,336** | 3,803 | 309 |
| Patronage distributions payable | **19,355** | 17,094 | 14,121 |
| Reserve for unfunded commitments | **251** | 241 | 377 |
| Other liabilities | **5,048** | 5,157 | 4,421 |
| **Total liabilities** | **1,354,277** | 1,244,268 | 1,125,311 |
| **Commitments and Contingencies (See Note 14)** | | | |
| **MEMBERS' EQUITY** | | | |
| Capital stock and participation certificates | **720** | 753 | 760 |
| Unallocated retained earnings | **317,227** | 308,322 | 299,350 |
| **Total members' equity** | **317,947** | 309,075 | 300,110 |
| **Total liabilities and members' equity** | **$1,672,224** | $ 1,553,343 | $ 1,425,421 |

*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 | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| **INTEREST INCOME** | | | |
| Loans | **$ 104,655** | $ 61,401 | $ 42,914 |
| **INTEREST EXPENSE** | | | |
| Note payable to CoBank, ACB | **61,977** | 23,570 | 7,869 |
| Funds held | **2,327** | 517 | 37 |
| **Total interest expense** | **64,304** | 24,087 | 7,906 |
| Net interest income | **40,351** | 37,314 | 35,008 |
| Credit loss reversal | **(940)** | (1,063) | (391) |
| Net interest income after credit loss reversal | **41,291** | 38,377 | 35,399 |
| **NONINTEREST INCOME** | | | |
| Financially related services income | **163** | 330 | 184 |
| Loan fees | **747** | 541 | 986 |
| Patronage distribution from Farm Credit institutions | **11,265** | 10,752 | 9,795 |
| Gain on the sale of premises and equipment | **-** | 560 | 92 |
| Other noninterest income | **184** | 234 | 188 |
| **Total noninterest income** | **12,359** | 12,417 | 11,245 |
| **NONINTEREST EXPENSE** | | | |
| Salaries and employee benefits | **14,609** | 13,153 | 11,952 |
| Occupancy and equipment | **881** | 753 | 713 |
| Farm Credit Insurance Fund premium | **2,047** | 2,073 | 1,521 |
| Information technology | **5,291** | 4,693 | 4,572 |
| Supervisory and examination costs | **520** | 499 | 472 |
| Other noninterest expense | **3,661** | 3,555 | 2,490 |
| **Total noninterest expense** | **27,009** | 24,726 | 21,720 |
| Income before income taxes | **26,641** | 26,068 | 24,924 |
| Provision for income taxes | **2** | 2 | 2 |
| **Net income** | **$ 26,639** | $ 26,066 | $ 24,922 |

*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, 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 |
| Net income | | 26,066 | 26,066 |
| Capital stock and participation certificates issued | 55 | | 55 |
| Capital stock and participation certificates retired | (62) | | (62) |
| Patronage distributions: cash | | (17,094) | (17,094) |
| **Balance at December 31, 2022** | $ 753 | $ 308,322 | $ 309,075 |
| Cumulative effects from adoption of the CECL standard | | 1,621 | 1,621 |
| **Balance at January 1, 2023** | **$ 753** | **$ 309,943** | **$ 310,696** |
| Net income | | **26,639** | **26,639** |
| Capital stock and participation certificates issued | **45** | | **45** |
| Capital stock and participation certificates retired | **(78)** | | **(78)** |
| Patronage distributions: cash | | **(19,355)** | **(19,355)** |
| **Balance at December 31, 2023** | **$ 720** | **$ 317,227** | **$ 317,947** |

*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 | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net income | **$ 26,639** | $ 26,066 | $ 24,922 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | **805** | 765 | 739 |
| Credit loss reversal | **(940)** | (1,063) | (391) |
| Stock patronage from CoBank, ACB | **(544)** | (479) | (479) |
| Loss (gain) on disposal of premises and equipment | **3** | (560) | (92) |
| Change in assets and liabilities: | | | |
| Increase in accrued interest receivable | **(14,372)** | (9,646) | (644) |
| Decrease (increase) in other assets | **89** | (3,302) | (3,230) |
| Increase (decrease) in accrued interest payable | **1,533** | 3,494 | (93) |
| Decrease in reserve for unfunded commitments | **(210)** | (135) | (17) |
| (Decrease) increase in other liabilities | **(109)** | 735 | 749 |
| Total adjustments | **(13,745)** | (10,191) | (3,458) |
| Net cash provided by operating activities | **12,894** | 15,875 | 21,464 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Net increase in loans | **(109,652)** | (101,899) | (59,810) |
| Decrease stock in CoBank, ACB | **589** | 1,522 | - |
| Proceeds from sale of premises and equipment | **-** | 631 | 98 |
| Purchase of premises and equipment | **(1,189)** | (3,851) | (1,359) |
| Net cash used in investing activities | **(110,252)** | (103,597) | (61,071) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Net draw on note payable to CoBank, ACB | **107,021** | 115,081 | 49,917 |
| Net decrease in funds held | **(707)** | (3,191) | (4,185) |
| Capital stock and participation certificates retired | **(78)** | (62) | (75) |
| Capital stock and participation certificates issued | **45** | 55 | 78 |
| Cash patronage distributions paid | **(17,094)** | (14,121) | (9,387) |
| Net cash provided by financing activities | **89,187** | 97,762 | 36,348 |
| Net (decrease) increase in cash | **(8,171)** | 10,040 | (3,259) |
| Cash at beginning of year | **11,199** | 1,159 | 4,418 |
| Cash at end of year | **$ 3,028** | $ 11,199 | $ 1,159 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | | |
| Cash paid (received) during the year for: | | | |
| Interest | **$ 62,771** | $ 20,593 | $ 7,999 |
| Income taxes, net of refunds | **$ 2** | $ 2 | $ (22) |
| **SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:** | | | |
| Cash patronage distributions payable | **$ 19,355** | $ 17,094 | $ 14,121 |

*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).

At December 31, 2023, the System was comprised of three Farm Credit Banks (FCBs), one Agricultural Credit Bank (ACB), and 56 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, 16 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 is 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, rural residents, and farm-related businesses.

The Association serves as an intermediary in offering related services to its borrowers, such as credit life insurance and multi-peril crop insurance and providing additional services to borrowers 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 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.

### Reclassifications

Certain amounts in prior year's financial statements have been reclassified to conform to current financial statement presentation. In 2023, the Association reclassified loan prepayment fees from noninterest income to interest income in order to comply with a change in industry standard. The Association applied the same change to its 2022 and 2021 earnings as well, which is reflected in the Association's Consolidated Statements of Income. The adoption of this guidance did not materially impact the Association's results of operations for 2023, 2022, or 2021.

### Recently Issued Accounting Pronouncements

On January, 1, 2023, the Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to credit losses. This guidance replaced the current incurred loss impairment methodology with a single allowance framework that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. This guidance is applied on a modified retrospective basis. This framework requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions, and reasonable and supportable forecasts that consider macroeconomic conditions.

Also adopted effective January 1, 2023, was the updated guidance entitled "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure." This guidance requires the creditor to determine whether a modification results in a new loan or a continuation of an existing loan, among other disclosures specific to modifications with borrowers that are experiencing financial difficulties. The update eliminated the accounting guidance for troubled debt restructurings by creditors. The update also requires disclosure of current period gross write-offs by year of origination for financing receivables and net investments in leases on a prospective basis. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations but did impact its disclosures.

*Dollars in thousands, Except as Noted*

The following table presents the balance sheet impact to the ACL and capital upon adoption of this guidance on January 1, 2023:

| | December 31, 2022 | CECL Adoption Impact | January 1, 2023 |
|---|---|---|---|
| **Assets:** | | | |
| Allowance for credit losses on loans | $ 5,935 | $ (1,841) | $ 4,094 |
| **Liabilities:** | | | |
| Reserve for credit losses on unfunded commitments | $ 241 | $ 220 | $ 461 |
| **Retained earnings:** | | | |
| Unallocated retained earnings, net of tax | $ 308,322 | $ 1,621 | $ 309,943 |

In March 2020, the FASB issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Reference Rate Reform)," which provided optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. In December 2022, the FASB issued ASU 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848". This ASU defers the sunset date of the guidance in Topic 848 on reference rate reform from December 31, 2022 to December 31, 2024. This ASU is effective upon issuance. The adoption of this guidance did not have a material impact on our financial statements.

## Investments

The Association may hold investments in accordance with investment programs approved by the Farm Credit Administration. These programs allow the Association to make investments that further the mission to support rural America. The investments held by the Association were not impacted by the adoption of CECL.

## Loans and Allowance for Credit Losses

Long-term real estate mortgage loans generally have original maturities ranging from 5 to 40 years. Substantially all short- and intermediate-term loans made for agricultural production or operating purposes have maturities of 10 years or less. Loans are generally carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Loan origination fees and direct loan origination costs are netted and capitalized, and the net fee or cost is amortized over the average life of the related loan as an adjustment to interest income. Loan prepayment fees are reported in interest income. Interest on loans is accrued and credited to interest income based on the daily principal amount outstanding.

## Nonaccrual Loans

Nonaccrual loans are loans for which there is reasonable doubt that all principal and interest will be collected according to the original contractual terms and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. 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 modified or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected, or otherwise discharged in full.

Consistent with prior practice, loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection), circumstances indicate that collection of principal and interest is in doubt, or legal action, including foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest. At the time a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is reversed (if accrued in the current year) or charged against the allowance for credit losses (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, interest payments received in cash are generally recognized as interest income if the collectability of the loan principal is fully expected and certain other criteria are met. Otherwise, payments received on nonaccrual loans are applied against the recorded investment in the loan asset. Nonaccrual loans are returned to accrual status if all contractual principal and interest is current, the borrower is fully expected to fulfill the contractual repayments terms and after remaining current as to principal and interest for a sustained period or have a recent repayment pattern demonstrating future repayment capacity to make on-time payments. 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.

### Accrued Interest Receivable

The Association elected to continue classifying accrued interest on loans in accrued interest receivable and not as part of loans on the Consolidated Statements of Condition. The Association also elected to not estimate an allowance on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected. The presentation of accrued interest receivable in the footnotes may differ from prior periods due to the adoption of the CECL guidance.

### Loan Modifications to Borrowers Experiencing Financial Difficulty

Loan modifications may be granted to borrowers experiencing financial difficulty. Modifications can be in the form of one or a combination of principal forgiveness, interest rate reduction, other-than-insignificant payment delay or a term extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions.

### Collateral Dependent Loans

Collateral dependent loans are loans secured by collateral, including but not limited to agricultural real estate, crop inventory, equipment, and livestock. CECL requires an entity to measure the expected credit losses based on fair value of the collateral at the reporting date when the entity determines that foreclosure is probable. Additionally, CECL allows a fair value practical expedient as a measurement approach for loans when the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulties. Under the practical expedient measurement approach, the expected credit losses is based on the difference between the fair value of the collateral less estimated costs to sell and the amortized cost basis of the loan.

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The collateral dependent loans are primarily real estate mortgage and rural residential real estate loans.

### Allowance for Credit Losses

Beginning January 1, 2023, the ACL represents the estimated current expected credit losses over the remaining contractual life of financial assets measured at amortized cost and certain off-balance sheet credit exposures. The ACL takes into consideration relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are not unconditionally cancellable. The ACL comprises:

- the allowance for credit losses on loans (ACLL), and
- the reserve for unfunded commitments, which is presented on the balance sheet.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, considering macroeconomic conditions, forecasts, and other factors prevailing at the time, may result in significant changes in the ACL in those future periods.

### Methodology for Allowance for Credit Losses on Loans

The ACLL represents management's estimate of credit losses over the remaining expected life of loans. The Association employs a disciplined process and methodology to establish its ACLL that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

Asset-specific loans are generally collateral dependent loans (including those loans for which foreclosure is probable) and nonaccrual loans. For collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with the Association's appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed, or non-recoverable, the credit loss portion of the loan will be charged off against the ACL.

In estimating the component of the ACLL that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by credit quality rating or delinquency buckets using historical life-of-loan analysis periods for loan types, and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool.

The components of the ACLL that share common risk characteristics also consider factors for each loan pool to adjust for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio related to:

- lending policies and procedures;
- national, regional, and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;
- the nature of the loan portfolio, including the terms of the loans;
- the experience, ability, and depth of the lending management and other relevant staff;
- the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- the quality of the loan review and process;
- the value of underlying collateral for collateral-dependent loans;
- the existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

The determination of the ACLL is based on numerous estimates and assumptions, which require a high degree of judgment and are often interrelated. A critical judgment in the process is the weighting of our forward-looking macroeconomic scenarios that are incorporated into our quantitative models. As any one economic outlook is inherently uncertain, the Association leverages multiple scenarios over reasonable and supportable forecast period of 3 years. Subsequent to the forecast period, the Association reverts to long run historical loss experience beyond the 3 years on a straight-line to inform the estimate of losses for the remaining contractual life of the loan portfolio. There are multiple variables that drive the macroeconomic scenarios with the key variables including, but not limited to, unemployment rates, gross domestic product levels, and corporate bond spreads.

In addition to the quantitative calculation, the Association considers the imprecision inherent in the process and methodology, emerging risk assessments, and other subjective factors, which may lead to a management adjustment to the modeled ACLL results.

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors are considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition, and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations, and appraisals to change over time. Management considered a number of factors in determining and supporting the levels of the allowances for loan losses, which include, but are not limited to, 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.

### Reserve for Credit Losses on Unfunded Commitments

The Association evaluates the need for a reserve for credit losses on unfunded commitments under CECL and, if required, an amount is recognized and included in liabilities on the Consolidated Statements of Condition. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the Association and applying the loss factors used in the ACLL methodology to the results of the usage calculation. No reserve for credit losses are recorded for commitments that are unconditionally cancellable.

### Cash

Cash, as included in the Consolidated Statements of Condition, 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 3.00 percent of the prior one-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 are 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 similarly 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, and employee benefits.

### 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, 2023, 2022, and 2021, advertising costs included in other noninterest expense were $45 thousand, $94 thousand, and $88 thousand, 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, which considers relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future 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 CREDIT LOSSES

A summary of loans follows:

| As of December 31 | 2023 | 2022 | 2021 |
|---|---|---|---|
| Real estate mortgage | **$ 967,491** | $ 931,702 | $ 881,129 |
| Production and intermediate-term | **269,728** | 271,268 | 259,859 |
| Agribusiness: | | | |
| Cooperatives | **76,646** | 65,001 | 68,930 |
| Processing and marketing | **155,981** | 140,050 | 101,080 |
| Farm related business | **25,568** | 17,517 | 22,246 |
| Communications | **12,949** | - | - |
| Energy | **37,240** | 7,830 | - |
| Lease receivables | **17,229** | 19,928 | 18,167 |
| Total loans | **$ 1,562,832** | $ 1,453,296 | $ 1,351,411 |

Unamortized deferred loan fees and costs totaled $3.0 million, $3.4 million, and $3.6 million as of December 31, 2023, 2022, and 2021, 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, 2023:

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|---|---|---|---|---|---|---|
| | **Purchased** | **Sold** | **Purchased** | **Sold** | **Purchased** | **Sold** |
| Real estate mortgage | $ 173,408 | $ 241,994 | $ - | $ - | $ 173,408 | $ 241,994 |
| Production and intermediate-term | 19,294 | 183,177 | - | - | 19,294 | 183,177 |
| Agribusiness | 224,206 | 84,648 | 4,196 | - | 228,402 | 84,648 |
| Communications | 12,949 | - | - | - | 12,949 | - |
| Energy | 37,240 | - | - | - | 37,240 | - |
| Lease receivables | 16,326 | - | - | - | 16,326 | - |
| Total loans | $ 483,423 | $ 509,819 | $ 4,196 | $ - | $ 487,619 | $ 509,819 |

## Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit, and unfunded loan commitments. The Association manages credit risk associated with the retail lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies, approved by its board of directors, which provides direction to its loan officers. The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position, and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each association that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85% of the original appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Loans other than real estate mortgage may be made on a secured or unsecured basis.

The Association uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default occurs during the remaining life of the loan. 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 or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship. The Association reviews, at least on an annual basis, or when a credit action is taken the probability of default category.

Each of the probability of default categories carries a distinct percentage of default probability. The probability of default rate between one and nine of the acceptable categories is very narrow and would reflect almost no default to a minimal default percentage. The probability of default rate grows more rapidly as a loan moves from acceptable 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. These 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.

The following table presents credit quality indicators by loan type and the related principal balance:

| | Term Loans Amortized Cost by Origination Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ($ in thousands) | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans Amortized Cost Basis | Total |
| Real estate mortgage | | | | | | | | |
| Acceptable | $ 78,921 | $ 121,937 | $ 171,712 | $ 98,755 | $ 68,423 | $ 197,756 | $ 179,764 | $ 917,268 |
| OAEM | - | 2,841 | - | 6,540 | 2,076 | 12,266 | 2,022 | 25,745 |
| Substandard | 2 | 7,675 | - | - | 1,685 | 13,873 | 1,243 | 24,478 |
| Total | 78,923 | 132,453 | 171,712 | 105,295 | 72,184 | 223,895 | 183,029 | 967,491 |
| Production and intermediate-term | | | | | | | | |
| Acceptable | 19,357 | 5,744 | 8,933 | 2,369 | 10,528 | 1,173 | 197,399 | 245,503 |
| OAEM | 2,681 | - | - | 93 | 1,319 | - | 8,089 | 12,182 |
| Substandard | 9,622 | 2,398 | - | - | - | 23 | - | 12,043 |
| Total | 31,660 | 8,142 | 8,933 | 2,462 | 11,847 | 1,196 | 205,488 | 269,728 |
| Current period gross charge-offs | - | - | - | 116 | - | - | - | 116 |
| Agribusiness | | | | | | | | |
| Acceptable | 32,569 | 35,495 | 24,727 | 6,192 | 7,397 | 51,895 | 86,980 | 245,255 |
| Substandard | 20 | 3,374 | 824 | - | 378 | 3,251 | 5,093 | 12,940 |
| Total | 32,589 | 38,869 | 25,551 | 6,192 | 7,775 | 55,146 | 92,073 | 258,195 |
| Communications | | | | | | | | |
| Acceptable | 6,744 | - | 4,953 | - | - | - | 1,252 | 12,949 |
| Total | 6,744 | - | 4,953 | - | - | - | 1,252 | 12,949 |
| Energy | | | | | | | | |
| Acceptable | 15,542 | 12,514 | - | - | - | - | 9,184 | 37,240 |
| Total | 15,542 | 12,514 | - | - | - | - | 9,184 | 37,240 |
| Lease receivables | | | | | | | | |
| Acceptable | 1,167 | 5,948 | 1,047 | 14 | 817 | 8,015 | - | 17,008 |
| OAEM | - | - | - | - | - | 61 | - | 61 |
| Substandard | - | - | - | 160 | - | - | - | 160 |
| Total | 1,167 | 5,948 | 1,047 | 174 | 817 | 8,076 | - | 17,229 |
| Total loans | **$ 166,625** | **$ 197,926** | **$ 212,196** | **$ 114,123** | **$ 92,623** | **$ 288,313** | **$ 491,026** | **$ 1,562,832** |
| Total current period gross charge-offs | **$ -** | **$ -** | **$ -** | **$ 116** | **$ -** | **$ -** | **$ -** | **$ 116** |

*Dollars in thousands, except as noted*

The following table shows loans under the Farm Credit Administration Uniform Classification System as a percentage of total loans by loan type:

| **As of December 31** | **2023** | 2022[1] | 2021[1] |
|---|---|---|---|
| Real estate mortgage | | | |
| Acceptable | **94.81%** | 96.21% | 97.04% |
| OAEM | **2.66%** | 2.62% | 1.98% |
| Substandard | **2.53%** | 1.17% | 0.98% |
| Total | **100.00%** | 100.00% | 100.00% |
| Production and intermediate-term | | | |
| Acceptable | **91.02%** | 90.40% | 90.25% |
| OAEM | **4.52%** | 6.88% | 8.38% |
| Substandard | **4.46%** | 2.72% | 1.37% |
| Total | **100.00%** | 100.00% | 100.00% |
| Agribusiness | | | |
| Acceptable | **94.99%** | 99.37% | 90.24% |
| OAEM | **0.00%** | 0.00% | 8.86% |
| Substandard | **5.01%** | 0.63% | 0.90% |
| Total | **100.00%** | 100.00% | 100.00% |
| Communications | | | |
| Acceptable | **100.00%** | 0.00% | 0.00% |
| Total | **100.00%** | 0.00% | 0.00% |
| Energy | | | |
| Acceptable | **100.00%** | 100.00% | 0.00% |
| Total | **100.00%** | 100.00% | 0.00% |
| Lease receivables | | | |
| Acceptable | **98.72%** | 100.00% | 100.00% |
| OAEM | **0.35%** | 0.00% | 0.00% |
| Substandard | **0.93%** | 0.00% | 0.00% |
| Total | **100.00%** | 100.00% | 100.00% |
| Total Loans | | | |
| Acceptable | **94.40%** | 95.68% | 94.82% |
| OAEM | **2.43%** | 2.96% | 4.15% |
| Substandard | **3.17%** | 1.36% | 1.03% |
| Total | **100.00%** | 100.00% | 100.00% |

[1] Prior to the adoption of CECL on January 1, 2023, loans were presented with accrued interest receivables.

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 Statements of Condition in the allowance for credit 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 the loan to value ratios in excess of the regulatory maximum.

Nonperforming assets (which consist of nonaccrual loans, accruing loans 90 days or more past due and other property owned) and related credit quality statistics are as follows:

| ($ in thousands) | **2023** | 2022[1] | 2021[1] |
|---|---|---|---|
| Nonaccrual loans: | | | |
| Real estate mortgage | **$ 1,156** | $ 652 | $ 396 |
| Production and intermediate-term | **36** | - | - |
| Agribusiness | **1,104** | 1,401 | 1,630 |
| Lease receivables | **69** | - | - |
| Total nonaccrual loans | **2,365** | 2,053 | 2,026 |
| Accruing loans 90 days or more past due | **2,635** | 115 | - |
| Total nonperforming loans | **5,000** | 2,168 | 2,026 |
| Other property owned | **-** | - | - |
| Total nonperforming assets | **$ 5,000** | $ 2,168 | $ 2,026 |
| Nonaccrual loans to total loans | **0.15%** | 0.14% | 0.15% |
| Nonperforming assets to total loans | **0.32%** | 0.15% | 0.15% |
| Nonperforming assets to total members' equity | **1.57%** | 0.70% | 0.68% |

[1] Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans and were presented with accrued interest receivables.

The following table provides the amortized cost for nonaccrual loans with and without a related allowance for credit losses, as well as interest income recognized on nonaccrual during the period:

| | December 31, 2023 | | | Interest Income Recognized |
|---|---|---|---|---|
| ($ in thousands) | Amortized Cost with Related Allowance | Amortized Cost without Related Allowance | Total | For the Year Ended December 31, 2023 |
| **Nonaccrual loans:** | | | | |
| Real estate mortgage | $ - | $ 1,156 | $ 1,156 | $ - |
| Production and intermediate-term | 12 | 24 | 36 | - |
| Agribusiness: | | | | |
| Processing and marketing | - | 1,104 | 1,104 | - |
| Lease receivables | - | 69 | 69 | - |
| Total nonaccrual loans | $ 12 | $ 2,353 | $ 2,365 | $ - |

Accrued interest receivable on loans of $39.1 million and $24.7 million at December 31, 2023 and 2022, respectively, have been excluded from the amortized cost of loans and reported separately in the Consolidated Statements of Condition. The Association wrote off accrued interest receivable of $138 thousand during 2023.

The following tables provide an aging analysis of past due loans (excluding accrued interest):

| December 31, 2023 | 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 | $ 963,425 | $ 1,294 | $ 2,772 | $ 967,491 | $ 2,168 |
| Production and intermediate-term | 266,943 | 2,282 | 503 | 269,728 | 467 |
| Agribusiness | 258,195 | - | - | 258,195 | - |
| Communications | 12,949 | - | - | 12,949 | - |
| Energy | 37,240 | - | - | 37,240 | - |
| Lease receivables | 17,099 | 130 | - | 17,229 | - |
| Total | $ 1,555,851 | $ 3,706 | $ 3,275 | $ 1,562,832 | $ 2,635 |

*Dollars in thousands, Except as Noted*

The following tables provide an aging analysis of past due loans (including accrued interest):

| December 31, 2022 | 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 | $ 950,467 | $ 949 | $ 295 | $ 951,711 | $ - |
| Production and intermediate-term | 274,502 | 43 | 115 | 274,660 | 115 |
| Agribusiness | 223,611 | - | - | 223,611 | - |
| Energy | 7,863 | - | - | 7,863 | - |
| Lease receivables | 19,751 | 424 | - | 20,175 | - |
| Total | $ 1,476,194 | $ 1,416 | $ 410 | $ 1,478,020 | $ 115 |

| 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 | $ - |

### Loan Modifications to Borrowers Experiencing Financial Difficulties

Upon the adoption of the guidance, Financial Instruments - Credit Losses, Troubled Debt Restructurings and Vintage Disclosure, on January 1, 2023, creditors are required to disclose specific modifications with borrowers that are experiencing financial difficulty. The Association had no loan modifications to disclose during 2023.

### Troubled Debt Restructurings

Prior to the adoption of the updated FASB guidance on loan modifications on January 1, 2023, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. The Association recorded no troubled debt restructurings during 2022 or 2021.

*Dollars in thousands, except as noted*

### Credit Quality – Prior to CECL Adoption

Additional impaired loan information is as follows:

| December 31, 2022 | 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 | $ 652 | $ 719 | $ - | $ 586 | $ 20 |
| Production and intermediate-term | 115 | 112 | - | 112 | - |
| Agribusiness: | | | | | |
| Processing and marketing | 1,401 | 1,702 | - | 1,455 | - |
| Total Impaired Loans | $ 2,168 | $ 2,533 | $ - | $ 2,153 | $ 20 |

| 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 |

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2022 and 2021.

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

| **For the Year Ended December 31** | 2022 | 2021 |
|---|---|---|
| Interest income which would have been recognized under the original loan terms | $ 131 | $ 632 |
| Less: interest income recognized | (15) | (553) |
| Foregone interest income | $ 116 | $ 79 |

To mitigate the risk of credit losses, the Association entered into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under long-term standby commitments was $982 thousand, $4.5 million, and $5.1 million at December 31, 2023, 2022, and 2021, respectively. Fees paid to Farmer Mac for such commitments totaled $9 thousand, $12 thousand, and $43 thousand for the years ended December 31, 2023, 2022, and 2021, respectively. These amounts are classified as noninterest expense.

*Dollars in thousands, Except as Noted*

In addition, the Association obtains Federal Guarantees through the Farm Service Agency 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 $9.0 million, $8.6 million, and $12.4 million at December 31, 2023, 2022, and 2021, respectively.

## Allowance for Credit Losses

The credit risk rating methodology is a key component of the Association's allowance for credit losses evaluation and is generally incorporated into the Association's loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established by the Association to manage credit exposure. 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.

Effective January 1, 2023, the association adopted the CECL accounting guidance as described in Note 2. A summary of changes in the allowance for credit losses by portfolio segment is as follows:

| December 31, 2023 | Real estate mortgage | Production and intermediate-term | Agribusiness | Communications | Energy | Lease receivables | Total |
|---|---|---|---|---|---|---|---|
| **Allowance for credit losses:** | | | | | | | |
| Balance at December 31, 2022 | $ 423 | $ 3,854 | $ 1,472 | $ - | $ - | $ 186 | $ 5,935 |
| Cumulative effect of a change in accounting principle | 1,858 | (3,103) | (529) | - | - | (67) | (1,841) |
| Balance at January 1, 2023 | 2,281 | 751 | 943 | - | - | 119 | 4,094 |
| Charge-offs | - | (116) | - | - | - | - | (116) |
| Recoveries | - | - | - | - | - | - | - |
| (Credit loss reversal) provision for credit losses | (1,508) | (282) | 769 | 27 | 68 | (14) | (940) |
| Balance at December 31, 2023 | $ 773 | $ 353 | $ 1,712 | $ 27 | $ 68 | $ 105 | $ 3,038 |
| **Provision for unfunded commitments:** | | | | | | | |
| Balance at December 31, 2022 | $ 11 | $ 150 | $ 74 | $ - | $ 2 | $ 4 | $ 241 |
| Cumulative effect of a change in accounting principle | 143 | 56 | (28) | - | 1 | 48 | 220 |
| Balance at January 1, 2023 | 154 | 206 | 46 | - | 3 | 52 | 461 |
| (Credit loss reversal) provision for credit losses | (123) | (152) | 83 | 11 | (3) | (26) | (210) |
| Balance at December 31, 2023 | $ 31 | $ 54 | $ 129 | $ 11 | $ - | $ 26 | $ 251 |
| **Total allowance for credit losses** | $ 804 | $ 407 | $ 1,841 | $ 38 | $ 68 | $ 131 | $ 3,289 |

*Dollars in thousands, except as noted*

## Allowance for Credit Losses - Prior to CECL Adoption

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

| | Real estate mortgage | Production and intermediate-term | Agribusiness | Energy | Lease receivables | Total |
|---|---|---|---|---|---|---|
| **Allowance for loan losses:** | | | | | | |
| Balance at December 31, 2021 | $ 680 | $ 3,943 | $ 1,993 | $ - | $ 396 | $ 7,012 |
| Charge-offs | (14) | (2) | - | - | - | (16) |
| Recoveries | - | 2 | - | - | - | 2 |
| (Loan loss reversal) provision for loan losses | (243) | (89) | (521) | - | (210) | (1,063) |
| Balance at December 31, 2022 | $ 423 | $ 3,854 | $ 1,472 | $ - | $ 186 | $ 5,935 |
| Ending balance: allowance individually evaluated for impairment | $ - | $ - | $ - | $ - | $ - | $ - |
| Ending balance: allowance collectively evaluated for impairment | 423 | 3,854 | 1,472 | - | 186 | 5,935 |
| Balance at December 31, 2022 | $ 423 | $ 3,854 | $ 1,472 | $ - | $ 186 | $ 5,935 |
| **Recorded investments in loans outstanding:** | | | | | | |
| Ending balance: Loans individually evaluated for impairment | $ 652 | $ - | $ 1,401 | $ - | $ - | $ 2,053 |
| Ending balance: Loans collectively evaluated for impairment | 951,059 | 274,660 | 222,210 | 7,863 | 20,175 | 1,475,967 |
| Balance at December 31, 2022 | $ 951,711 | $ 274,660 | $ 223,611 | $ 7,863 | $ 20,175 | $ 1,478,020 |

| | Real estate mortgage | Production and intermediate-term | Agribusiness | Energy | Lease receivables | Total |
|---|---|---|---|---|---|---|
| **Allowance for loan losses:** | | | | | | |
| Balance at December 31, 2020 | $ 386 | $ 4,874 | $ 1,675 | $ - | $ 435 | $ 7,370 |
| Charge-offs | - | - | - | - | - | - |
| Recoveries | 33 | - | - | - | - | 33 |
| (Loan loss reversal) provision for loan losses | 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*

## 4. INVESTMENT IN COBANK

At December 31, 2023, the Association's investment in CoBank is in the form of Class A stock with a par value of one hundred dollars 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 3.00 percent of the Association's prior one-year average direct loan balance. Under the current CoBank capital plan applicable to such participations sold, patronage from CoBank related to these participations sold is paid 75 percent cash and 25 percent Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

CoBank may require the holders of its equities to subscribe to 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.

The Association owned approximately 1.00% of the outstanding common stock of CoBank at December 31, 2023.

## 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 | 2023 | 2022 | 2021 |
|---|---|---|---|
| Land, buildings, and improvements | **$ 11,113** | $ 6,581 | $ 6,890 |
| Furniture and equipment | **2,402** | 2,221 | 2,214 |
| Software | **2,925** | 2,740 | 2,678 |
| Automobiles | **25** | 25 | 34 |
| Construction in progress | **-** | 3,822 | 337 |
| | **16,465** | 15,389 | 12,153 |
| Less: accumulated depreciation and amortization | **(6,881)** | (6,186) | (5,965) |
| Total | **$ 9,584** | $ 9,203 | $ 6,188 |

The Association is obligated for rental payments under certain non-cancelable operating leases. Rental payments for the years ended December 31, 2023, 2022, and 2021 totaled $67 thousand, $66 thousand, and $66 thousand, 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, | |
|---|---|
| 2024 | $ 53 |
| 2025 | 30 |
| 2026 | 23 |
| Total | $ 106 |

## 6. OTHER ASSETS AND OTHER LIABILITIES

A summary of other assets and other liabilities follows:

| Other Assets | 2023 | 2022 | 2021 |
|---|---|---|---|
| Accounts receivable | **$ 8,830** | $ 8,574 | $ 7,737 |
| Prepaid benefit expense | **9,155** | 9,383 | 7,692 |
| Equity investments | **2,280** | 2,224 | 1,753 |
| Other | **669** | 842 | 539 |
| Total | **$ 20,934** | $ 21,023 | $ 17,721 |

| Other Liabilities | 2023 | 2022 | 2021 |
|---|---|---|---|
| Accrued salaries and employee benefits | **$ 2,507** | $ 2,266 | $ 2,111 |
| Accounts payable | **2,216** | 2,492 | 1,851 |
| Other | **325** | 399 | 459 |
| Total | **$ 5,048** | $ 5,157 | $ 4,421 |

## 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 May 31, 2028. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2023.

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 5.22% for the year ended December 31, 2023, compared with 2.15% for the year ended December 31, 2022, and 0.77% at December 31, 2021.

*Dollars in thousands, except as noted*

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:

| | **2023** | 2022 | 2021 |
|---|---|---|---|
| Committed funds | **$ 295,381** | $ 295,182 | $ 299,964 |
| Average rates | **2.28%** | 1.16% | 0.59% |

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, 2023, 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 following sets forth the regulatory capital ratio requirements and ratios at December 31, 2023:

| | **December 31, 2023** | Regulatory Minimum | Capital Conservation Buffer | Total |
|---|---|---|---|---|
| **Risk Adjusted:** | | | | |
| Common equity tier 1 ratio | **16.21%** | 4.50% | 2.5% | 7.00% |
| Tier 1 capital ratio | **16.21%** | 6.00% | 2.5% | 8.50% |
| Total capital ratio | **16.40%** | 8.00% | 2.5% | 10.50% |
| Permanent capital ratio | **16.24%** | 7.00% | – | 7.00% |
| **Non-risk-adjusted:** | | | | |
| Tier 1 leverage ratio | **18.73%** | 4.00% | 1.00% | 5.00% |
| Unallocated retained earnings and equivalents leverage ratio | **18.68%** | 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, 2023, the Association had the following classes of equity outstanding, all at a par value of five dollars per share/unit.

| **Class** | **Number of Shares** | **Voting** | **Protected** |
|---|---|---|---|
| C - common stock | 143,400 | yes | no |
| F - participation certificates | 600 | 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.

*Dollars in thousands, except as noted*

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 2023, the Association allocated 74 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** | **2023** | 2022 | 2021 |
|---|---|---|---|
| CoBank | **$ 8,799** | $ 8,679 | $ 7,665 |
| Farm Credit Foundations | **18** | 15 | 20 |
| District Associations | **2,448** | 2,058 | 2,110 |
| Total | **$ 11,265** | $ 10,752 | $ 9,795 |

Patronage distributed from CoBank was in cash and stock. These distributions are accrued monthly based on estimates provided by CoBank. The amount earned in 2023 was accrued and will be paid by CoBank in March 2024. The amount earned and accrued in 2022 was paid by CoBank in March 2023. The amount earned and accrued in 2021 was paid by CoBank in March 2022.

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.

*Dollars in thousands, except as noted*

## 10. INCOME TAXES

The provision for income taxes follows:

| **As of December 31** | **2023** | 2022 | 2021 |
|---|---|---|---|
| Current | | | |
| Federal | **$ -** | $ - | $ - |
| State | **2** | 2 | 2 |
| Deferred | | | |
| Federal | **-** | - | - |
| State | **-** | - | - |
| Provision for income taxes | **$ 2** | $ 2 | $ 2 |

The provision for 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:

| | **2023** | | 2022 | | 2021 | |
|---|---|---|---|---|---|---|
| **As of December 31** | **Amount** | **Percent** | Amount | Percent | Amount | Percent |
| Federal tax at statutory rate | **$ 5,595** | **21%** | $ 5,474 | 21% | $ 5,234 | 21% |
| State tax, net | **1** | **0%** | 1 | 0% | 1 | 0% |
| Effect of non-taxable FLCA income | **(6,102)** | **-23%** | (5,407) | -21% | (4,969) | -20% |
| Prior year tax adjustments | **-** | **-** | - | - | 38 | 0 |
| Adjustments to valuation allowance | **508** | **2%** | (66) | 0% | (302) | -1% |
| Provision for income taxes | **$ 2** | **0%** | $ 2 | 0% | $ 2 | 0% |

*Dollars in thousands, except as noted*

Deferred tax assets and liabilities are comprised of the following:

| **As of December 31** | **2023** | 2022 | 2021 |
|---|---|---|---|
| Gross deferred tax asset: | | | |
| Allowance for credit losses | **$ 197** | $ 1,134 | $ 1,304 |
| Net loss carryforward | **1,956** | 1,350 | 1,211 |
| Gross deferred tax asset | **2,153** | 2,484 | 2,515 |
| Less: valuation allowance | **(1,160)** | (1,497) | (1,563) |
| Deferred tax assets, net of valuation allowance | **993** | 987 | 952 |
| Gross deferred tax liability: | | | |
| Bank patronage allocations | **(432)** | (426) | (391) |
| Stock patronage distributions from System banks | **(561)** | (561) | (561) |
| Gross deferred tax liability | **(993)** | (987) | (952) |
| 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 $1.2 million in 2023, $1.5 million in 2022, and $1.6 million in 2021. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. At December 31, 2023, the Association had deferred tax assets related to federal and state net operating losses of $1.5 million that have an indefinite carryforward period and $443 thousand that expire between 2032 and 2037.

The Association has no uncertain tax positions as of December 31, 2023, 2022, or 2021. The Association accounts for income taxes in accordance with Accounting Standards Codification (ASC) 740, *Income Taxes*, 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 2020 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 $400 thousand at December 31, 2023. 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 $243.7 million at December 31, 2023, $238.6 million at December 31, 2022, and $298.8 million at December 31, 2021. The fair value of the plan assets was $243.3 million at December 31, 2023, $236.8 million at December 31, 2022, and $291.1 million at December 31, 2021. The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $4.7 million in 2023. Total plan contra-expense for participating employers was $1.5 million in 2022 and $1.3 million in 2021. The Association's allocated share of plan expenses included in salaries and employee benefits was $384 thousand for 2023. The Association's allocated share of plan contra-expense included in salaries and employee benefits was $1 thousand for 2022 and $7 thousand for 2021. Participating employers contributed $1.5 million to the plan in 2023, $23.0 million in 2022, and $23.0 million in 2021. The Association's allocated share of these pension contributions was $157 thousand in 2023, $1.7 million in 2022, and $1.7 million in 2021. 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 2024 is $1.1 million. The Association's allocated share of these pension contributions is expected to be $152 thousand. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are also provided through the Farm Credit Foundations Retiree Medical and Retiree Life Plans to eligible current and retired employees of the Association. Benefits provided are determined on a graduated scale, based on years of service. The anticipated costs of these benefits are accrued during the period of the employee's active service. Postretirement benefits contra-expense (primarily health care benefits and life insurance) included in salaries and employee benefits was $1 thousand in

*Dollars in thousands, except as noted*

2023. Postretirement benefits expense (primarily health care benefits and life insurance) included in salaries and employee benefits were $8 thousand in 2022, and $8 thousand in 2021. 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 $1.1 million in 2023, $1.0 million in 2022, and $909 thousand in 2021.

## 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** | **2023** | 2022 | 2021 |
|---|---|---|---|
| Beginning balance | **$ 63,414** | $ 69,765 | $ 47,200 |
| New Loans | **92,604** | 98,065 | 172,846 |
| Repayments | **(85,087)** | (104,416) | (146,356) |
| Reclassifications [(1)] | **-** | - | (3,925) |
| Ending balance | **$ 70,931** | $ 63,414 | $ 69,765 |

[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, 2023 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 $173 thousand in 2023, $169 thousand in 2022, and $144 thousand in 2021 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 $28 thousand to CoBank in 2023, and $30 thousand in 2022 and 2021. 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, 2023, $679.8 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, 2023, the Association had $1.2 million of standby letters of credit outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2024 to 2026. The maximum potential amount of future payments the Association is required to make under the guarantees is $1.2 million.

The Association has set aside a reserve for unfunded commitments in the amount of $251 thousand in 2023, $241 thousand in 2022, and $377 thousand in 2021, which is included in 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, 2023, 2022, and 2021.

*Dollars in thousands, except as noted*

## 16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2023, 2022, and 2021, follow:

| | **2023** | | | | |
|---|---|---|---|---|---|
| | **First** | **Second** | **Third** | **Fourth** | **Total** |
| **Net interest income** | **$ 10,049** | **$ 9,934** | **$ 10,041** | **$ 10,327** | **$ 40,351** |
| **(Credit loss reversal) provision for credit losses** | **300** | **(142)** | **(1,051)** | **(47)** | **(940)** |
| **Noninterest expense, net** | **2,147** | **3,987** | **4,298** | **4,220** | **14,652** |
| **Net income** | **$ 7,602** | **$ 6,089** | **$ 6,794** | **$ 6,154** | **$ 26,639** |

| | 2022[1] | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| Net interest income | $ 8,772 | $ 9,352 | $ 9,460 | $ 9,717 | $ 37,301 |
| (Credit loss reversal) provision for credit losses | 61 | 67 | (296) | (895) | (1,063) |
| Noninterest expense, net | 1,073 | 3,649 | 4,452 | 3,124 | 12,298 |
| Net income | $ 7,638 | $ 5,636 | $ 5,304 | $ 7,488 | $ 26,066 |

| | 2021[1] | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| Net interest income | $ 8,310 | $ 9,099 | $ 8,965 | $ 8,926 | $ 35,300 |
| (Credit loss reversal) provision for credit 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 |

[1]During 2023, the Association reclassified loan prepayment fees from noninterest income to interest income in order to comply with a change in industry standard. The Association applied the same change to its 2022 and 2021 earnings as well, which is reflected in the Association's Consolidated Statements of Income. The adoption of this guidance did not materially impact the Association's results of operations for 2023, 2022, or 2021.

## 17. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 15, 2024, which is the date the consolidated financial statements were available to be 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<br>Fresno, California | Corporate Headquarters and Credit Delivery Office Building | Owned |
| 3475 Golden State Blvd.<br>Madera, California | Credit Delivery - Madera Office Building | Owned |
| 1698 Draper Street<br>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, "Note 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, 2023, 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 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:

- the 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 25 of this report describes the Committee's activities during 2023.

## Governance Committee

The Governance Committee, composed of the board chair, vice chair, and the chairs of Audit, Risk, and Human Capital committees, oversees governance and reporting processes, board operations, and continuous improvement efforts. Its responsibilities encompass ensuring the effective functioning of the board, upholding ethical standards within board practices, and driving progress in board performance. This committee is instrumental in monitoring compliance with governance principles. In addition, it plays a vital role in assessing and recommending enhancements to board operations and practices to align them with the organization's goals and stakeholder interests. A significant part of the committee's mandate is to oversee ethical standards within the board, ensuring adherence to applicable regulations and ethical norms.

## Human Capital Committee

The Human Capital Committee is composed of four members, including the Board Chair who serves as an ex-Officio member of the Committee. The Committee 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 five members, including the Board Chair who serves as an ex-Officio member of the Committee. The Committee is responsible for overseeing the risk management practices of the Association surrounding capital, credit, interest rate, liquidity, environmental, market, technology, operational, reputational, legal, and compliance risks. The committee creates a transparent environment of open communication between management and the Board to effectively manage the Association's risks.

### 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 Yribarren, Chair

**Term of Office:** 2021 – 2024
**Committees:** Serves as ex-officio member on Board's Human Capital, Audit, Risk, and Governance Committees.
**Board or Officer Experience:** Fresno Madera Farm Credit Director since 2012 and served as Second Vice Chair from May 2014 to April 2016, and since June 2020 to June 2021; and Vice Chair from June 2021 to 2023; J. Yribarren Farms, Inc. (Owner and President); Jeffrey & Wendy Yribarren Family Trust (Trustee); FH Farms, LLC (Member-Manager); Western Custom Ag, LLC (Member); Reclamation District #1606 (Trustee); Colusa West, LLC (Member); and Legendary Life, Inc. fka Yribarren Winery, Inc. (Owner and President); and past affiliation with Farmer's Hemp, LLC (Member).

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

### Jeff Jue, Vice Chair

**Term of Office:** 2022 - 2025
**Committees:** CoBank Association Leadership Committee, Farm Credit Council Legislative Representative, and serves as chair on the Board's Governance Committee and a member of the Board's Audit Committee.
**Board or Officer Experience:** Fresno Madera Farm Credit Director since 2007 with designation as a Financial Expert since 2008 and served as Board Chairman from 2012 - 2023; Jue, LLC (Member and Manager); Jeff and Velvet Jue Family Trust (Trustee); SunMaid Raisin Growers of California (Member-Owner and Past Chairman); Sequoia Walnut Growers (Member-Owner and Past Director); Blue Diamond Almonds (Member-Owner); and Sun Pacific (Member).

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 Boldt, Director

**Term of Office:** 2023 - 2026
**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); Buhler Family Partnership (Partner), 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:** 2022 - 2025
**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 (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, pistachios, and walnuts. He is also an appraiser and real estate broker.

**Daniel Errotabere, Director**

**Term of Office:** 2023 - 2026
**Committees:** Human Capital
**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); Crescent Canal Company (Shareholder and Board Member); and CSUF Agriculture Foundation (Treasurer and Board Member); past affiliation with Family Farms Alliance (Board Member and Treasurer), San Luis and Delta Mendota Water Authority (Board Member), Westlands Water District (Board Member); 3 Family Farms (Director and Secretary); AE Farms (Member); AEF Farms (Member); and West Coast Hemp (Member).

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

**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); San Luis Orchards, LLC (Ownership Interest); California Fig Advisory Board (Board Member); California Fresh Fig Commission (Chairman); California Fresh Fruit Association (Board Member); 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); past interest in Woodset Partners, Inc.

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:** 2023 – 2026
**Committees:** Risk (Chair), Governance (Vice 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:** 2022 - 2025
**Committees:** Human Capital (Vice Chair)
**Board or Officer Experience:** Fresno Madera Farm Credit Director since 2004; Schafer Ranch, Inc. (Stockholder); Stephen and Cynthia Schafer Family Trust (Co-Trustee); Stephen L Schafer, Separate Property Trust (Co-Trustee); Cynthia A. Schafer, Separate Property Trust (Co-Trustee); Almond Tree Hulling, Inc. (Stockholder); Nolo LLC (Manager); MSM Airport Ranch, LLC (Member); Schafer & Schafer PTN Farming (Partner); and San Joaquin Wine Co. Inc. (Owner); past affiliation with Nolo Farms II, LLC (Member), Madera Community Hospital Governing Board (Board Member), and Wine Institute (Board Member).

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

**Sandi Schmiesing, Outside Appointed Director**

**Term of Office:** 2021 - 2024
**Committees:** Human Capital (Chair), Governance
**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 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:** 2023 - 2026
**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); XI River Ranch (Partner); RSW Farming Company (Manager); and BDD Packing (Stockholder).

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:** 2022 - 2025
**Committees:** Audit (Chair), Governance
**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 2023, 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 |
|---|---|
| Board Chair | $ 48,000 |
| Board Leader, Elected Director, Audit Committee | $ 39,363 |
| Board Leader, Appointed Director, Audit Committee | $ 46,863 |
| Board Leader, Appointed Director, Non-Audit Committee | $ 39,363 |
| Board Leader, Non-Appointed | $ 31,863 |
| Appointed Director | $ 32,500 |
| Director, Audit Committee | $ 32,500 |
| Director | $ 25,000 |

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, 2023.

| Name of Director | Number of Days Served at Board & Committee Meetings | Number of Days Served in Other Official Activities | Compensation Paid During 2023 |
|---|---|---|---|
| Allan Kantrowitz | 12 | 5 | $ 38,753 |
| Denise Waite | 25 | 19 | $ 44,878 |
| Daniel Errotabere | 15 | 8 | $ 23,917 |
| Jeff Yribarren | 24 | 21 | $ 40,875 |
| Jeff Jue | 24 | 19 | $ 41,712 |
| Jeff Boldt | 16 | 11 | $ 22,167 |
| Kevin Herman | 16 | 8 | $ 22,167 |
| Lance Shebelut | 12 | 7 | $ 22,167 |
| Sandi Schmiesing | 20 | 13 | $ 38,753 |
| Steve Schafer | 14 | 9 | $ 22,167 |
| Wayne Carstens | 22 | 20 | $ 28,292 |
| **Total compensation** | **200** | **140** | **$ 345,848** |

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 2023, as outlined above, amounted to $379,315. 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 $33,467 in 2023, $25,848 in 2022, and $11,927 in 2021.

## SENIOR OFFICERS

FCA regulations 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 30 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 27 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. 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.

### 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 26 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 33 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 33 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.

**Leili Ghazi, Senior Vice President and Chief Lending Officer**

Ms. Ghazi serves as ACA Senior Vice President and Chief Lending Officer and has 13 years of Farm Credit experience. Ms. Ghazi oversees the Relationship Management, Capital Markets, Credit, and Legal departments within the Association. She was hired in April 2022, and her previous experience includes 12 years at CoBank where she served in various leadership roles including as Senior Vice President of the Farm Credit Banking Group where she led the bank's relationships with Farm Credit Associations and the Digital Business Solutions team. Prior to that, she served as the Western Region President for CoBank, which included supervision over CoBank's direct lending portfolio, and Senior Vice President and Division Manager for CoBank's Agricultural Export Finance division. Ms. Ghazi's experience includes time with BMO Capital Markets where she served as Vice President of the Food and Consumer Group and Vice President of Corporate Banking; past affiliation with the UC Davis Advisory Council.

**Ken Thomas, Senior Vice President and Chief Operating Officer**

Mr. Thomas serves as ACA Senior Vice President and Chief Operating Officer and was hired in January 2022. He is responsible for the Association's operations including information technology, business intelligence, compliance, and project management. He also serves as the executive sponsor to oversee the Association's outsourced technology operations and has 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's operations. He is a Certified Regulatory Compliance Manager from the American Bankers Association and is a United States Army veteran. Mr. Thomas's prior experience includes over 25 years in retail and commercial banking including serving as a Chief Operating Officer, Chief Technology Officer, and Chief Risk Officer leading teams in areas of operations, compliance risk, vendor management and technology.

**Marta Decker, Senior Vice President and Chief Financial Officer**

Ms. Decker serves as ACA Senior Vice President and Chief Financial Officer and has more than 5 years of Farm Credit experience. Ms. Decker oversees the accounting and finance operations within the Association. Ms. Decker is a Certified Public Accountant, licensed in the state of New Mexico. She was hired in July 2023. Prior to joining Fresno Madera Farm Credit, Ms. Decker worked at Farm Credit of New Mexico where she served in various leadership roles, including as Senior Vice President and Chief Financial Officer, as well as Vice President and Controller. Prior to Farm Credit, she worked in the mortgage industry for 9 years and in public accounting for a global firm.

## 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 15, 2024, 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 young, beginning and small 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 in 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 is encouraged to speak to groups ranging from Ag Youth Organizations to Farm Bureau Young Farmers and Ranchers to industry ag roundtables. Our staff leverage several conferences to undertake outreach and acquire the insights necessary to design appropriate programs and make annual adjustments to our YBS plans. We utilize these opportunities to educate and create greater awareness for the Farm Credit System.

To assist with our efforts in this area, we formed a partnership with the Valley Small Business Development Corporation (VSBDC). The 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. VSBC continues to support local community partners including the Asian Business Institute and Resource Center which has a program that's primarily focused on small family farmers in and around the city of Fresno.

## 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. FMFC is proud to support programs like the Center for Land-Based Learning, California Ag in the Classroom, and 4-H and Future Farmers of America as they provide important tools for helping young people grow. Student members of these programs learn not only skills like growing crops and raising animals, but also business and interview skills, and they build character traits that prepare them for a future in any career. The following are some of the positive results:

- Fair Participation - Each year, FMFC allocates funds to contribute to 4-H and FFA events throughout the Central Valley. During 2023, in addition to monetary fair sponsorships, belt buckles, and animal purchases, FMFC staff members volunteered numerous hours as ag youth leaders, judging fair events, preparing and serving meals to youth livestock competition participants, and assisting and coordinating livestock auctions.
- Grants - Each year at our annual meeting in the spring, FMFC awards three to five $500 grants to FFA programs within the local high schools or 4-H programs located within our LSA. An application is sent to club leaders and directors across the valley, and winners are selected from the applications submitted. The awards are based upon activities completed by the group for the betterment of their community, as well as the best efforts by a group or individual within the program at the state or national level in animal, equipment or crop judging/showmanship, public speaking, or parliamentary procedure. In 2023, we awarded five grants to local 4-H and FFA programs and will continue this for the planning period.
- Education - Each year, FMFC sponsors banking and finance competitions for FFA's California West Central Section and East Fresno Madera Section. Agriculture and finance study guides are sent to each group about four weeks prior to their scheduled exam competitions. Members of our staff volunteer their time to visit the school sites and administer the exams. The winners receive a $250 scholarship check from FMFC for future college expenses. We will continue this program for the planning period.

## 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 YBS farmers to be eligible for the program.

## GUARANTEE AND PARTICIPATION PROGRAMS

Federal and state guarantee programs are useful tools in managing the risks associated with our YBS lending programs and they expand our capacity to provide solutions to the various YBS opportunities that exist in our market. FMFC also coordinates credit with other Farm Credit institution lenders for participation in loans that benefit young and beginning farmers and ranchers.

## GROW YOUR FUTURE FORUM

FMFC actively participates in the Grow Your Future Forum, a collaborative initiative involving associations within the CoBank District. The conference is an interactive gathering of YBS customers representing their respective association in educational seminars and fostering networking opportunities. Insights will be gathered from the attendees regarding the needs of YBS farmers and ranchers and 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. It should be noted that 48% of the farms reported as Small within the USDA data produce $25 thousand or less in gross farm income and would typically not require access to capital. 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 | **2023** | 2022 | 2021 |
|---|---|---|---|---|
| Young | 10.11% | **9.99%** | 10.88% | 10.10% |
| Beginning | 27.55% | **20.83%** | 19.27% | 17.97% |
| Small | 67.22% | **15.80%** | 16.71% | 17.01% |

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

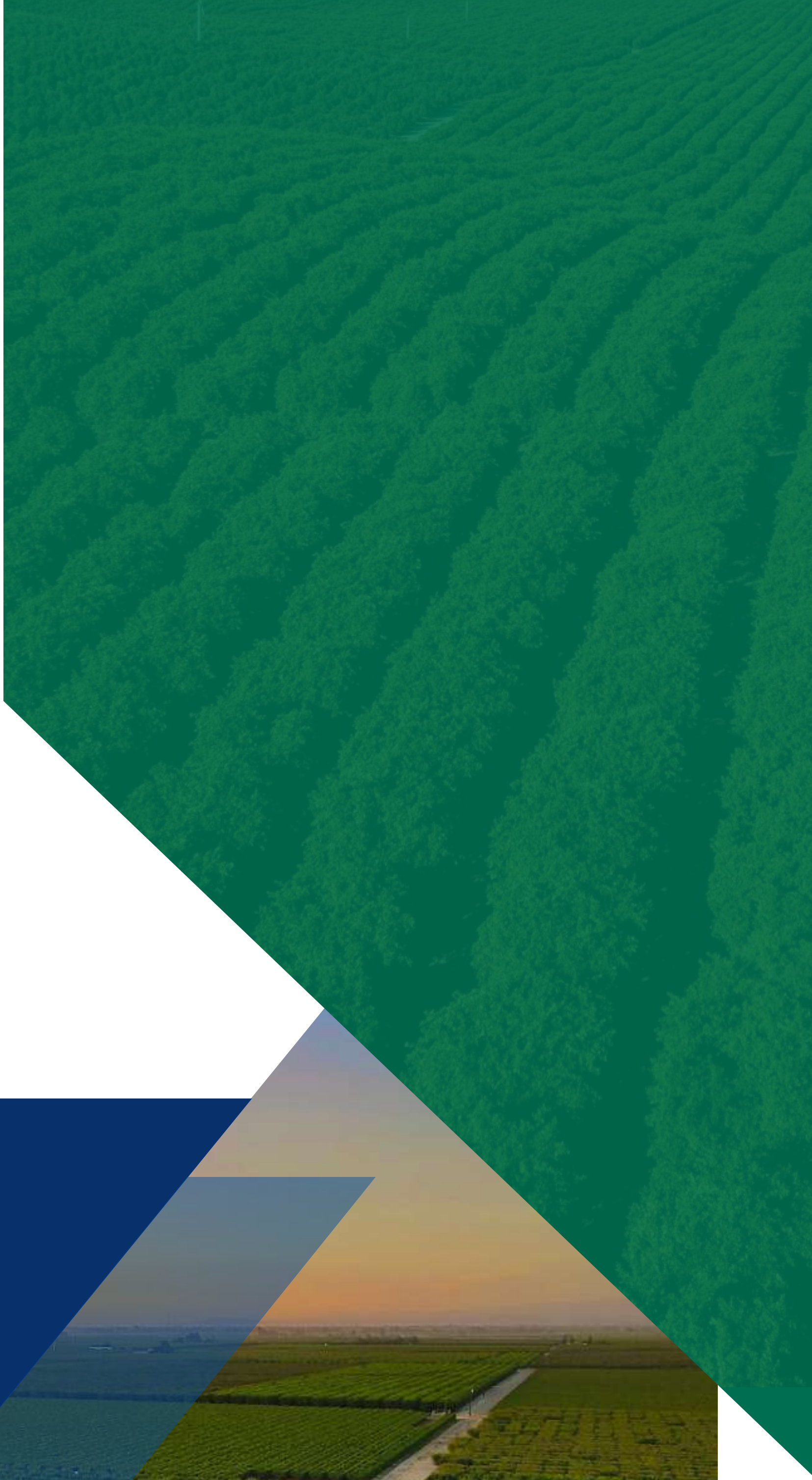
Efforts to increase our market penetration in this area are ongoing as we look to provide services to all customers within our LSA. We have included loan growth by number and volume across all YBS segments for the three-year planning period. In addition to specific growth targets for each of the segments, 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 2023 goals and results:

| | Goal Number | Actual Number | Percent of Goal Number |
|---|---|---|---|
| Young | 173 | 155 | 90% |
| Beginning | 307 | 323 | 105% |
| Small | 266 | 245 | 92% |

| | Goal Volume | Actual Volume | Percent of Goal Volume |
|---|---|---|---|
| Young | $ 135,092 | $ 115,651 | 86% |
| Beginning | $ 251,170 | $ 259,781 | 103% |
| Small | $ 68,931 | $ 71,120 | 103% |

Based on our market information, efforts, and historical results, we have established 2024 minimum goals at a 2% growth in loan numbers and volume across all segments for the three-year planning period, with the exception of Small loans, where loan numbers and volume were increased to 3% and 4%, respectively. Growth in this area was based on a regulatory change that is set to increase the gross income threshold from $250 thousand to $350 thousand effective January 1, 2024. With this change, it is anticipated that there will be more opportunities to grow the Small customer base category. 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.



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