



FARM CREDIT WEST®

2022 Annual Report

Five-Year Summary of Selected Financial Data

| <i>(dollars in thousands)</i> | 2022 | 2021 | 2020 | 2019 | 2018 |
|---------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <i>At December 31:</i> | | | | | |
| Consolidated Balance Sheets Data | | | | | |
| Loans and leases | \$ 13,295,470 | \$ 12,434,244 | \$ 11,603,195 | \$ 10,719,896 | \$ 10,112,715 |
| Less: allowance for loan losses | (78,800) | (69,600) | (77,600) | (73,800) | (61,800) |
| Net loans and leases | 13,216,670 | 12,364,644 | 11,525,595 | 10,646,096 | 10,050,915 |
| Investment securities - available for sale | 842,354 | 441,869 | 399,948 | — | — |
| Investment in CoBank | 361,821 | 374,512 | 371,862 | 339,083 | 321,888 |
| Other assets | 399,142 | 324,777 | 305,755 | 254,447 | 241,967 |
| Total assets | \$ 14,819,987 | \$ 13,505,802 | \$ 12,603,160 | \$ 11,239,626 | \$ 10,614,770 |
| Obligations with maturities of one year or less | \$ 6,288,215 | \$ 4,472,615 | \$ 5,908,239 | \$ 4,945,992 | \$ 8,417,487 |
| Obligations with maturities longer than one year | 6,212,865 | 6,592,396 | 4,307,528 | 4,000,972 | 16,333 |
| Total liabilities | 12,501,080 | 11,065,011 | 10,215,767 | 8,946,964 | 8,433,820 |
| Preferred stock | — | 253,803 | 353,360 | 365,403 | 378,105 |
| Capital stock and participation certificates | 4,932 | 5,039 | 4,980 | 4,932 | 5,025 |
| Less: capital stock and participation certificates receivable | (69) | (45) | — | — | — |
| Additional paid-in capital | 133,312 | 133,312 | 133,312 | 133,312 | 133,312 |
| Unallocated retained earnings | 2,232,932 | 2,054,207 | 1,901,370 | 1,794,045 | 1,669,518 |
| Accumulated other comprehensive loss | (52,200) | (5,525) | (5,629) | (5,030) | (5,010) |
| Total members' equity | 2,318,907 | 2,440,791 | 2,387,393 | 2,292,662 | 2,180,950 |
| Total liabilities and members' equity | \$ 14,819,987 | \$ 13,505,802 | \$ 12,603,160 | \$ 11,239,626 | \$ 10,614,770 |
| <i>For the year ended December 31:</i> | | | | | |
| Consolidated Statements of Income Data | | | | | |
| Net interest income | \$ 384,229 | \$ 336,717 | \$ 317,425 | \$ 298,684 | \$ 274,318 |
| (Provision for) reversal of loan losses | (9,363) | 8,357 | (5,488) | (19,331) | (7,936) |
| Noninterest income | 117,021 | 86,244 | 81,928 | 68,701 | 73,663 |
| Noninterest expense | (132,798) | (105,017) | (97,467) | (92,989) | (91,937) |
| Provision for income taxes | (2) | (2) | (6) | (41) | (9) |
| Net income | \$ 359,087 | \$ 326,299 | \$ 296,392 | \$ 255,024 | \$ 248,099 |
| Comprehensive income | \$ 312,412 | \$ 326,403 | \$ 295,793 | \$ 255,004 | \$ 247,299 |
| Consolidated Key Financial Ratios | | | | | |
| <i>For the year ended December 31:</i> | | | | | |
| Return on average assets | 2.57% | 2.59% | 2.57% | 2.40% | 2.44% |
| Return on average members' equity | 14.90% | 13.15% | 12.25% | 10.99% | 11.28% |
| Net interest income as a % of average earning assets | 2.87% | 2.81% | 2.87% | 2.98% | 2.86% |
| Net charge-offs as a % of average loans | 0.00% | 0.00% | 0.02% | 0.07% | 0.11% |
| <i>At December 31:</i> | | | | | |
| Members' equity as a % of total assets | 15.65% | 18.07% | 18.94% | 20.40% | 20.55% |
| Ratio of debt to members' equity | 5.4 to 1 | 4.5 to 1 | 4.3 to 1 | 3.9 to 1 | 3.9 to 1 |
| Allowance for loan losses as a % of loans | 0.59% | 0.56% | 0.67% | 0.69% | 0.61% |
| Common Equity Tier 1 (CET1) Capital ratio | 14.14% | 13.83% | 13.85% | 14.37% | 14.00% |
| Tier 1 Capital ratio | 14.14% | 13.83% | 13.85% | 14.37% | 14.00% |
| Total Capital ratio | 14.67% | 14.35% | 14.46% | 15.00% | 14.66% |
| Tier 1 Leverage ratio | 14.80% | 14.80% | 14.74% | 15.70% | 15.29% |
| Unallocated Retained Earnings and URE | | | | | |
| Equivalent (UREE) Leverage ratio | 14.77% | 16.49% | 16.30% | 17.31% | 16.95% |
| Permanent capital ratio | 14.21% | 15.86% | 16.88% | 17.75% | 17.64% |
| Other | | | | | |
| Patronage distributions paid | \$ 172,000 | \$ 130,000 | \$ 177,000 | \$ 115,700 | \$ 82,700 |
| Patronage distributions declared | \$ 180,000 | \$ 172,000 | \$ 185,000 | \$ 122,000 | \$ 115,700 |
| Preferred stock dividends declared | \$ 362 | \$ 1,462 | \$ 4,067 | \$ 8,497 | \$ 8,623 |
| Loans serviced for others | \$ 4,217,332 | \$ 3,440,923 | \$ 3,020,831 | \$ 2,811,436 | \$ 2,967,831 |

Management's Discussion and Analysis

Introduction

The following discussion summarizes the financial position and results of operations of Farm Credit West, ACA and its subsidiaries Farm Credit West, FLCA and Farm Credit West, PCA (collectively, Farm Credit West) for the year ended December 31, 2022.

We have emphasized material known trends, commitments, events, or uncertainties that are reasonably likely to impact our financial condition and results of operations. The discussion and analysis should be read in conjunction with the consolidated financial statements, footnotes, and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee.

Effective January 1, 2023, Farm Credit West merged with and into Northwest Farm Credit Services, (Northwest FCS). The merged entity, AgWest Farm Credit, (AgWest) is headquartered in Spokane, Washington. AgWest serves customers in Alaska, Arizona, California, Idaho, Montana, Oregon, Washington, and a part of Nevada. Unless stated otherwise, information within the report is specific to Farm Credit West. For additional information, refer to Note 19 to the consolidated financial statements.

Farm Credit West annual and quarterly reports to shareholders are available on AgWest Farm Credit's website, www.AgWestFC.com, or can be obtained free of charge by calling (916) 780-1166, or by writing to AgWest Farm Credit, 3755 Atherton Road, Rocklin, CA 95765. Annual reports are mailed to all stockholders within 90 days after year-end and are available on our website within 75 days after year-end; quarterly reports are available on our website within 40 days after each calendar quarter-end.

Business Overview

Farm Credit System Structure and Mission

As of December 31, 2022, we are one of 63 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System'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 done by making loans and providing financial services to creditworthy individuals and businesses. 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 established the Farm Credit System Insurance Corporation (Insurance Corporation or FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, 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 System's independent safety and soundness federal regulator is the Farm Credit Administration (FCA) which supervises, examines, and regulates System institutions.

Our Structure

As a cooperative, we are owned by the members we serve. We emphasize our cooperative structure by providing superior service at competitive rates and then, when circumstances allow, paying significant cash patronage. Patronage of \$180.0 million was declared in 2022 and distributed to customers in early 2023. This resulted in a return of 1.25% of average 2022 eligible loan balances for Farm Credit West customers which effectively lowered their borrowing costs.

Farm Credit West's territory covers a diverse area in parts of California, though it is primarily concentrated in the southern San Joaquin Valley, Central Coast, Sacramento Valley, and Imperial Valley; virtually all of Arizona; and a part of Nevada. Note 1 to the consolidated financial statements includes a more detailed description of our chartered territory.

We make long-term real estate mortgage loans to farmers, ranchers, agribusiness, and rural residents; production and intermediate-term loans for operating purposes, development and capital purchases; and financing leases. Additionally, we provide other financially-related services to our borrowers. Our success begins with our extensive agricultural lending experience and market knowledge. Serving our customers is of paramount importance.

The primary funding source for our lending and operations is our direct note from CoBank, ACB (CoBank). CoBank is a cooperative of which we are an owner and member. The financial condition and results of operations of CoBank materially affect the risk associated with shareholder investments in AgWest Farm Credit. Shareholders of AgWest Farm Credit may obtain copies of CoBank's financial statements free of charge by calling (916) 780-1166 or by writing to AgWest Farm Credit, 3755 Atherton Road, Rocklin, CA 95765, or by accessing CoBank's website at www.cobank.com.

We purchase technology services from Financial Partners, Inc. (FPI), which is a technology service corporation. We are a shareholder in FPI along with four other FPI customers. Our equity investment in FPI is \$3.8 million as of December 31, 2022. In addition, we purchase payroll and other human resource services from Farm Credit Foundations (Foundations), a human resources service provider which serves a number of System entities. We are a shareholder in Foundations along with other System entities and our equity investment is less than \$0.1 million. We also have invested \$15.5 million in AgDirect, LLP (AgDirect), which is an

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agricultural equipment financing program offered through equipment dealers. Our investment is determined by the pool of loans and leases that AgDirect has originated in our territory and that we have agreed to capitalize.

Fulfillment of Our Public Policy Purpose/Mission

A healthy America requires a strong agricultural economy. Congress enacted the Farm Credit Act to help ensure an effective credit delivery system dedicated to financing rural America. Our value proposition directs us to provide products and services at highly competitive rates, in a method that exceeds our customers' expectations and provides a meaningful return on equity through our patronage program. We strive to ensure our mission is met through operational strategies which focus on public policy fulfillment, serving customers, maintaining a fiscally sound organization, and attracting, developing, and retaining high quality directors and staff.

- ❖ For public policy fulfillment, our operational strategies focus on being a responsible organization meeting our chartered purpose of legally and ethically serving the financing needs of rural America.
- ❖ For customer service, our operational strategies focus on providing superior value-added service to all eligible customers within our chartered territory, with emphasis on outreach to young, beginning, small, minority, socially disadvantaged, and military veteran agricultural producers (as discussed in the Young, Beginning, and Small Farmer and Rancher Program section of this report). We are dedicated to being responsive to the needs of customers and potential customers as well as to addressing market demands.
- ❖ For maintaining a fiscally sound organization, our operational strategies focus on using resources efficiently and effectively to build a safe and sound organization that is positioned to consistently provide "superior customer service at competitive interest rates."
- ❖ For human resource strategies, we emphasize the need to attract, develop, and retain the people required to ensure success in meeting our public policy purpose and mission, serving customers, and maintaining fiscal stability. We are committed to ensuring diversity across our human resources.

As more fully detailed throughout this Annual Report, our performance is consistent with our public policy responsibilities. The successful results achieved are reflective of our continued commitment.

Governance

Board of Directors Oversight and Independence

During 2022, Farm Credit West was governed by a 15-member Board of Directors (Board) that provided governance

and direction to the Association. Of these directors, 13 were elected by the stockholders and 2 were appointed by the elected directors.

The Board maintained four committees: Corporate Governance Committee, Human Capital Committee, Enterprise Risk Management Committee, and Audit Committee. These committees are discussed in greater detail in the Disclosure Information Required by FCA Regulations section of this Annual Report. The Board and the four Board committees met regularly to oversee and discuss our strategic plans, operating plans and performance, financial reporting, legal and regulatory compliance, chief executive officer compensation and evaluation, issues faced, and risks managed.

The Board adopted a Charter and a Code of Ethics to support its leadership and oversight roles in the accomplishment of our mission. In the Code of Ethics, the Board, and each director, commits to conduct business in accordance with the highest ethical standards.

All directors must exercise sound judgment in deciding matters in our interest. All of our directors are independent from the perspective that none of our management or staff serve as Board members. However, we are a financial service cooperative, and the Farm Credit Act and FCA regulations require our elected directors to have a lending relationship with us.

The elected directors, as borrowers, have a vested interest in ensuring our Association remains strong and successful. However, the borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of our Board. On an annual basis, in accordance with our Board of Directors' Charter and in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation or assertions needed for the Board to review and ensure the independence of each director (as defined in the Charter). Following the most recent analysis of established criteria, the Board determined that each of our directors met the independence criteria.

Governance and Financial Reporting Control

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act (Act). While we are not subject to the requirements of that Act, we have implemented the following steps to strengthen governance and financial reporting: (1) a system for the receipt and treatment of anonymous "whistleblower" complaints; (2) a code of ethics for our directors and employees; (3) open lines of communication between the independent auditors, the Board's Audit Committee, and management; (4) this "plain English" annual report to stockholders; (5) executive officer

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certification of accuracy and completeness of the financial statements; and, (6) information disclosure through our website.

Financial Condition

Loan, Lease, and Investment Security Volume

We offer production, intermediate-term, and long-term loan and lease products to stockholders/borrowers for qualified agricultural purposes within our chartered territory. Current product options include variable and fixed interest rates. Loans are also made to farm-related businesses and agricultural processing and marketing operations. Additionally, our portfolio contains leases and purchased loans (participations purchased). We have consistently been successful in marketing and competitively pricing loan products to those agricultural producers who generate economic activity in our chartered territory. Our loan and lease volume outstanding was \$13.3 billion at December 31, 2022. This was a 7.3% increase compared with \$12.4 billion of outstanding loan and lease volume at December 31, 2021. At year-end 2020, loan and lease volume of \$11.6 billion was outstanding.

The types of loans outstanding at December 31 are reflected in the following table.

| December 31, | Percentage of Principal Outstanding | | |
|----------------------------------------|-------------------------------------|--------|--------|
| | 2022 | 2021 | 2020 |
| Real estate mortgage loans | 54.9% | 56.3% | 58.6% |
| Production and intermediate-term loans | 22.3% | 22.9% | 18.0% |
| Agribusiness loans | 16.4% | 14.7% | 17.9% |
| Direct financing leases | 1.4% | 1.7% | 1.9% |
| Rural infrastructure loans | 4.6% | 4.1% | 3.6% |
| Other loans | 0.4% | 0.3% | 0.0% |
| Total | 100.0% | 100.0% | 100.0% |

Long-term real estate mortgages generally finance the purchase and development of farm real estate, refinance existing mortgages, help construct various facilities used in agricultural operations, and help purchase other rural real estate for both full-time and part-time farmers. These loans generally have maturities ranging from five to 30 years. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount not to exceed 85% of the original appraised value of the property or up to 97% of the appraised value if the loan is guaranteed by certain state or federal agencies. Under our risk based underwriting standards, we loan less than the regulatory limits allow. Production and intermediate-term loans are generally made for operating funds, equipment financing, and other purposes and are generally short term. Agribusiness loans are comprised of loans to processors and marketers, farm-related businesses, and cooperatives. Rural infrastructure loans, which are typically purchased loans, are

comprised of loans to communication providers, water and waste processors and providers of electricity to rural areas. Other loans reflect purchased loans which have been classified to better align with lead lenders' loan types.

Portfolio Diversification

Although our charter limits us to making loans and providing financially-related services primarily to the agricultural and rural sectors and certain related entities, our loan portfolio is diversified by commodity segments, geographic locations, and participations purchased and sold.

Farm Credit West's outstanding loan volume percentage by primary source of revenue and/or commodity segment is shown in the following table. The table reflects a loan portfolio that is well diversified among major commodities and types of agriculture. Repayment ability of our customers is closely related to the production and the profitability of the commodities they raise. If a loan fails to perform, restructuring or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by industry economics. Management is committed to maintaining sound credit quality, but future performance may be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated with the specific commodities or industries impacted and the magnitude and duration of the impact.

| December 31, | Percentage of Principal Outstanding | | |
|----------------------------|-------------------------------------|--------|--------|
| | 2022 | 2021 | 2020 |
| Dairy | 13.9% | 14.4% | 13.8% |
| Almonds | 11.9% | 11.0% | 10.5% |
| Processing Marketing > 20% | 10.1% | 9.6% | 8.8% |
| Pistachios | 7.2% | 7.5% | 7.2% |
| Processing Marketing < 20% | 6.6% | 5.9% | 5.5% |
| Crops Services | 3.9% | 3.3% | 3.7% |
| Rural Infrastructure | 3.8% | 3.8% | 1.9% |
| Wine Grapes | 3.8% | 4.4% | 4.9% |
| Walnuts | 3.6% | 3.9% | 4.0% |
| Vegetables | 3.6% | 3.7% | 4.4% |
| Wine | 3.2% | 3.2% | 2.9% |
| Table Grapes | 2.8% | 2.9% | 3.1% |
| Deciduous Tree Fruit | 2.8% | 2.6% | 2.9% |
| Oranges | 2.4% | 2.2% | 2.2% |
| Beef Cattle | 1.9% | 3.4% | 3.1% |
| Forest Products | 1.7% | 1.9% | 2.4% |
| Rice | 1.6% | 1.8% | 1.7% |
| Hay | 1.4% | 1.6% | 1.5% |
| Other | 13.8% | 12.9% | 15.5% |
| Total | 100.0% | 100.0% | 100.0% |

Additionally, further diversification exists within the identified commodities as most farmers and ranchers produce more than one commodity.

In the chart above, loans for processing and marketing are separated into two risk categories based on the amount of product processed or marketed that is also produced by the

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borrower. A processing and marketing loan > 20% indicates the borrower produces more than 20% of the commodity that is being processed and typically has less risk as compared to a processing and marketing loan < 20%. The various types of processing and marketing loans can include dairy, nut, poultry, livestock, fruit, or vegetable processing. The Other category includes numerous different commodities that are less than 1% of total loans which indicate further diversity in our portfolio.

The geographic distribution of loans by county is illustrated in the following table. We originate and service loans in areas outside of our chartered territory with the concurrence of the Farm Credit associations chartered in those areas. We purchase loan participations outside our territory to diversify risk and those are included in Other in the table. The Other category also includes counties that are less than 1% of total loans.

| <i>December 31,</i> | Percentage of Principal Outstanding | | |
|---------------------|-------------------------------------|--------|--------|
| | 2022 | 2021 | 2020 |
| Tulare | 13.0% | 13.2% | 12.4% |
| Fresno | 8.3% | 7.6% | 7.7% |
| Kern | 7.8% | 8.3% | 8.6% |
| Sutter | 4.5% | 4.4% | 4.6% |
| Kings | 4.1% | 3.8% | 3.8% |
| San Luis Obispo | 3.8% | 4.3% | 4.7% |
| Santa Barbara | 3.1% | 3.2% | 3.5% |
| Los Angeles | 2.8% | 2.7% | 2.9% |
| Ventura | 2.6% | 2.7% | 3.1% |
| Imperial | 2.3% | 2.3% | 2.2% |
| Maricopa | 2.1% | 2.3% | 2.5% |
| Yolo | 1.7% | 1.9% | 1.9% |
| Colusa | 1.6% | 1.8% | 1.9% |
| Sacramento | 1.4% | 1.5% | 1.4% |
| Butte | 1.3% | 1.5% | 1.7% |
| Yuma | 1.2% | 1.2% | 1.4% |
| Placer | 1.2% | 1.2% | 1.0% |
| Madera | 1.2% | 1.2% | 1.1% |
| Monterey | 1.1% | 1.1% | 1.3% |
| Other | 34.9% | 33.8% | 32.3% |
| Total | 100.0% | 100.0% | 100.0% |

Farm Credit West's loan portfolio is diversified to a considerable extent both geographically and by commodity or industry as reflected in the previous two tables. The average loan size (including loan volume that we service for others) was \$1.6 million outstanding at year-end 2022. This is a relatively large average loan size but management does not consider this concentration to be of significant concern given portfolio asset quality, commodity diversity, and collateral values underlying the portfolio. Six percent of our loan volume, approximately \$749.6 million, is attributable to the net hold position of our ten largest customers. The financial failure of any one of these large borrowers could materially affect our future operating results. As discussed in the Credit Risk Management section, management has implemented

processes to help manage loan size and commodity concentrations within our portfolio.

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 undisbursed 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 and letters of credit 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 certain financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations.

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

| <i>(dollars in thousands)</i> | Commitments to extend credit | Standby letters of credit | Total Commitments |
|-------------------------------|------------------------------|---------------------------|-------------------|
| Less than 1 year | \$ 2,864,091 | \$ 5,699 | \$ 2,869,790 |
| 1-3 years | 424,499 | 20,227 | 444,726 |
| 3-5 years | 625,831 | — | 625,831 |
| Over 5 years | 187,710 | 481 | 188,191 |
| Total | \$ 4,102,131 | \$ 26,407 | \$ 4,128,538 |

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments.

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Loan Participations

We purchase participation interests in loans from other System and non-System entities to generate additional earnings and diversify risk related to the existing commodities we finance and our geographic area served. In addition, we sell a portion of certain large loans and a portion of our lease portfolio to other System entities and occasionally, non-System entities, to reduce risk in loan concentrations and comply with lending limits we have established.

The following table summarizes our three-year history with respect to loan and lease participations outstanding. Participations purchased volume includes loan syndications.

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|-----------------------------------------|---------------------|--------------|--------------|
| Participations purchased | \$ 3,248,036 | \$ 2,912,939 | \$ 2,583,134 |
| FCW-originated loan participations sold | (4,217,332) | (3,440,923) | (3,020,831) |
| Net participations sold | \$ (969,296) | \$ (527,984) | \$ (437,697) |

Throughout the reporting period, we have pursued a strategic initiative to position ourselves to benefit from enhanced participation relationships with other Farm Credit institutions. It is management's conclusion that we are adequately compensated for participation interests sold relative to the incremental cost of servicing the "sold" portions of those assets. Accordingly, no servicing asset or liability has been established related to participations sold.

Economic Overview

Agriculture in the area served by Farm Credit West is highly diversified and under normal conditions generally less susceptible to financial volatility than other areas of the U.S. because of the diversity in commodities produced. However, the prolonged Coronavirus pandemic (COVID-19) over the last two years, caused worldwide disruptions to financial markets, numerous business sectors, and human capital.

The tree nut, table grape and dairy industries, which are significant exposures in our portfolio, are very dependent on export markets. The first wave of COVID-19 cases caused significant levels of stress in these commodities due to the impact on export markets (sales reductions) and general economic uncertainty. While most markets recovered from the uncertainty, exports remain at lower levels due to continued container shortages and port slowdowns. Additionally, the strengthening U.S. dollar has also negatively impacted exports.

Other noteworthy economic factors include inflationary pressure, the U.S. labor supply, and drought. Disruptions in the supply chain continue to cause scarcity in some needed inputs in the agricultural processing chain, resulting in reduced production and/or substantially increased costs to producers. Inflation increased significantly in the second half

of 2021 and continued to accelerate in 2022. The Federal Reserve increased the overnight interest rate in March of 2022 for the first time in two years, then again six additional times in 2022. Inflation has a negative impact on operating costs for the Association and on our customers' operations. As the pandemic's impact waned, employers like Farm Credit West were impacted by the "Great Resignation" which resulted in higher turnover. High turnover results in additional cost associated with training, recruitment, and loss of productivity.

Significant portions of Farm Credit West's territory experienced severe drought conditions in 2022. While the long-term impacts of the Sustainable Groundwater Management Act (SGMA) continue to be unknown, required reductions in groundwater usage from the combination of SGMA implementation and current drought conditions may impact land values, and in some cases may require fallowing acreage. This impact is likely to be greatest in the Kern/Kings/Tulare County areas of California.

Portfolio 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, which is used by all Farm Credit System institutions. Below are the classification definitions.

Nonadversely Classified Assets

- ❖ Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- ❖ Other Assets Especially Mentioned – Assets are currently collectible but exhibit some potential weakness.

Adversely Classified Assets

- ❖ Substandard – Assets exhibit some serious weakness in repayment capacity, equity, or collateral pledged on the loan.
- ❖ Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- ❖ Loss – Assets are considered uncollectible.

As shown in the following table, the credit quality of our loan portfolio (principal and interest) decreased by 0.6% in 2022 after increasing by 1.4% in 2021.

| <i>December 31,</i> | 2022 | 2021 | 2020 |
|-------------------------|--------------|-------|-------|
| Nonadversely classified | 96.4% | 97.0% | 95.6% |
| Adversely classified | 3.6% | 3.0% | 4.4% |

Adversely classified loans increased to 3.6% of loans at December 31, 2022 compared to 3.0% in 2021. Farm Credit West's December 31, 2022 loan quality of 96.4% nonadversely classified remains strong.

Management's Discussion and Analysis

Nonearning Assets

The following table summarizes Farm Credit West's three-year history of nonearning assets. Other property owned is comprised of real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure, or other means. Nonaccrual loans represent loans where there is a reasonable doubt as to collection of principal and interest.

| <i>December 31, (dollars in thousands)</i> | 2022 | 2021 | 2020 |
|------------------------------------------------|------------------|-----------|-----------|
| Nonaccrual loans | \$ 54,069 | \$ 71,428 | \$ 99,562 |
| Other property owned | 9,992 | 1 | 1 |
| Total | \$ 64,061 | \$ 71,429 | \$ 99,563 |
| Total as a percentage of total assets | 0.43% | 0.53% | 0.79% |
| Total as a percentage of total members' equity | 2.76% | 2.93% | 4.17% |

The volume of nonearning assets decreased \$7.4 million in 2022 to \$64.1 million. During 2021, nonearning assets decreased \$28.1 million. The current level of nonearning assets, while manageable, has a negative impact on earnings due to foregone interest income.

Nonaccrual loan volume decreased \$17.4 million in 2022 to \$54.1 million. The net decrease was a result of \$15.6 million in net repayments, \$11.9 million in net transfers to other property owned and \$2.3 million in transfers to accrual status during the year. These decreases in nonaccrual were partially offset by \$12.6 million in transfers to nonaccrual. We are adequately collateralized on most of the \$54.1 million in nonaccrual loan volume outstanding at December 31, 2022. However, there is \$25.6 million of nonaccrual loan volume where we have established specific loan loss allowances of \$5.7 million.

Other property owned totaled \$10.0 million at December 31, 2022 compared to less than \$0.1 million at December 31, 2021 and 2020. We actively market other property owned assets and intend to dispose of each property in an orderly and timely fashion. During 2022, there were no losses due to lower estimated net realizable values on assets held in other property owned. The operation and sale of other property owned generated gains of \$2.0 million in 2022.

In addition to nonaccrual loans, we have certain loans that are considered non-performing such as accruing restructured loans and accrual loans 90 days past due. These three types of loans make up the Association's total impaired loans. There were less than \$0.1 million in restructured accrual loans at December 31, 2022 and 2021, and none at December 31, 2020. At December 31, 2022, there were \$1.8 million in loans 90 days past due and accruing interest. At December 31, 2021, there were \$5.0 million in loans 90 days past due and accruing interest; and at December 31, 2020, there were \$4.4 million in loans 90 days past due and accruing interest.

Allowance for Loan and Lease Losses and Loss Experience

The allowance is our best estimate of the amount of probable losses existing in, and inherent to, our loan and lease portfolios as of the balance sheet date. We determine the allowance based on a regular evaluation of the loan portfolio, which considers recent and historic charge-off experience among other relevant factors. See Note 2 to the consolidated financial statements for more detailed information regarding the allowance for loan losses.

Charge-offs net of recoveries totaled \$0.2 million in 2022. Recoveries totaled \$0.4 million in 2021. Charge-offs net of recoveries totaled \$1.7 million in 2020. Net loan charge-offs in 2022 and 2020 were related mostly to loans in the processing and marketing, wine and wine grapes, nursery, and dairy segments of our portfolio.

The allowance for loan losses for the three most recent years, including charge-offs and recoveries by loan type, is detailed below.

| <i>(dollars in thousands)</i> | 2022 | 2021 | 2020 |
|-----------------------------------------|------------------|-----------|-----------|
| Balance at beginning of year | \$ 69,600 | \$ 77,600 | \$ 73,800 |
| Provision for (reversal of) loan losses | 9,363 | (8,357) | 5,488 |
| Charge-offs: | | | |
| Real estate mortgage loans | (218) | — | (392) |
| Production and intermediate-term loans | (28) | — | (2,048) |
| Agribusiness loans | — | — | (392) |
| Total charge-offs | (246) | — | (2,832) |
| Recoveries: | | | |
| Production and intermediate-term loans | 83 | 357 | 1,143 |
| Agribusiness loans | — | — | 1 |
| Total recoveries | 83 | 357 | 1,144 |
| (Charge-offs) net recoveries | (163) | 357 | (1,688) |
| Balance at December 31 | \$ 78,800 | \$ 69,600 | \$ 77,600 |
| Net charge-offs to average loans | 0.00% | 0.00% | 0.02% |

The amount of the allowance determined by loan type is detailed in the following table.

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|----------------------------------------|------------------|-----------|-----------|
| Real estate mortgage loans | \$ 8,146 | \$ 7,597 | \$ 9,548 |
| Production and intermediate-term loans | 43,229 | 40,751 | 44,086 |
| Agribusiness loans | 20,786 | 16,114 | 17,372 |
| Direct financing leases | 5,414 | 3,967 | 4,660 |
| Rural infrastructure loans | 1,196 | 1,145 | 1,934 |
| Other loans | 29 | 26 | — |
| Total allowance for loan losses | \$ 78,800 | \$ 69,600 | \$ 77,600 |

Management's Discussion and Analysis

The allowance as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below.

| <i>December 31,</i> | 2022 | 2021 | 2020 |
|-------------------------------|----------------|--------|--------|
| Allowance as a percentage of: | | | |
| Total loans | 0.59% | 0.56% | 0.67% |
| Total impaired loans | 140.85% | 90.94% | 74.67% |
| Nonaccrual loans | 145.74% | 97.44% | 77.94% |

The financial position of agricultural producers remained relatively strong during 2022 for most of the commodity segments we finance. The allowance for loan losses increased in 2022 due primarily to a \$12.6 million increase in the general allowance estimate as a result of loan growth and asset quality changes and/or collateral revaluations which resulted in higher risk profiles. This increase was partially offset by a \$3.4 million decrease in the specific reserves component of the total allowance.

Credit Risk Management

The credit risk in our portfolio arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss. 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 management resources available for repaying debt within the term of the notes and loan agreement. Processes are established and followed for information gathering, financial statement verification, loan analysis, credit approvals, disbursement of proceeds, and subsequent loan servicing actions. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions. Among other things, those standards evaluate the following.

- ❖ Character – borrower integrity, credit history, and management capabilities;
- ❖ 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, and restrictions.

To help manage and diversify credit risk, our credit risk management framework includes credit guarantees and loan participations. Although these tools allow us to reduce risk in our portfolio, they also result in Farm Credit West receiving less interest income.

As of December 31, 2022, Farm Credit West held \$123.2 million of loan volume, covered under a Long Term Standby Commitment to Purchase agreement (LTSCP) with Farmer Mac. That guaranteed volume totaled \$150.7 million at December 31, 2021 and \$193.9 million at December 31, 2020. The LTSCP guarantee serves as a risk reduction measure as it gives us the right to sell any loan identified in the agreement to Farmer Mac in the event a delinquency of four months occurs.

Fees paid to Farmer Mac for guaranteed loans we originated totaled \$0.6 million in 2022, \$0.7 million in 2021 and \$0.9 million in 2020. Farmer Mac fees are offset against interest income and other noninterest income.

We have credit guarantees with certain U.S. government agencies including Farmer Mac, the Farm Service Agency (FSA) and the Small Business Administration (SBA) totaling approximately \$23.2 million at December 31, 2022. Credit guarantee transactions may create counterparty risk. As part of our counterparty risk policy, at least annually we complete an analysis of our exposure to ensure our counterparty risk with identified entities are within policy guidelines related to potential impacts on capital and potential impacts on return on equity. Other than the contractual obligations arising from these business transactions, counterparties are not liable for any debt or obligations of ours and we are not liable for any debt or obligation of theirs.

The majority of the loans we originate are farm real estate loans collateralized by a first mortgage on the pledged collateral. Production and intermediate-term lending accounts for most of the remaining volume and is also typically collateralized. Real estate appraisals and chattel evaluations are made following FCA and Uniform Standards of Professional Appraisal Practices requirements.

Additionally, to manage the overall level of risk inherent in the loan portfolio, we have established maximum internal lending limits that are considerably lower than those established by FCA regulation. Our limits differentiate among borrowers based on each borrower's risk profile. We have adopted an individual loan size maximum of approximately 3% of our equity for our highest quality customers.

We have established internal authorized lending delegations to properly control the loan approval process. Delegations to staff are based on our risk-bearing ability, loan size, loan complexity, loan type, and risk, as well as the expertise of the credit staff member. Larger and more complex loans are typically subject to a more rigorous approval process, which requires review by both lenders and underwriters and approval by our most experienced and knowledgeable credit staff. We use credit analysts to increase the level of independent analysis on many loans in our portfolio. Additionally, we use experienced Special Assets staff to assist with distressed accounts.

Management's Discussion and Analysis

We use a Loan Rating Model (Model) to assess risk. The Model is a two dimensional loan risk rating system that measures each loan's probability of default (the likelihood of a borrower defaulting in the next twelve months) and loss given default (an estimate of the anticipated loss on each loan, should the borrower default in the next 12 months). The Model is utilized in loan and portfolio management processes (including allowance for loan loss estimates) providing a more detailed risk evaluation, particularly related to loans classified Acceptable under the Uniform Classification System. Information from the Model is integrated into our Economic Capital analysis, which is discussed in more detail in the Capital section that follows.

CoBank

Farm Credit West's primary funding source for lending and operations is our direct note from CoBank which totaled \$11.8 billion at December 31, 2022. The Association is required to maintain a minimum investment in CoBank. For 2022, the minimum required investment is 3.0% of Farm Credit West's prior one-year average direct note volume.

At December 31, 2022, our investment in CoBank was \$361.8 million. Due to its cooperative nature, CoBank declared patronage distributions in 2022 which are paid in 2023. Farm Credit West accrued \$73.9 million in patronage receivable from CoBank as of December 31, 2022.

Results of Operations

Net Income Summary

As shown in the table below, net income for 2022 was \$359.1 million, compared with \$326.3 million in 2021 and \$296.4 million in 2020. The following is a summary of major components of the change in net income over the last three years.

| <i>(in thousands)</i> | 2022 versus 2021 | 2021 versus 2020 | 2020 versus 2019 |
|------------------------------|---------------------------------|------------------------|------------------------|
| Net income, prior year | \$ 326,299 | \$ 296,392 | \$ 255,024 |
| Increase (decrease) due to: | | | |
| Net interest income | 47,512 | 19,292 | 18,741 |
| Provision for loan losses | (17,720) | 13,845 | 13,843 |
| Noninterest income | 29,898 | 4,300 | 14,122 |
| Noninterest expense | (26,902) | (7,534) | (5,373) |
| Provision for income taxes | — | 4 | 35 |
| Total increase in net income | 32,788 | 29,907 | 41,368 |
| Net income, current year | \$ 359,087 | \$ 326,299 | \$ 296,392 |

Net income increased \$32.8 million in 2022, \$29.9 million in 2021 and \$41.4 million in 2020 as compared to the prior year.

Net income does not include other comprehensive losses of \$46.8 million in 2022 compared to other comprehensive

gains of \$0.1 million recorded in 2021 and other comprehensive losses of \$0.6 million recorded in 2020.

For 2022, the key components in the \$32.8 million increase in net income were as follows:

- ❖ Net interest income increased \$47.5 million due primarily to growth in average earning assets.
- ❖ Noninterest income increased \$29.9 million due to an increase in CoBank patronage that included a special cash patronage declaration, decreased losses due to the buyback of debt in 2021, and an increase in patronage received from other Farm Credit institutions. These increases were partially offset by reductions in loan fees.

Partially offsetting the increases:

- ❖ Noninterest expense increased \$26.9 million due primarily to a donation to a Donor Advised Fund in 2022, an increase in FCSIC premiums, merger implementation expense, and salaries and benefits.
- ❖ Provision for loan losses increased \$17.7 million due to a provision expense of \$9.4 million in 2022 compared to a provision reversal of \$8.3 million during 2021.

For 2021, the key components in the \$29.9 million increase in net income were as follows:

- ❖ Net interest income increased \$19.3 million due primarily to growth in average earning assets.
- ❖ Provision for loan losses decreased \$13.8 million due to a provision reversal of \$8.4 million during 2021 compared to a provision expense of \$5.5 million in 2020.
- ❖ Noninterest income increased \$4.3 million due to an increase in CoBank patronage that included a special cash patronage declaration and an increase in patronage received from other Farm Credit institutions. These increases were partially offset by reductions in loan fees, FCSIC refunds and SBA fees, in addition to increased losses due to the buyback of debt in 2021.

These 2021 increases were partially offset by a \$7.5 million increase in noninterest expense due primarily to an increase in FCSIC premiums and salaries and benefits, partially offset by decreases in information technology and purchased services.

Management's Discussion and Analysis

The key components in the 2020 \$41.4 million year-over-year increase in net income are as follows:

- ❖ Net interest income increased \$18.7 million due to strong growth in average earning assets and Farm Credit West continuing to maintain spread on outstanding loans in 2020.
- ❖ Provision for loan losses decreased by \$13.8 million due primarily to lower current year charge-offs and minimal change in adversely classified assets impacting the estimate in the general allowance for loan losses.
- ❖ Noninterest income increased \$14.1 million primarily due to an increase in CoBank patronage that included a special cash patronage declaration, an increase in loan/lease fees and an increase in patronage received from other Farm Credit institutions.

These 2020 increases were partially offset by a \$5.3 million increase in noninterest expense due primarily to increases in information technology, salaries and benefits, and FCSIC insurance premiums, partially offset by decreases in travel, public and member relations and training.

The following table reflects our earnings history relative to asset and equity levels.

| <i>Year ended December 31,</i> | 2022 | 2021 | 2020 |
|--------------------------------|---------------|--------|--------|
| Net income as a percentage of: | | | |
| Average assets | 2.57% | 2.59% | 2.57% |
| Average members' equity | 14.90% | 13.15% | 12.25% |

Net Interest Income

Net interest income is our core earnings source and it increased in each of the three years presented as reflected in the following tables. In 2022, the interest rate spread decreased slightly to 2.64% compared with 2.69% in 2021. The interest rate spread increased 0.02% in 2021 from 2.67% in 2020. The 2022 net interest margin was 2.87%, an increase of 0.06% from 2021. In 2021, the net interest margin decreased 0.06% from 2020.

Farm Credit West's net interest margin generally benefits when interest rates rise and is negatively impacted when interest rates are reduced due to the impact on equity financing. In 2020, the Federal Open Market Committee (FOMC) reduced the Fed Funds target rate two times by 0.50% and 1.00% in March. In 2021 the FOMC did not implement any rate changes. In 2022 the FOMC increased the Fed Funds target seven times by a total of 4.25% from March to December 2022.

The following tables show our growth in average total interest earning assets, average interest-bearing liabilities, average equity financing, and their related interest.

| <i>(dollars in thousands)</i> | 2022 | | |
|---------------------------------------------|------------------------|-------------------|--------------|
| | Average Balance | Interest | Rate |
| Net interest income components | | | |
| Interest-earning assets: | | | |
| Loans and leases | \$ 12,672,692 | \$ 565,418 | 4.46% |
| Investment securities | 652,477 | 11,157 | 1.71% |
| Total interest-earning assets | 13,325,169 | 576,575 | 4.33% |
| Interest-bearing liabilities: | | | |
| Note payable to CoBank | 10,949,366 | 188,073 | 1.72% |
| Future payment funds | 518,012 | 5,772 | 1.11% |
| Total interest-bearing liabilities | 11,467,378 | 193,845 | 1.69% |
| Interest rate spread | | | 2.64% |
| Impact of equity financing | \$ 1,857,791 | | 0.23% |
| Net interest income and net interest margin | | \$ 382,730 | 2.87% |

| <i>(dollars in thousands)</i> | 2021 | | |
|---------------------------------------------|------------------------|-------------------|--------------|
| | Average Balance | Interest | Rate |
| Net interest income components | | | |
| Interest-earning assets: | | | |
| Loans and leases | \$ 11,600,039 | \$ 408,234 | 3.52% |
| Investment securities | 335,158 | 1,558 | 0.46% |
| Total interest-earning assets | 11,935,197 | 409,792 | 3.43% |
| Interest-bearing liabilities: | | | |
| Note payable to CoBank | 9,550,649 | 72,397 | 0.76% |
| Future payment funds | 483,208 | 1,693 | 0.35% |
| Total interest-bearing liabilities | 10,033,857 | 74,090 | 0.74% |
| Interest rate spread | | | 2.69% |
| Impact of equity financing | \$ 1,901,340 | | 0.12% |
| Net interest income and net interest margin | | \$ 335,702 | 2.81% |

Management's Discussion and Analysis

| (dollars in thousands) | 2020 | | |
|---------------------------------------------|---------------------|-------------------|--------------|
| | Average Balance | Interest | Rate |
| Net interest income components | | | |
| Interest-earning assets: | | | |
| Loans and leases | \$ 10,792,763 | \$ 420,079 | 3.89% |
| Investment securities | 94,803 | 101 | 0.11% |
| Total interest-earning assets | 10,887,566 | 420,180 | 3.86% |
| Interest-bearing liabilities: | | | |
| Note payable to CoBank | 8,602,818 | 104,549 | 1.22% |
| Future payment funds | 429,503 | 2,634 | 0.61% |
| Total interest-bearing liabilities | 9,032,321 | 107,183 | 1.19% |
| Interest rate spread | | | 2.67% |
| Impact of equity financing | <u>\$ 1,855,245</u> | | 0.20% |
| Net interest income and net interest margin | | <u>\$ 312,997</u> | <u>2.87%</u> |

The financial market for debt instruments has remained fairly stable. Combined with the growth in earning assets, an adequate spread and equity financing are important components of our net interest income and net income growth.

The following table provides a breakdown of changes in net interest income over the three most recent years based on: (1) changes in the dollar volumes of assets and liabilities and (2) changes to interest rates acting on those assets and liabilities.

| (in thousands) | 2022 versus 2021 | 2021 versus 2020 | 2020 versus 2019 |
|---------------------------------------------|------------------------|------------------------|------------------------|
| Net interest income, prior year | \$ 336,717 | \$ 317,425 | \$ 298,684 |
| Increase (decrease) due to: | | | |
| Changes in volume of assets and liabilities | 36,888 | 28,902 | 24,115 |
| Changes in interest rates | 10,139 | (6,197) | (5,545) |
| Changes in income on nonaccrual loans | 485 | (3,413) | 171 |
| Total increase in net interest income | 47,512 | 19,292 | 18,741 |
| Net interest income, current year | <u>\$ 384,229</u> | <u>\$ 336,717</u> | <u>\$ 317,425</u> |

In 2022, average earning asset volume increased 11.6%, or \$1.4 billion, and contributed to the increase in net interest income. Average earning asset volume increased 9.6% in 2021 and 8.5% in 2020.

Provision for Loan Losses

Changes in the allowance for loan losses impact net income when the allowance is increased through a provision for loan losses or decreased through loan loss reversals. We review our loan portfolio on a regular basis to determine if any change in our allowance for loan losses is necessary based on an assessment of the probable losses in our loan portfolio. We recorded a provision for loan loss of \$9.4 million in 2022, a provision for loan loss reversal of \$8.4 million in 2021, and provisions for loan loss of \$5.5 million in 2020.

The 2022 provision for loan loss was related to a \$12.6 million increase in general allowance as a loan growth and asset quality changes, as well as downgrades in risk ratings and/or collateral revaluations which resulted in higher risk profiles. Partially offsetting these increases was a \$3.4 million decrease in the specific allowance reserves for loan losses.

The 2021 provision for loan loss reversal was related to an \$8.4 million decrease in estimated losses due to both improvements in credit quality and considerations for environmental risk factors during the year. Additionally, recoveries of \$0.4 million contributed to the 2021 provision reversal. Partially offsetting these decreases was a \$0.4 million increase in the specific allowance reserves for loan losses.

The 2020 provision for loan losses was related to a \$7.2 million increase in estimated losses due to both growth in the portfolio and considerations for environmental risk factors present during the year including uncertainties due to COVID-19's potential impact on the economy, agriculture, and borrowers. Additionally, net charge-offs of \$1.7 million contributed to the 2020 provision for loan loss. Partially offsetting these increases was a \$3.4 million reduction in the specific allowance reserves for loan losses.

Noninterest Income

Total noninterest income increased \$29.9 million in 2022 as compared to 2021. During 2022, we recorded noninterest income of \$117.0 million compared with \$87.1 million in 2021 and \$82.8 million in 2020.

| For the year ended December 31, (in thousands) | 2022 | 2021 | Percent Change |
|---------------------------------------------------|-------------------|------------------|-------------------|
| Patronage income | \$ 95,728 | \$ 76,910 | 24.5% |
| Loan and other fees | 13,789 | 16,060 | (14.1%) |
| Other noninterest income (expense) | 7,504 | (5,847) | (228.3%) |
| Total noninterest income | <u>\$ 117,021</u> | <u>\$ 87,123</u> | <u>34.3%</u> |

Management's Discussion and Analysis

| <i>For the year ended December 31, (in thousands)</i> | 2021 | 2020 | Percent Change |
|-----------------------------------------------------------|------------------|------------------|-------------------|
| Patronage income | \$ 76,910 | \$ 61,780 | 24.5% |
| Loan and other fees | 16,060 | 19,284 | (16.7%) |
| Other noninterest (expense) income | (5,847) | 1,759 | (432.4%) |
| Total noninterest income | <u>\$ 87,123</u> | <u>\$ 82,823</u> | <u>5.2%</u> |

The increase in noninterest income in 2022 was due primarily to a \$10.8 million decrease in losses on the buyback of debt, a \$10.0 million increase in patronage declared by CoBank which included a special cash patronage declaration and an increase of \$7.8 million in patronage received from other Farm Credit institutions.

Noninterest Expense

The dollar amounts and year-over-year percentage changes in each noninterest expense component are reported in the following tables.

| <i>For the year ended December 31, (in thousands)</i> | 2022 | 2021 | Percent Change |
|-----------------------------------------------------------|-------------------|-------------------|-------------------|
| Salaries and employee benefits | \$ 64,388 | \$ 60,618 | 6.2% |
| Information technology services | 17,305 | 15,265 | 13.4% |
| Public and member relations | 9,655 | 1,418 | 580.9% |
| Occupancy and equipment | 5,158 | 4,769 | 8.2% |
| Supervisory and examination | 2,688 | 2,514 | 6.9% |
| Other operating expense | 9,424 | 7,312 | 28.9% |
| Total operating expense | <u>108,618</u> | <u>91,896</u> | <u>18.2%</u> |
| Insurance fund premiums | 19,858 | 14,000 | 41.8% |
| Merger expense | 4,322 | — | 100.0% |
| Total noninterest expense | <u>\$ 132,798</u> | <u>\$ 105,896</u> | <u>25.4%</u> |

| <i>For the year ended December 31, (in thousands)</i> | 2021 | 2020 | Percent Change |
|-----------------------------------------------------------|-------------------|------------------|-------------------|
| Salaries and employee benefits | \$ 60,618 | \$ 57,480 | 5.5% |
| Information technology services | 15,265 | 16,806 | (9.2%) |
| Public and member relations | 1,418 | 1,395 | 1.6% |
| Occupancy and equipment | 4,769 | 4,688 | 1.7% |
| Supervisory and examination | 2,514 | 2,442 | 2.9% |
| Other operating expense | 7,312 | 7,795 | (6.2%) |
| Total operating expense | 91,896 | 90,606 | 1.4% |
| Insurance fund premiums | 14,000 | 7,756 | 80.5% |
| Total noninterest expense | <u>\$ 105,896</u> | <u>\$ 98,362</u> | <u>7.7%</u> |

Total noninterest expense increased by \$26.9 million in 2022 as compared to 2021 and increased by \$7.5 million in 2021 as compared to 2020. The 2022 increase was primarily due to a \$7.8 million donation to a Donor Advised Fund in 2022 and a \$5.9 million increase in FCSIC insurance premiums due to an increase in the premium rate as determined by FCSIC. Also contributing to the increase was a \$4.3 million increase in merger expense and a \$3.8 million increase in salaries and

benefits due primarily to a one-time economic conditions bonus paid out during the year.

The 2021 increase was primarily due to a \$6.2 million increase in FCSIC insurance premiums due to an increase in the premium rate as determined by FCSIC. Also contributing to the increase was a \$3.1 million increase in salaries and benefits due primarily to increases in performance based compensation and annual leave year-end expenses. Partially offsetting these increases were decreases of \$1.5 million in information technology and \$0.5 million in purchased services.

Our noninterest expenses are modest relative to our earning asset size. The control of expense is a key component in providing "added value" to our customers. We measure our operating efficiency two ways. The first measure is a ratio of our noninterest expense (excluding other property owned gains/losses) to combined revenue, which is defined as net interest income and noninterest income. This banking industry standard ratio, termed the operating efficiency ratio, reflects the dollars expended to generate a dollar of revenue. For example, our operating efficiency ratio was 26.7% in 2022, thus it took 26.7 cents to generate a dollar of revenue. The operating efficiency ratio was 24.5% in 2021 and 24.2% in 2020. Farm Credit West's efficiency ratio continues to be one of the best (lowest) in the System. The second measure is a ratio of noninterest expense to average earning assets. This represents how much is spent to support each \$100 of average earning assets. Excluding FCSIC premium expense, which we do not control, our ratios were 0.84% in 2022, 0.77% in 2021 and 0.83% in 2020, which are also among the lowest in the system.

Income Tax Expense

We recorded a provision for income taxes of less than \$0.1 million per year in 2022, 2021, and 2020. Farm Credit West is a cooperative and files taxes as a Subchapter T entity under the Internal Revenue Code. In each year, patronage distribution deductions substantially offset all taxable income.

Liquidity and Funding Sources

Our policy is to maintain adequate liquidity. Liquidity is monitored on a regular basis by the Farm Credit West Asset Liability Committee.

Our primary source of liquidity is the ability to obtain funds for lending operations through our borrowing relationship with CoBank. CoBank's primary source of funds is the issuance of debt securities through the Federal Farm Credit Banks Funding Corporation. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash we receive is applied to the note payable and substantially all cash disbursements we make are drawn on the note payable. Our indebtedness to

Management's Discussion and Analysis

CoBank, as well as its liquidity support, is governed by a general financing agreement (GFA). That agreement is subject to periodic renewal in accordance with normal business practices and includes a promissory note that is renewed annually.

The annual average principal balances of the note payable to CoBank were \$10.9 billion in 2022, \$9.6 billion in 2021 and \$8.6 billion in 2020.

Customer-owned interest bearing future payment funds are an additional funding source for us and an assurance regarding the payment of borrower debt. Year-end 2022, 2021, and 2020 balances in those funds were \$427.3 million, \$400.1 million, and \$459.6 million, respectively. The interest rate on those accounts is targeted to give customers a competitive return at a cost to us that is similar to our short-term funding cost from CoBank.

An additional source of liquidity for the Association is the repayment and maturities of borrowers' loans. The following table presents the contractual maturity distribution of loans by type at December 31, 2022 and indicates that approximately 22.3% of loans had maturities of one year or less.

| Loans | Due in 1 year or less | Due after 1 year | | Total |
|-----------------------------------------|--------------------------|---------------------|----------------------|--------------|
| | | Through 5 years | Due after 5 years | |
| Real estate mortgage | \$ 120,334 | \$ 162,056 | \$7,027,219 | \$ 7,309,609 |
| Production and intermediate- term | 1,345,557 | 1,313,768 | 299,247 | 2,958,572 |
| Agribusiness | 928,641 | 568,775 | 674,183 | 2,171,599 |
| Direct financing | | | | |
| leases | 10,952 | 120,837 | 59,893 | 191,682 |
| Rural infrastructure | 554,671 | 18,563 | 38,575 | 611,809 |
| Rural residential | — | — | 82 | 82 |
| Other | 10,000 | 29,000 | 13,117 | 52,117 |
| Total Loans | \$2,970,155 | \$2,212,999 | \$8,112,316 | \$13,295,470 |

Farm Credit West also holds investment securities to maintain a liquidity reserve and to assist with interest rate risk management. In accordance with Board-approved policies, Farm Credit West purchases only high credit quality investment securities with the goal of ensuring that the investment portfolio is readily marketable and available to serve as a source of liquidity in the event of disruption to Farm Credit West's normal funding sources. See Note 4 to the consolidated financial statements for additional information.

Our retained earnings provide equity financing, which is average earning assets less average interest-bearing liabilities. This amount was \$1.9 billion in 2022, 2021, and 2020. This funding is derived from our earnings net of patronage paid and preferred stock investments made by our customers.

Management's Discussion and Analysis

Asset Liability Management

In the normal course of lending activities, Farm Credit West is subject to interest rate risk. The asset/liability management objectives are to 1) monitor and manage interest rate risk within limits designed to target reasonable stability in net interest income over an intermediate planning horizon and to preserve a relatively stable market value of equity over the long term, and 2) develop competitively priced and structured loan products for the customers' benefit and fund these products with an appropriate blend of equity and debt. Mismatches and exposure in interest rate re-pricing and indices of assets and liabilities can arise from product structures, customer activity, capital re-investment, and

liability management. While Farm Credit West actively manages interest rate risk within the policy limits approved by Farm Credit West's Board of Directors through the strategies established by the Asset Liability Committee (ALCO), there is no assurance that these mismatches and exposures will not adversely impact earnings and capital.

| December 31, 2022 (in thousands) | 1 Month or Less | Over 1 Month to 6 Months | Over 6 Months to 1 Year | Over 1 Year to 5 Years | Over 5 Years | Total |
|---------------------------------------------------|--------------------|-----------------------------|----------------------------|---------------------------|--------------|---------------|
| Interest-earning assets: | | | | | | |
| Floating rate loans | \$ 7,895,267 | \$ 132,642 | \$ 26,567 | \$ 116,695 | \$ 18,771 | \$ 8,189,942 |
| Fixed rate loans, prepayable | 56,237 | 181,974 | 188,014 | 1,622,955 | 1,751,014 | 3,800,194 |
| Fixed rate loans | 45,781 | 197,055 | 148,702 | 597,100 | 262,627 | 1,251,265 |
| Investments | 45,780 | 22,890 | — | 503,581 | 270,103 | 842,354 |
| Nonaccrual loans | 54,065 | 1 | 1 | 2 | — | 54,069 |
| Total interest-earning assets | \$ 8,097,130 | \$ 534,562 | \$ 363,284 | \$ 2,840,333 | \$ 2,302,515 | \$ 14,137,824 |
| Interest-bearing liabilities: | | | | | | |
| Floating rate debt | \$ 6,960,475 | \$ — | \$ — | \$ — | \$ — | \$ 6,960,475 |
| Discount notes | 99,511 | 273,654 | — | — | — | 373,165 |
| Fixed rate debt, callable | — | — | 24,950 | 431,134 | 973,045 | 1,429,129 |
| Fixed rate debt | 274,899 | 860,684 | 405,481 | 869,598 | 600,612 | 3,011,274 |
| Funds held | 427,280 | — | — | — | — | 427,280 |
| Total interest-bearing liabilities | \$ 7,762,165 | \$ 1,134,338 | \$ 430,431 | \$ 1,300,732 | \$ 1,573,657 | \$ 12,201,323 |
| Interest rate sensitivity gap | \$ 334,965 | \$ (599,776) | \$ (67,147) | \$ 1,539,601 | \$ 728,858 | \$ 1,936,501 |
| Cummulative gap | \$ 334,965 | \$ (264,811) | \$ (331,958) | \$ 1,207,643 | \$ 1,936,501 | |
| Cummulative gap/ total interest-earning assets | 2.37% | -1.87% | -2.35% | 8.54% | 13.70% | |

The interest rate gap analysis shown in the previous table presents a comparison between interest-earning assets and interest-bearing liabilities in defined time segments at December 31, 2022. The interest rate gap analysis is a static indicator for how Farm Credit West is positioned by comparing the amount of assets and liabilities that re-price or mature at various time periods in the future. The value of this analysis can be limited given other factors, such as the differences between interest rate indices on loans and the underlying funding, the relative changes in the levels of interest rates over time, and optionality included in loans and the respective funding that can impact future earnings and market value.

Farm Credit West's re-pricing gap as of December 31, 2022, can be characterized as liability-sensitive over a one year period. A liability-sensitive position would indicate Farm Credit West has more interest-rate-sensitive liabilities than interest-rate-sensitive assets for particular time periods. It is

also an indication that part of Farm Credit West's equity is being deployed to fund longer-term assets. Given some of the inherent weaknesses with interest rate gap analysis, simulation models are used to develop additional interest-rate-sensitivity measures and estimates. The assumptions used to produce anticipated results are periodically reviewed and models are tested to help ensure reasonable performance. Various simulations are produced for net interest income and the market value of equity. These simulations help to assess interest rate risk and allow Farm Credit West to make adjustments as needed to the products and related funding strategies.

Farm Credit West's asset/liability management policy establishes limits for changes in net interest income and market value of equity sensitivities. These limits are measured and reviewed by ALCO monthly and reported to the Board at least quarterly. The Board policy limit for net interest income and market value of equity change is a

Management's Discussion and Analysis

negative 15% change given parallel and instantaneous shocks of interest rates up and down 200 basis points. The GFA requires these simulation results to assess the interest rate risk position at Farm Credit West and to determine whether corrective action is necessary.

The following table shows the percentage impacts to net interest income and market value of equity using parallel and instantaneous interest rate increases of 100 basis points and 200 basis points.

| | -2% | -1% | +1% | +2% |
|----------------------------------|-------|-------|--------|--------|
| December 31, 2022 | Shock | Shock | Shock | Shock |
| Change in net interest income | 3.37% | 1.78% | -1.81% | -3.67% |
| Change in market value of equity | 6.43% | 3.21% | -3.15% | -6.38% |

As of December 31, 2022, all interest rate risk-related measures were within the Board policy limits, GFA requirements, and management guidelines.

Members' Equity

Capital Levels

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. A sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Maintaining adequate capital is also a key area of regulatory focus.

Over the past several years, we have built capital through net income and with our preferred stock program. Members' equity at December 31, 2022 totaled \$2.3 billion, compared with \$2.4 billion at December 31, 2021 and \$2.4 billion at December 31, 2020. Members' equity includes common stock purchased by our customers and retained earnings accumulated through net income, less preferred stock dividends and patronage distributed to customers. Members' equity also includes additional paid-in capital as a result of the merger with Farm Credit Services Southwest (Southwest) in 2015 and accumulated other comprehensive income. Our capital position is reflected in the following ratio comparisons.

| December 31, | 2022 | 2021 | 2020 |
|----------------------------------------------|----------|----------|----------|
| Members' equity as a percent of total assets | 15.65% | 18.07% | 18.94% |
| Members' equity as a percent of net loans | 17.55% | 19.74% | 20.71% |
| Ratio of debt to members' equity | 5.4 to 1 | 4.5 to 1 | 4.3 to 1 |

Capital Composition

Our retained earnings increased \$178.7 million to \$2.2 billion at December 31, 2022, up from \$2.1 billion at December 31, 2021. This increase was a result of net income of

\$359.1 million, offset by \$180.0 million of patronage distributions and \$0.4 million of preferred stock dividends.

As a result of the merger with Southwest and as required under generally accepted accounting principles, Farm Credit West recorded additional paid-in capital of \$133.3 million as a component of members' equity. This amount represents the fair value of the assets net of liabilities acquired at the time of the merger.

Total members' equity as reported in the following table is net of accrued patronage dividends and preferred stock dividends. The table reflects steady growth in retained earnings and slight decrease in total members' equity.

The decrease in 2022 total members' equity was due primarily to the discontinuation of the preferred stock program during the year. All shares of preferred stock outstanding were called (retired) as of May 1, 2022.

| December 31, (in thousands) | 2022 | 2021 | 2020 |
|---------------------------------------------------------|-------------|-------------|-------------|
| Unallocated retained earnings | \$2,232,932 | \$2,054,207 | \$1,901,370 |
| Additional paid-in capital | 133,312 | 133,312 | 133,312 |
| Preferred stock | — | 253,803 | 353,360 |
| Capital stock and participation certificates | 4,932 | 5,039 | 4,980 |
| Less: | | | |
| Capital stock and participation certificates receivable | (69) | (45) | — |
| Accumulated other comprehensive loss | (52,200) | (5,525) | (5,629) |
| Total members' equity | \$2,318,907 | \$2,440,791 | \$2,387,393 |

We have three sources of accumulated other comprehensive income (loss) for the years presented: unrealized gains on available-for-sale investment securities; an unrealized net actuarial loss on a defined benefit pension restoration plan; and an unrealized net actuarial loss on a pension plan at FPI, a service corporation that we own with four other Farm Credit associations.

Customer-owned Equities

Because we are a cooperative, each customer is required to make a common equity investment in our capital stock (for agricultural producers) or participation certificates (for non-agricultural producers). At December 31, 2022 (and for all periods presented), the required investment was \$1 thousand or less per stockholder. Capital stock (voting) and certificates of participation (non-voting) totaled \$4.9 million at December 31, 2022.

Some borrowers are not currently required to make a cash investment to acquire capital stock or participation certificates. Due to changes in the regulatory interpretation surrounding capital stock and participation certificates receivable, these have been included within members' equity under a contra account titled "Less: capital stock and

Management's Discussion and Analysis

participation certificates receivable". This change had no impact on the capital stock or participation certificates owned by Farm Credit West's borrowers.

Capital stock and participation certificates are at-risk investments. Retirement of common stock is at the sole discretion of the Board, or by our CEO when consistent with authority delegated by the Board to the CEO. Retirements of stock may also require approval by the FCA.

Patronage Program

We have a patronage program that allows us to distribute a portion of our net earnings to our shareholders. 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 funds necessary 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 borrowers' average eligible loan balances with us during the year. The Board declared patronage distributions of \$180.0 million in 2022, \$172.0 million in 2021, and \$185.0 million in 2020. Generally these cash payments were made shortly after the end of the year for which the dividends were declared.

The Board also approves the allocation of the remainder of our net income available for distribution in the form of nonqualified written notices of allocation. This amount has been added to Farm Credit West's unallocated retained earnings account. The Board considers these earnings to be permanently invested in AgWest Farm Credit and there is no plan to revolve or redeem these amounts.

Capital Adequacy

Each year, our Board establishes a formal capital adequacy plan that addresses capital targets in relation to risks. Capital adequacy plans assess the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board. The capital adequacy plan identifies key risk components and estimates capital levels needed to compensate for those risks. The plan encompasses credit risk, loan concentrations, participated loans, allowance for loan losses levels, loan growth, and other key risk factors.

As shown in the following table, Farm Credit West substantially exceeded each regulatory minimum capital requirement at December 31, 2022.

| <i>December 31,</i> | 2022 | 2021 | 2020 | Minimum Requirement with Buffer |
|------------------------------------|---------------|--------|--------|---------------------------------|
| Common Equity Tier 1 Capital ratio | 14.14% | 13.83% | 13.85% | 7.00% |
| Tier 1 Capital ratio | 14.14% | 13.83% | 13.85% | 8.50% |
| Total Capital ratio | 14.67% | 14.35% | 14.46% | 10.50% |
| Tier 1 Leverage ratio | 14.80% | 14.80% | 14.74% | 5.00% |
| Minimum URE Leverage ratio * | 14.77% | 16.49% | 16.30% | 1.50% |
| Permanent capital ratio | 14.21% | 15.86% | 16.88% | 7.00% |

* *Unallocated Retained Earnings (URE) and URE Equivalents (UREE) Leverage Ratio is abbreviated as "Minimum URE Leverage ratio" above.*

The minimum ratios established were not intended to be adopted as the optimum capital level. As such, we have established goals in excess of the regulatory minimum. Our Tier 1 Capital ratios were above the 13.5% target capital level established by the Board in its 2022 Capital Adequacy Plan.

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

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

Management's Discussion and Analysis

Economic Capital

Risk is an inherent part of our business activities. The Association's capital management framework is intended to ensure there is sufficient capital to support the underlying risks of its business activities, exceed all regulatory capital requirements, and achieve certain capital adequacy objectives. Farm Credit West uses economic capital software, methodologies, and assumptions to quantify the capital requirements related to primary areas of risk. We periodically quantify our economic capital requirements, based on the credit risk, interest rate risk, operational risk, and market risk inherent in our operations. Due to the evolving nature of economic capital, it is anticipated that we will continue to refine our methodologies and assumptions. Any refinement of these methodologies and assumptions could result in a material change to economic capital.

Economic capital is a measure of risk and is defined as the amount of capital required to absorb potential unexpected losses resulting from extremely severe events over a one-year period. Our economic capital analyses indicate we have total capital equivalent to the amount of economic capital required to meet a very strong "AA" solvency standard, which equates to a default only three times in 10,000 situational simulations. This means the likelihood of incurring losses in excess of the required economic capital amount is estimated to be similar to the likelihood of a "AA" rated bond defaulting (0.03% probability).

Forward-Looking Information

This management discussion contains forward-looking statements. These statements are not guarantees of future performance; future operations involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," or "will" are intended to identify forward-looking statements. These statements are based on management's assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. Readers are cautioned not to place undue reliance on these forward-looking statements. We will not update any forward-looking statements to reflect events or circumstances arising after they are made.

Critical Accounting Policies and Estimates

Our 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. These policies are considered critical because we have to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies see Note 2 to the consolidated financial statements.

Customer Privacy

Customer financial privacy and the security of other non-public information are important to Farm Credit West. Therefore, we hold customer financial and other non-public information in strictest confidence. Federal regulations allow Farm Credit West to disclose customer information to others only in certain situations. Examples of these situations include legal or law enforcement proceedings; when such information is requested by another Farm Credit System entity or other financial institution with which customers do business; or consumer reporting agencies.

Report of Management

Farm Credit West's financial statements are prepared by management, who are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. In the opinion of management, the accompanying financial statements fairly present Farm Credit West's financial condition and results of operations, in conformity with generally accepted accounting principles appropriate in the circumstances. Other financial information included in this 2022 Annual Report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on Farm Credit West's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safe-guarded and transactions are properly authorized and recorded. These systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, Farm Credit West's internal audit and review staff perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as deemed appropriate. The financial statements are audited by PricewaterhouseCoopers LLP, independent auditors, who consider internal controls in connection with the audit of Farm Credit West's financial statements in accordance with auditing standards generally accepted in the United States of America. Farm Credit West is also examined by the Farm Credit System's regulator, the Farm Credit Administration (FCA).

The Board is comprised of directors who are not employees and who have met independence criteria established in the Farm Credit West Board of Directors' Charter. The Board has established an Audit Committee which has oversight responsibilities for Farm Credit West's system of internal controls and financial reporting. This Annual Report has been prepared under the oversight of the Audit Committee. The Audit Committee consults regularly with management and meets periodically with the independent auditors and internal auditors to review the scope and results of their work. The independent auditors and internal auditors have direct access to the Audit Committee.

The undersigned certify that this 2022 Annual Report has been prepared in accordance with all applicable statutory or regulatory requirements, that the information contained herein is true, accurate, and complete to the best of our knowledge and belief, and that we have reviewed this report.



Nathan Riggers
AgWest Farm Credit, ACA
Chair of the Board of Directors



Mark D. Littlefield
AgWest Farm Credit, ACA
President and Chief Executive Officer



Tom Nakano
AgWest Farm Credit, ACA
Chief Financial Officer

March 10, 2023

Report of the Audit Committee

The Audit Committee (Committee) during the year was comprised of five members from the Board of Directors of Farm Credit West, ACA. In 2022, eight 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 actions with respect to recommendations arising from those auditing activities. In addition, the Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as the Association's independent auditors for 2022. The Committee's responsibilities are described more fully in the Internal Audit Policy and the Audit Committee Charter.

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

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

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



Barry T. Powell
AgWest Farm Credit, ACA
Chairman of the Audit Committee

Audit Committee Members

Barry T. Powell, Chair
Vicki Eggebrecht, Vice-Chair
Bill Martin
Colin Mellon
Nate Riggers
Bob Hansen

March 10, 2023

Management's Report on Internal Control Over Financial Reporting

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

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of Farm Credit West; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements 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 Farm Credit West; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Farm Credit West's assets that could have a material effect on its consolidated financial statements.

Management has completed an assessment of the effectiveness of Farm Credit West's internal control over financial reporting as of December 31, 2022. In making the assessment, management used the framework in *Internal Control – Integrated Framework (2013)* promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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



Mark D. Littlefield
AgWest Farm Credit, ACA
President and Chief Executive Officer



Tom Nakano
AgWest Farm Credit, ACA
Chief Financial Officer

March 10, 2023



Report of Independent Auditors

To the Board of Directors of Farm Credit West, ACA

Opinion

We have audited the accompanying consolidated financial statements of Farm Credit West, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2022, 2021 and 2020, and the related consolidated statements of income and comprehensive 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, 2022, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

PricewaterhouseCoopers LLP, 405 Howard Street, Suite 600, San Francisco, CA 94105
T: (415) 498 5000, www.pwc.com/us



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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



Other Information

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

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

PricewaterhouseCoopers LLP

March 10, 2023

Consolidated Balance Sheets

| <i>December 31, (in thousands)</i> | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|---------------------------------------------------------------|----------------------|----------------------|----------------------|
| Assets | | | |
| Loans and leases | \$ 13,295,470 | \$ 12,434,244 | \$ 11,603,195 |
| Less: allowance for loan and lease losses | (78,800) | (69,600) | (77,600) |
| Net loans and leases | <u>13,216,670</u> | <u>12,364,644</u> | <u>11,525,595</u> |
| Cash | 45,740 | 62,140 | 62,948 |
| Accrued interest receivable | 132,803 | 74,684 | 79,962 |
| Investment securities — available-for-sale | 842,354 | 441,869 | 399,948 |
| Investment in CoBank | 361,821 | 374,512 | 371,862 |
| Premises and equipment, net | 45,823 | 48,084 | 48,903 |
| Accrued patronage receivable from CoBank | 73,878 | 63,870 | 50,264 |
| Funded benefits expense | 43,797 | 37,854 | 30,762 |
| Other assets | 57,101 | 38,145 | 32,916 |
| Total assets | <u>\$ 14,819,987</u> | <u>\$ 13,505,802</u> | <u>\$ 12,603,160</u> |
| Liabilities | | | |
| Note payable to CoBank | \$ 11,774,043 | \$ 10,415,681 | \$ 9,569,310 |
| Future payment funds | 427,280 | 400,107 | 459,611 |
| Accrued interest payable | 44,824 | 11,011 | 8,971 |
| Patronage distribution payable | 180,000 | 172,000 | 130,000 |
| Accrued benefits liability | 40,655 | 40,704 | 38,563 |
| Other liabilities | 34,278 | 25,508 | 9,312 |
| Total liabilities | <u>12,501,080</u> | <u>11,065,011</u> | <u>10,215,767</u> |
| Commitments and contingent liabilities (Note 16) | | | |
| Members' Equity | | | |
| Preferred stock | — | 253,803 | 353,360 |
| Capital stock and participation certificates | 4,932 | 5,039 | 4,980 |
| Less: capital stock and participation certificates receivable | (69) | (45) | — |
| Unallocated retained earnings | 2,232,932 | 2,054,207 | 1,901,370 |
| Additional Paid-in capital | 133,312 | 133,312 | 133,312 |
| Accumulated other comprehensive loss | (52,200) | (5,525) | (5,629) |
| Total members' equity | <u>2,318,907</u> | <u>2,440,791</u> | <u>2,387,393</u> |
| Total liabilities and members' equity | <u>\$ 14,819,987</u> | <u>\$ 13,505,802</u> | <u>\$ 12,603,160</u> |

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

Consolidated Statements of Income and Comprehensive Income

| <i>For the year ended December 31, (in thousands)</i> | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|-----------------------------------------------------------------------------------|-------------------|-------------------|-------------------|
| Interest Income | | | |
| Loans and leases | \$ 566,918 | \$ 409,249 | \$ 424,507 |
| Investment securities | 11,156 | 1,558 | 101 |
| Total interest income | <u>578,074</u> | <u>410,807</u> | <u>424,608</u> |
| Interest Expense | | | |
| Note payable to CoBank | 188,073 | 72,397 | 104,549 |
| Future payment funds | 5,772 | 1,693 | 2,634 |
| Total interest expense | <u>193,845</u> | <u>74,090</u> | <u>107,183</u> |
| Net interest income | 384,229 | 336,717 | 317,425 |
| (Provision for) reversal of loan losses | <u>(9,363)</u> | <u>8,357</u> | <u>(5,488)</u> |
| Net interest income after provision for loan losses | <u>374,866</u> | <u>345,074</u> | <u>311,937</u> |
| Noninterest Income | | | |
| Patronage income | 95,728 | 76,910 | 61,780 |
| Loan and other fees | 13,789 | 16,060 | 19,284 |
| Farm Credit Insurance Fund distribution | — | — | 2,227 |
| Losses on early extinguishments of debt | — | (10,757) | (8,574) |
| Other noninterest income | 7,504 | 4,910 | 8,106 |
| Total noninterest income | <u>117,021</u> | <u>87,123</u> | <u>82,823</u> |
| Noninterest Expense | | | |
| Salaries and employee benefits | 64,388 | 60,618 | 57,480 |
| Information technology services | 17,305 | 15,265 | 16,806 |
| Occupancy and equipment | 5,158 | 4,769 | 4,688 |
| Farm Credit Insurance Fund premiums | 19,858 | 14,000 | 7,756 |
| FCA supervisory and examination expense | 2,688 | 2,514 | 2,442 |
| Public and member relations | 9,655 | 1,418 | 1,395 |
| Merger related expense | 4,322 | — | — |
| Other operating expense | 9,424 | 7,312 | 7,795 |
| Total noninterest expense | <u>132,798</u> | <u>105,896</u> | <u>98,362</u> |
| Income before income taxes | 359,089 | 326,301 | 296,398 |
| Provision for income taxes | <u>(2)</u> | <u>(2)</u> | <u>(6)</u> |
| Net income | <u>\$ 359,087</u> | <u>\$ 326,299</u> | <u>\$ 296,392</u> |
| Other Comprehensive Income | | | |
| Change in unrealized gains (losses) on investment securities — available-for-sale | (46,731) | (1,115) | 27 |
| Change in unrealized actuarial gains (losses) in Pension Restoration Plan | 63 | 783 | (759) |
| Change in unrealized actuarial gains (losses) in FPI Pension Plan | <u>(7)</u> | <u>436</u> | <u>133</u> |
| Total comprehensive income | <u>\$ 312,412</u> | <u>\$ 326,403</u> | <u>\$ 295,793</u> |

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

Consolidated Statements of Changes in Members' Equity

| <i>(in thousands)</i> | Preferred Stock | Capital Stock and Participation Certificates | Unallocated Retained Earnings | Additional Paid-in Capital | Accumulated Other Comprehensive Income (loss) | Total Members' Equity |
|-------------------------------------------------------------------------------|--------------------|-------------------------------------------------------|-------------------------------------|----------------------------------|--------------------------------------------------------|-----------------------------|
| Balance at December 31, 2019 | \$ 365,403 | \$ 4,932 | \$ 1,794,045 | \$ 133,312 | \$ (5,030) | \$ 2,292,662 |
| Comprehensive income | | | 296,392 | | (599) | 295,793 |
| Preferred stock issued | 124,413 | | | | | 124,413 |
| Preferred stock retired | (140,523) | | | | | (140,523) |
| Capital stock and participation certificates issued | | 374 | | | | 374 |
| Capital stock and participation certificates retired | | (326) | | | | (326) |
| Preferred stock dividends declared and paid | 4,067 | | (4,067) | | | — |
| Cash patronage distribution declared | | | (185,000) | | | (185,000) |
| Balance at December 31, 2020 | 353,360 | 4,980 | 1,901,370 | 133,312 | (5,629) | 2,387,393 |
| Comprehensive income | | | 326,299 | | 104 | 326,403 |
| Preferred stock retired | (101,019) | | | | | (101,019) |
| Capital stock and participation certificates issued | | 393 | | | | 393 |
| Capital stock and participation certificates retired | | (379) | | | | (379) |
| Issuance of stock in exchange for customer stock receivable | | 45 | | | | 45 |
| Less: capital stock and participation certificates receivable | | (45) | | | | (45) |
| Preferred stock dividends declared and paid | 1,462 | | (1,462) | | | — |
| Cash patronage distribution declared | | | (172,000) | | | (172,000) |
| Balance at December 31, 2021 | 253,803 | 4,994 | 2,054,207 | 133,312 | (5,525) | 2,440,791 |
| Comprehensive income | | | 359,087 | | (46,675) | 312,412 |
| Preferred stock retired | (254,165) | | | | | (254,165) |
| Capital stock and participation certificates issued | | 321 | | | | 321 |
| Capital stock and participation certificates retired | | (452) | | | | (452) |
| Issuance of stock in exchange for customer stock receivable | | 29 | | | | 29 |
| Release of customer stock receivable associated with retired stock | | (5) | | | | (5) |
| Less: capital stock and participation certificates receivable | | (24) | | | | (24) |
| Preferred stock dividends declared and paid | 362 | | (362) | | | — |
| Cash patronage distributions declared | | | (180,000) | | | (180,000) |
| Balance at December 31, 2022 | \$ — | \$ 4,863 | \$ 2,232,932 | \$ 133,312 | \$ (52,200) | \$ 2,318,907 |

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

Consolidated Statements of Cash Flows

| <i>For the year ended December 31, (in thousands)</i> | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|-----------------------------------------------------------------------------------|--------------------|------------------|--------------------|
| Cash Flows from Operating Activities: | | | |
| Net income | \$ 359,087 | \$ 326,299 | \$ 296,392 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for (reversal of) loan losses | 9,363 | (8,357) | 5,488 |
| Depreciation and amortization / accretion | (1,371) | 2,551 | 2,762 |
| Net loss on early extinguishment of notes payable | — | 10,757 | 8,574 |
| Accretion of zero-interest discount notes interest | 6,513 | 1,168 | 2,844 |
| Gain on sale of fixed assets | (131) | (108) | (739) |
| Gain on other property owned, net | (2,026) | (879) | (894) |
| (Increase) decrease in accrued interest receivable | (58,119) | 5,278 | 11,486 |
| Increase in patronage receivable | (12,811) | (16,256) | (9,396) |
| Increase in other assets | (12,980) | (8,560) | (8,150) |
| Increase (decrease) in accrued interest payable | 33,813 | 2,040 | (4,175) |
| Increase in other liabilities | 8,784 | 19,120 | 2,895 |
| Net cash provided by operating activities | <u>330,122</u> | <u>333,053</u> | <u>307,087</u> |
| Cash Flows from Investing Activities: | | | |
| Increase in loans, net | (876,246) | (831,049) | (885,911) |
| Purchase of investment securities | (643,008) | (442,751) | (399,821) |
| Maturity of investment securities | 200,000 | 400,000 | — |
| Recoveries of loans charged off | 83 | 357 | 1,144 |
| Proceeds from sale of premises and equipment | 189 | 177 | 1,295 |
| Acquisition of premises and equipment, net | (634) | (2,086) | (9,038) |
| Proceeds from sale of other property owned | 6,809 | 879 | 4,651 |
| CoBank stock retirement (purchase) | 15,494 | — | (30,083) |
| Increase in AgDirect investment | (1,935) | (3,325) | (681) |
| Net cash used in investing activities | <u>(1,299,248)</u> | <u>(877,798)</u> | <u>(1,318,444)</u> |
| Cash Flows from Financing Activities: | | | |
| Net draws on note payable to CoBank | 1,351,849 | 845,203 | 1,147,732 |
| Increase (decrease) in future payment funds | 27,173 | (59,504) | 110,748 |
| Net retirements of preferred stock | (254,165) | (101,019) | (16,110) |
| Payments on early extinguishment of notes payable | — | (10,757) | (8,574) |
| Net (retirements) issuances of capital stock and participation certificates | (131) | 14 | 48 |
| Cash patronage distributions paid | (172,000) | (130,000) | (177,000) |
| Net cash provided by financing activities | <u>952,726</u> | <u>543,937</u> | <u>1,056,844</u> |
| Net (decrease) increase in cash | <u>(16,400)</u> | <u>(808)</u> | <u>45,487</u> |
| Cash at beginning of year | <u>62,140</u> | <u>62,948</u> | <u>17,461</u> |
| Cash at end of year | <u>\$ 45,740</u> | <u>\$ 62,140</u> | <u>\$ 62,948</u> |

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

Consolidated Statements of Cash Flows (continued)

| <i>For the year ended December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|----------------------------------------------------------------------------|-------------|-----------|------------|
| Supplemental Cash Flow Information | | | |
| Cash paid (refunded) during the year for: | | | |
| Interest | \$ 160,032 | \$ 72,050 | \$ 111,358 |
| Income taxes | (22) | 7 | 41 |
| Supplemental Schedule of Noncash Investing and Financing Activities | | | |
| Decrease in loans due to acquisition of other property owned | \$ 14,774 | \$ — | \$ — |
| Decrease in loans and allowance for loan losses from charge-offs | 246 | — | 2,832 |
| Increase in loans due to financed sales of other property owned | — | — | 220 |
| Other comprehensive (loss) income | (46,675) | 104 | (599) |
| Cash patronage distributions declared | 180,000 | 172,000 | 185,000 |
| Preferred stock dividends declared | 362 | 1,462 | 4,067 |
| Patronage stock received from CoBank | 2,803 | 2,650 | 2,696 |
| Issuance of stock in exchange for customer stock receivable | 29 | 45 | — |
| Release of stock receivable associated with retired stock | (5) | — | — |

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

Notes to Consolidated Financial Statements

Note 1 – Organization and Operations

Organization

Farm Credit West, ACA and its subsidiaries, Farm Credit West, FLCA and Farm Credit West, PCA (collectively, Farm Credit West or the Association) are member-owned cooperatives which provide credit and credit-related services to and for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in its chartered territory. Farm Credit West's chartered territory includes the California counties of El Dorado, Imperial, Inyo, Kern, Kings, Mono, Nevada, Placer, Sacramento, San Luis Obispo, Santa Barbara, Solano, Sutter, Tulare, Ventura, Yolo, and Yuba as well as portions of Butte and Los Angeles counties. In the state of Nevada, the chartered territory includes Esmeralda county and portions of Mineral, Nye, and Clark counties. In the state of Arizona, the chartered territory includes all counties except for those portions of Mohave and Coconino counties north of the Colorado River known as the "Arizona Strip".

Farm Credit West is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively-owned banks and associations, which was established in 1916 by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). At December 31, 2022, the System was comprised of three Farm Credit Banks, one Agricultural Credit Bank and 63 affiliated associations. Each System bank serves one or more Production Credit Associations (PCAs), Federal Land Credit Associations (FLCAs), and/or Agricultural Credit Associations (ACAs). PCAs, FLCAs and ACAs are collectively referred to as Associations.

CoBank, ACB (CoBank or the Bank), its affiliated associations, and AgVantis, Inc. 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. CoBank is the funding bank of Farm Credit West. AgVantis, Inc., which is owned by the entities it serves, provides technology and other operational services to certain associations; however, it does not serve Farm Credit West. As of December 31, 2022, the CoBank District consisted of CoBank, 18 ACAs, which generally have three wholly-owned subsidiaries (a FLCA and a PCA), and AgVantis, Inc.

Farm Credit West purchases technology and other operational services from Financial Partners, Inc. (FPI), which is a technology service corporation. The Association is a shareholder in FPI along with four other FPI customers.

The Farm Credit Association Captive Insurance Company is a reciprocal insurer that provides Farm Credit West insurance services such as directors and officers liability, fiduciary liability and a bankers bond. The Association is a shareholder in the Captive Insurance Company.

Farm Credit West, along with other System institutions, is a partial owner in AgDirect, LLP (AgDirect), a trade credit financing program that includes origination and re-financing of agricultural equipment loans through independent equipment dealers. The program is facilitated by a limited liability partnership and at December 31, 2022, Farm Credit West owned approximately 4.0% of AgDirect.

ACA parent companies provide financing and related services to customers through their FLCA and PCA subsidiaries. Generally, FLCAs make long-term loans secured by agricultural real estate or rural homes. PCAs make short-term and intermediate-term loans for agricultural production or operating purposes.

Congress has delegated authority to the Farm Credit Administration (FCA) to regulate 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 or FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on System-wide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Associations, into the Insurance Fund based on its pro rata share of insured debt outstanding until the assets in the Insurance Fund reach the "secure base amount." The "secure base amount" 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 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.

Effective January 1, 2023, Farm Credit West merged with and into Northwest Farm Credit Services (Northwest FCS). The merged entity, AgWest Farm Credit (AgWest) is headquartered in Spokane, Washington. AgWest serves customers in Alaska, Arizona, California, Idaho, Montana, Oregon Washington, and a part of Nevada. Unless stated otherwise, information within the report is specific to Farm Credit West. For additional information, refer to note 19 in the consolidated Financial Statements.

Notes to Consolidated Financial Statements

Operations

The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow from Farm Credit West, and financial services which can be offered by Farm Credit West. Farm Credit West is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, farm-related businesses, and certain ag product processors/marketers. Farm Credit West also serves as an intermediary in offering appraisal services and credit life insurance to its borrowers as additional services.

Farm Credit West's financial condition may be impacted by factors that affect CoBank. The CoBank Annual Report discusses the material aspects of CoBank'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.

Upon request, shareholders of AgWest Farm Credit will be provided with a CoBank Annual Report to Stockholders at no charge. The CoBank Annual Report is also available free of charge on CoBank's website, www.cobank.com.

In addition, the Farm Credit Council acts as a full-service federated trade association, which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

Note 2 – Summary of Significant Accounting Policies

The accounting and reporting policies of Farm Credit West conform with 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 consolidated financial statements. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, the determination of fair value of financial instruments and subsequent impairment analysis. Actual results may differ from these estimates. Significant estimates are discussed in these footnotes as applicable. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current year's financial statement presentation.

The consolidated financial statements include the accounts of Farm Credit West, ACA and its wholly-owned subsidiaries,

Farm Credit West, FLCA and Farm Credit West, PCA. All significant intercompany transactions have been eliminated in consolidation.

Loans and Allowance for Loan and Lease Losses

Long-term real estate mortgage loans generally have maturities ranging from five to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

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

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

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

When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectability of the recorded investment in the loan is fully expected and when the loan does not have a remaining

Notes to Consolidated Financial Statements

unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when principal and interest are current, the borrower has demonstrated payment performance, and collection of future payments is fully expected. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

FASB guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. The Association has not implemented this guidance because the effects were not material to the Association's financial position or results of operations for any year included in these consolidated financial statements.

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

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

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

The credit risk rating methodology (14-point risk rating scale) is a key component of the Association's allowance for loan

losses evaluation, and is incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses (allowance) is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through reversals of provisions for loan losses and loan charge-offs.

The level of the allowance is generally based on recent charge-off experience adjusted for relevant factors. The allowance is based on a periodic evaluation of changes in the following factors when adjusting the historical charge-off experience: loan portfolio composition, credit risk classifications, collateral values, risk concentrations, weather related conditions, and economic conditions. It is based on estimates, appraisals, and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated, the allowance for loan losses represents the difference between the recorded investment in the loan and the fair value of the collateral, if the loan is collateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk rating methodology.

Leases

Except as otherwise noted, leases are included with loans in the consolidated financial statements and related notes. We record leases as either direct financing or operating leases. Under direct financing leases in which we are the lessor, unearned finance income from lease contracts represents the excess of gross lease receivables over the cost of leased equipment, net of estimated residual values. Residual values, which are reviewed at least annually, represent the estimated amount to be received at lease termination from the disposition of leased assets. We amortize net unearned finance income to interest income using the effective interest method. Under operating leases in which we are the lessor, property is recorded at cost and depreciated on a straight-line basis over the lease term to an estimated residual or salvage value. We recognize revenue as earned ratably over the term of the operating lease. We establish an impairment reserve if the fair value of assets held for operating leases in which we are the lessor decreases to below book value and such difference is not recoverable.

Cash

Cash, as included in the consolidated financial statements, represents cash on deposit at financial institutions. Cash at times may exceed federally insured limits.

Notes to Consolidated Financial Statements

Investment Securities

In accordance with FCA regulations which became effective January 1, 2019, the Association, with approval from CoBank, may purchase and hold investments to manage risks. The Association must identify and evaluate how the investments it purchases contributes to the management of its risks. Only securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the United States Government or its agencies are investments that the Association may acquire. The total amount of investments allowed must not exceed 10% of the Association's total outstanding loans.

Investments which the Association has the intent and ability to hold to maturity are classified as investments held-to-maturity and are carried at amortized cost. Investments which Farm Credit West may not necessarily intend to hold to maturity are classified and accounted for as available-for-sale. These investments are reported at fair value with net unrealized gains and losses reported as a separate component of members' equity (accumulated other comprehensive income) in the consolidated balance sheets. Changes in the fair value of investments classified as available-for-sale are reflected as direct charges or credits to other comprehensive income. If an investment is deemed to be other-than-temporarily impaired, the cost basis of the investment is written down to its fair value, the credit-related loss is recognized through earnings and the non-credit related portion is recognized in other comprehensive income in the period of impairment.

Gains and losses on the sale of investments available-for-sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective investments. Farm Credit West does not hold investments for trading purposes.

Farm Credit West may also hold investments in accordance with mission related investment and other investment programs, approved by FCA. These programs allow the Association to make investments that further the System's mission to serve rural America. Certain of these other investments are not included in the investment limitation specified by the FCA regulations.

Investment in CoBank

The Association's required investment in CoBank is in the form of Class A Stock. For 2022, the minimum required investment is 3.0% of Farm Credit West's prior one-year trailing average direct loan balance. For 2021, the minimum required investment was 4.0% of Farm Credit West's prior five-year trailing average direct loan balance. For 2020, the minimum required investment was 4.0% of Farm Credit West's prior one-year average direct loan balance. The

investment in CoBank is comprised of patronage-based stock and purchased stock.

Other Property Owned

Other property owned, consisting of real and personal property acquired through a collection action, is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the Consolidated Balance Sheets.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Useful life for buildings is 30 years and ranges from three to seven years for furniture, equipment and automobiles. 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 the assets are transferred into their respective property, premises and equipment accounts to be depreciated.

Other Assets and Other Liabilities

Other assets are comprised primarily of financed operating leases and investments in Farm Credit institutions other than CoBank. Significant components of other liabilities include accounts payable and Insurance Fund premiums payable.

Future Payment Funds

Farm Credit West is authorized under the Farm Credit Act to accept payments in advance from borrowers. Such payments are presented as liabilities in the Consolidated Balance Sheets. Future payment funds are not insured. Farm Credit West pays interest on such accounts.

Employee Benefit Plans

Substantially all Farm Credit West employees 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 plan. Benefits are based on compensation and years of service. Farm Credit West recognizes its proportional share of expense and contributes its proportional share of funding to that plan. The Defined Benefit Plan was closed to future employees and current employees not yet vested at 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, Farm

Notes to Consolidated Financial Statements

Credit West 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. Farm Credit West matches a certain percentage of employee contributions. Employees hired after December 31, 1997 are eligible to participate only in the Defined Contribution Plan. All defined contribution costs are expensed in the same period that participants earn employer contributions.

Farm Credit West also participates in the Eleventh District nonqualified defined benefit Pension Restoration Plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly-compensated eligible employees. Benefits payable under this plan are partially offset by the benefits payable from the Defined Benefit Plan. The Pension Restoration Plan was closed to future employees and current employees not yet vested at December 31, 1997.

Farm Credit West provides certain health and life insurance benefits to eligible current and retired employees through the Farm Credit Foundations Retiree Medical Plan and Retiree Life Plan. 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 services necessary to become eligible for these benefits.

The funded benefits expense line item on the Consolidated Balance Sheets represents employee benefit related assets while employee benefits payable are included as part of the accrued benefits liability line item.

Patronage Distribution from CoBank

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

Income Taxes

As previously described, Farm Credit West, ACA conducts its business activities through its wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through the wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through the wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Farm Credit West 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. Farm Credit West, FLCA provides a variety of services to Farm Credit West, ACA and Farm Credit West, PCA, under a management agreement for a management fee. The management agreement, in effect, allocates operating expenses to each entity based on estimated relative service.

Farm Credit West elected to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Farm Credit West can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock, or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts reflected in the financial statements and tax bases of assets and liabilities. A valuation allowance is provided against deferred tax assets to the extent that it is more-likely-than-not (over 50% probability), based on management's estimate, that the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

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

Farm Credit West has not provided deferred income taxes on amounts allocated to the Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 allocated earnings.

Farm Credit West has not provided deferred income taxes on the 2011 recapitalization income received from the Bank, as it is management's intent, if the Bank stock is ever converted to cash, to pass through any related earnings to Association borrowers through qualified patronage allocations.

The Association accounts for income taxes in accordance with ASC 740 "Accounting for 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.

For California and Arizona tax purposes, Farm Credit West can effectively exclude from taxable income all patronage-

Notes to Consolidated Financial Statements

sourced income. Therefore, the provision for state income taxes is made only on non-patronage sourced earnings.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) refers to revenue, expenses, gains, and losses that are recorded as an element of members' equity and comprehensive income, but are excluded from net income under GAAP. Farm Credit West records other comprehensive income (loss) based on: (1) unrealized market value of its investment securities available-for-sale; (2) change in unrealized actuarial gains and losses associated with the Pension Restoration Plan (described in Note 13); and (3) the Association's proportional ownership share of change in unrealized actuarial gains and losses associated with FPI's Pension Plan, ownership of which is described in Note 1.

Fair Value Measurement

FASB guidance defines fair value, establishes a framework for measuring fair value, and specifies disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value.

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

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. Farm Credit West's security portfolio is made up of U.S. Treasuries and thus classified as Level 2.

Level 3: Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of 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. For Farm Credit West, Level 3 assets include certain impaired loans and other property owned.

See Note 17 in these Notes to consolidated Financial Statements for fair value disclosures.

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.

Recently Issued Accounting Pronouncements

In March 2022, the Financial Accounting Standards Board (FASB) issued an update entitled "Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures." The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. The creditor will have to apply the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. In addition to the TDR guidance, the update requires public business entities to disclose current period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of the credit losses standard. These amendments were effective for Farm Credit West on January 1, 2023.

In March 2020, the FASB issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Reference Rate Reform)." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform to ease the potential burden related to reference rate reform (transition away from the London Inter-Bank Offered Rate (LIBOR)). The optional amendments are effective as of March 12, 2020 through December 31, 2022. Farm Credit West adopted the optional expedients as they relate to loans and debt contract modifications. The impact of these adoptions was not

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material to the Association's financial condition or results of operations.

The FASB guidance entitled "Measurement of Credit Losses on Financial Instruments" became effective on January 1, 2023. This guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. The guidance requires management to consider in its estimate of allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets. Prior to the adoption, the allowance for loan losses represented management's estimate of the probable credit losses inherent in its loan portfolio and certain unfunded commitments. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves. As discussed in Note 19, Farm Credit West merged with and into Northwest FCS on January 1, 2023 and as such, adoption of this guidance will occur in the merged entity.

Note 3 – Loans and Allowance for Loan and Lease Losses

A summary of loan principal outstanding by loan type follows.

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|----------------------------------------|---------------------|---------------------|---------------------|
| Real estate mortgage loans | \$ 7,309,609 | \$ 6,995,947 | \$ 6,786,534 |
| Production and intermediate-term loans | 2,958,675 | 2,847,099 | 2,086,818 |
| Agribusiness loans | 2,171,496 | 1,822,271 | 2,083,797 |
| Direct financing leases | 191,682 | 218,083 | 217,028 |
| Rural infrastructure loans | 611,809 | 511,758 | 428,929 |
| Rural residential loans | 82 | 86 | 89 |
| Other loans | 52,117 | 39,000 | — |
| Total loans | \$13,295,470 | \$12,434,244 | \$11,603,195 |

Farm Credit West is eligible under FCA regulations to lend to specific loan types as reflected in the above table. Real estate mortgage loans represent 54.9% of our loan portfolio. The other loans category reflects purchased participation loan volume that was reclassified from Agribusiness loans to better align with the lead lender's loan type.

Virtually all 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 Farm Credit West's credit risk exposure is considered in the determination of the allowance.

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 collateralized by first liens on the underlying real property. FCA regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed by a government agency) of the property's appraised value. Under Farm Credit West's current underwriting standards, generally loans are originated at levels lower than the regulatory limits allow. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect Farm Credit West's financial interest in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

Farm Credit West's leasing operations consist principally of the lease financing of various types of agricultural equipment. Most Farm Credit West leases are classified as direct financing leases, the financial components of which are detailed in the following table. Farm Credit West's financing of leases typically expire or mature within five years.

The following table summarizes the components of the net investment in direct financing leases included as Loans and leases in the Consolidated Balance Sheets.

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|------------------------------------|-------------------|-------------------|-------------------|
| Minimum lease payments receivable | \$ 240,974 | \$ 276,949 | \$ 331,303 |
| Unearned income | (23,915) | (27,301) | (36,091) |
| Estimated residual values | 2,626 | 4,662 | 9,988 |
| Participation interest sold | (28,003) | (36,227) | (88,172) |
| Direct financing leases | \$ 191,682 | \$ 218,083 | \$ 217,028 |

For the years ended December 31, 2022, 2021 and 2020, the interest income on finance leases was \$10.0 million, \$9.6 million and \$9.8 million, respectively.

During 2022 and 2021, Farm Credit West did not sell any participation interests in direct financing leases to CoBank's subsidiary, Farm Credit Leasing Corporation (FCL). Farm Credit West sold participation interests in certain direct financing leases to FCL totaling \$14.2 million during 2020. No gain or loss was recognized in the financial statements upon those sales.

Operating lease assets, where Farm Credit West is a lessor, are a component of Other assets on the Consolidated Balance Sheets. Net operating lease assets were \$8.4 million at December 31, 2022, \$7.8 million at December 31, 2021 and \$6.7 million at December 31, 2020. For the years ended December 31, 2022, 2021, and 2020, the rental income on operating leased assets was \$0.4 million, \$0.4 million and \$0.5 million, respectively.

Notes to Consolidated Financial Statements

Future minimum lease payments under non-cancellable leases as of December 31, 2022 were as follows:

| Year of Maturity (in thousands) | Operating Leases | Finance Leases | Total |
|------------------------------------|---------------------|-------------------|-------------------|
| 2023 | \$ 4,008 | \$ 65,844 | \$ 69,852 |
| 2024 | 3,115 | 48,096 | 51,211 |
| 2025 | 1,468 | 35,704 | 37,172 |
| 2026 | 538 | 26,059 | 26,597 |
| Subsequent years | 150 | 36,529 | 36,679 |
| Total Lease Payments | <u>\$ 9,279</u> | <u>\$ 212,232</u> | <u>\$ 221,511</u> |

Farm Credit West purchases and sells loan participations with other parties in order to diversify risk and manage loan volume. The following tables present information regarding participations purchased and sold. Participations purchased volume includes loan syndications where Farm Credit West is a lending member.

| December 31, 2022 (in thousands) | Participations Purchased | | |
|-------------------------------------------|-----------------------------|---------------------------------|---------------------|
| | Farm Credit Institutions | Non-Farm Credit Institutions | Total |
| Real estate mortgage loans | \$ 582,075 | \$ — | \$ 582,075 |
| Production and intermediate-term loans | 755,823 | 73,110 | 828,933 |
| Agribusiness loans | 1,036,255 | 136,847 | 1,173,102 |
| Rural infrastructure loans | 611,809 | — | 611,809 |
| Other loans | 52,117 | — | 52,117 |
| Total participations purchased | <u>\$ 3,038,079</u> | <u>\$ 209,957</u> | <u>\$ 3,248,036</u> |

| December 31, 2022 (in thousands) | Participations Sold | | |
|-------------------------------------------|-----------------------------|---------------------------------|---------------------|
| | Farm Credit Institutions | Non-Farm Credit Institutions | Total |
| Real estate mortgage loans | \$ 2,337,876 | \$ — | \$ 2,337,876 |
| Production and intermediate-term loans | 795,093 | — | 795,093 |
| Agribusiness loans | 1,056,360 | — | 1,056,360 |
| Direct financing leases | 28,003 | — | 28,003 |
| Total participations sold | <u>\$ 4,217,332</u> | <u>\$ —</u> | <u>\$ 4,217,332</u> |

Farm Credit West classifies loans according to the FCA Uniform Classification System (UCS). Following are definitions of the five UCS classifications.

- ❖ Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- ❖ Other Assets Especially Mentioned – 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, conditions and values that make collection in full highly questionable.
- ❖ Loss – Assets are considered uncollectible.

Notes to Consolidated Financial Statements

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

| <i>December 31,</i> | 2022 | 2021 | 2020 |
|-----------------------------------------------|---------------|---------------|---------------|
| Real estate mortgage loans | | | |
| Acceptable | 92.7% | 92.2% | 92.4% |
| OAEM | 4.2% | 3.8% | 3.8% |
| Substandard | 3.1% | 4.0% | 3.8% |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| Production and intermediate-term loans | | | |
| Acceptable | 88.8% | 82.6% | 81.9% |
| OAEM | 4.3% | 8.1% | 8.6% |
| Substandard | 6.9% | 9.3% | 9.5% |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| Agribusiness loans | | | |
| Acceptable | 94.8% | 94.0% | 96.7% |
| OAEM | 3.3% | 4.4% | 1.6% |
| Substandard | 1.9% | 1.6% | 1.7% |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| Direct financing leases | | | |
| Acceptable | 82.5% | 94.2% | 91.1% |
| OAEM | 13.3% | 1.7% | 1.5% |
| Substandard | 4.2% | 4.1% | 7.4% |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| Rural infrastructure loans | | | |
| Acceptable | 100.0% | 100.0% | 90.1% |
| OAEM | 0.0% | 0.0% | 6.6% |
| Substandard | 0.0% | 0.0% | 3.3% |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| Rural residential loans | | | |
| Acceptable | 0.0% | 0.0% | 0.0% |
| OAEM | 100.0% | 100.0% | 100.0% |
| Substandard | 0.0% | 0.0% | 0.0% |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| Other loans | | | |
| Acceptable | 100.0% | 100.0% | 0.0% |
| OAEM | 0.0% | 0.0% | 0.0% |
| Substandard | 0.0% | 0.0% | 0.0% |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>0.0%</u> |
| Total loans | | | |
| Acceptable | 92.4% | 91.1% | 91.1% |
| OAEM | 4.0% | 4.5% | 4.3% |
| Substandard | 3.6% | 4.4% | 4.6% |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

There were no loans classified as doubtful or loss at any of the dates presented above.

To mitigate the risk of loan losses, Farm Credit West has obtained credit enhancements by entering into Long-Term Standby Commitment to Purchase agreements with Farmer Mac. Under the agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, Farmer Mac agrees to purchase loans from Farm Credit West in the event of default (typically when a guaranteed loan becomes four months past due), subject to certain conditions. In return, the Association pays Farmer Mac commitment fees based on the outstanding balance of loans covered by the agreements. The principal balance of the loans under the Long-Term Standby Commitment was \$123.2 million at December 31, 2022, \$150.7 million at December 31, 2021 and \$193.9 million at December 31, 2020. Fees paid to Farmer Mac for such commitments totaled \$0.6 million during 2022, \$0.7 million during 2021 and \$0.9 million during 2020. Those Farmer Mac fees were classified as reductions in interest income.

In addition to Farmer Mac, credit enhancements with federal and state government agencies of \$23.2 million at year-end 2022, \$41.4 million at year-end 2021 and \$92.6 million at year-end 2020 were also outstanding.

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

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|----------------------------------------|------------------|------------------|-------------------|
| Impaired nonaccrual loans: | | | |
| Current as to principal and interest | \$ 47,027 | \$ 44,038 | \$ 65,028 |
| Past due | 7,042 | 27,390 | 34,534 |
| Total nonaccrual loans | <u>54,069</u> | <u>71,428</u> | <u>99,562</u> |
| Impaired accrual loans: | | | |
| Accrual restructured | 54 | 58 | — |
| Accrual loans 90 days or more past due | 1,823 | 5,047 | 4,360 |
| Total impaired accrual loans | <u>1,877</u> | <u>5,105</u> | <u>4,360</u> |
| Total impaired loans | <u>\$ 55,946</u> | <u>\$ 76,533</u> | <u>\$ 103,922</u> |

At December 31, 2022, there were approximately \$2.9 million in commitments to lend additional funds to debtors whose loans were classified as impaired. Such commitments have been considered when establishing the overall allowance for loan losses.

Notes to Consolidated Financial Statements

Impaired assets consist of impaired loans and other property owned. The following table shows impaired assets and includes a detail of impaired loans by loan type.

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|-----------------------------------------------|-----------|-----------|------------|
| Nonaccrual loans | | | |
| Real estate mortgage | \$ 21,905 | \$ 36,688 | \$ 54,480 |
| Production and intermediate-term | 17,152 | 19,499 | 25,572 |
| Agribusiness | 15,012 | 15,193 | 19,244 |
| Direct financing leases | — | 48 | 266 |
| Total nonaccrual loans | 54,069 | 71,428 | 99,562 |
| Accrual restructured loans | | | |
| Agribusiness | 54 | 58 | — |
| Total accruing restructured loans | 54 | 58 | — |
| Accrual loans 90 days or more past due | | | |
| Real estate mortgage | 1,823 | 5,047 | 4,355 |
| Direct financing leases | — | — | 5 |
| Total accrual loans 90 days or more past due | 1,823 | 5,047 | 4,360 |
| Total impaired loans | 55,946 | 76,533 | 103,922 |
| Other property owned | 9,992 | 1 | 1 |
| Total impaired assets | \$ 65,938 | \$ 76,534 | \$ 103,923 |

Additional impaired loan information is shown in the following tables.

| <i>December 31, 2022 (in thousands)</i> | Recorded Investment in Impaired Loans | | |
|---------------------------------------------|---------------------------------------|------------------------------------|----------------|
| | Impaired with related allowance | Impaired with no related allowance | Total Impaired |
| Real estate mortgage loans | \$ — | \$ 23,729 | \$ 23,729 |
| Production and intermediate-term loans | 10,623 | 6,528 | 17,151 |
| Agribusiness loans | 15,008 | 58 | 15,066 |
| Direct financing leases | — | — | — |
| Total | \$ 25,631 | \$ 30,315 | \$ 55,946 |

| <i>December 31, 2021 (in thousands)</i> | Recorded Investment in Impaired Loans | | |
|---------------------------------------------|---------------------------------------|------------------------------------|----------------|
| | Impaired with related allowance | Impaired with no related allowance | Total Impaired |
| Real estate mortgage loans | \$ 217 | \$ 41,518 | \$ 41,735 |
| Production and intermediate-term loans | 11,704 | 7,795 | 19,499 |
| Agribusiness loans | 15,147 | 104 | 15,251 |
| Direct financing leases | — | 48 | 48 |
| Total | \$ 27,068 | \$ 49,465 | \$ 76,533 |

| <i>December 31, 2020 (in thousands)</i> | Recorded Investment in Impaired Loans | | |
|---------------------------------------------|---------------------------------------|------------------------------------|----------------|
| | Impaired with related allowance | Impaired with no related allowance | Total Impaired |
| Real estate mortgage loans | \$ 460 | \$ 58,375 | \$ 58,835 |
| Production and intermediate-term loans | 16,559 | 9,013 | 25,572 |
| Agribusiness loans | 18,094 | 1,150 | 19,244 |
| Direct financing leases | 14 | 257 | 271 |
| Total | \$ 35,127 | \$ 68,795 | \$ 103,922 |

| <i>December 31, (in thousands)</i> | Unpaid Principal Balance on Impaired Loans | | |
|----------------------------------------|--------------------------------------------|-----------|------------|
| | 2022 | 2021 | 2020 |
| Real estate mortgage loans | \$ 35,868 | \$ 55,484 | \$ 76,352 |
| Production and intermediate-term loans | 21,295 | 24,271 | 32,746 |
| Agribusiness loans | 16,903 | 16,592 | 20,179 |
| Direct financing leases | — | 48 | 271 |
| Total | \$ 74,066 | \$ 96,395 | \$ 129,548 |

| <i>December 31, (in thousands)</i> | Related Allowance on Impaired Loans | | |
|----------------------------------------|-------------------------------------|----------|----------|
| | 2022 | 2021 | 2020 |
| Real estate mortgage loans | \$ — | \$ 217 | \$ 265 |
| Production and intermediate-term loans | 1,590 | 4,189 | 4,071 |
| Agribusiness loans | 4,100 | 4,725 | 4,404 |
| Direct financing leases | — | — | 14 |
| Total | \$ 5,690 | \$ 9,131 | \$ 8,754 |

| <i>December 31, (in thousands)</i> | Average Impaired Loans | | |
|----------------------------------------|------------------------|-----------|------------|
| | 2022 | 2021 | 2020 |
| Real estate mortgage loans | \$ 29,572 | \$ 54,502 | \$ 66,332 |
| Production and intermediate-term loans | 18,504 | 22,449 | 29,706 |
| Agribusiness loans | 15,514 | 17,028 | 21,661 |
| Direct financing leases | 34 | 311 | 472 |
| Total | \$ 63,624 | \$ 94,290 | \$ 118,171 |

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

| <i>December 31, (in thousands)</i> | Interest Income Recognized on Impaired Loans | | |
|----------------------------------------|----------------------------------------------|----------|----------|
| | 2022 | 2021 | 2020 |
| Real estate mortgage loans | \$ 1,277 | \$ 667 | \$ 1,132 |
| Production and intermediate-term loans | 235 | 343 | 1,456 |
| Agribusiness loans | 269 | 193 | 2,195 |
| Direct financing leases | — | — | 1 |
| Total | \$ 1,781 | \$ 1,203 | \$ 4,784 |

Notes to Consolidated Financial Statements

| <i>For the year ended December 31, (in thousands)</i> | Income on Impaired Loans | | |
|-----------------------------------------------------------|--------------------------|-----------------|-----------------|
| | 2022 | 2021 | 2020 |
| Interest income recognized on: | | | |
| Nonaccrual loans | \$ 1,500 | \$ 1,015 | \$ 4,428 |
| Accrual restructured loans | 2 | — | — |
| Accrual loans 90 days | 279 | 188 | 356 |
| Interest income recognized on impaired loans | <u>\$ 1,781</u> | <u>\$ 1,203</u> | <u>\$ 4,784</u> |

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

| <i>For the year ended December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|----------------------------------------------------------------------------|-----------------|-----------------|-----------------|
| Interest income which would have been recognized under original loan terms | \$ 2,530 | \$ 3,089 | \$ 4,217 |
| Less: interest income recognized | (1,502) | (1,015) | (4,428) |
| Foregone (recovered) interest income | <u>\$ 1,028</u> | <u>\$ 2,074</u> | <u>\$ (211)</u> |

The following tables provide an age analysis of past due loans including accrued interest as of December 31, 2022.

| <i>Principal and interest December 31, 2022 (in thousands)</i> | Not Past Due | Total | Total |
|------------------------------------------------------------------------|----------------------------------|------------------|----------------------|
| | or Less Than 30 Days Past Due | Past Due | Loans |
| Real estate mortgage loans | \$ 7,388,785 | \$ 11,158 | \$ 7,399,943 |
| Production and intermediate-term loans | 2,973,175 | 9,656 | 2,982,831 |
| Agribusiness loans | 2,182,797 | 2,382 | 2,185,179 |
| Direct financing leases | 191,682 | — | 191,682 |
| Rural infrastructure loans | 612,940 | — | 612,940 |
| Rural residential loans | 82 | — | 82 |
| Other loans | 52,283 | — | 52,283 |
| Total loans | <u>\$ 13,401,744</u> | <u>\$ 23,196</u> | <u>\$ 13,424,940</u> |

| <i>Principal and interest December 31, 2022 (in thousands)</i> | 30-89 Days | 90 Days or | Total |
|------------------------------------------------------------------------|------------------|-----------------|------------------|
| | Past Due | More Past Due | Past Due |
| Real estate mortgage loans | \$ 8,926 | \$ 2,232 | \$ 11,158 |
| Production and intermediate-term loans | 3,180 | 6,476 | 9,656 |
| Agribusiness loans | 2,382 | — | 2,382 |
| Total loans | <u>\$ 14,488</u> | <u>\$ 8,708</u> | <u>\$ 23,196</u> |

A restructuring of a loan constitutes a troubled debt restructuring (TDR) if, for economic or legal reasons related to the debtor's financial difficulties, the Association grants a concession to the debtor that it would not otherwise consider. The following table presents additional information regarding troubled debt restructurings that occurred in 2020 (whether accrual or nonaccrual). There were no new TDRs identified in 2022 and 2021 with recorded investment balances.

| <i>December 31, 2020 (in thousands)</i> | Pre-modification Outstanding Recorded Investment | Post-modification Outstanding Recorded Investment |
|---------------------------------------------|--------------------------------------------------------|---------------------------------------------------------|
| Troubled debt restructurings: | | |
| Production and intermediate-term loans | \$ 81 | \$ 81 |
| Total | <u>\$ 81</u> | <u>\$ 81</u> |

There were no TDRs that occurred within the previous 12 months, for which there was a subsequent default during 2022.

The following tables provide information on outstanding loans in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table.

| <i>December 31, (in thousands)</i> | TDRs in Accrual Status | | |
|------------------------------------|------------------------|--------------|-------------|
| | 2022 | 2021 | 2020 |
| Agribusiness loans | \$ 54 | \$ 58 | \$ — |
| Total | <u>\$ 54</u> | <u>\$ 58</u> | <u>\$ —</u> |

| <i>December 31, (in thousands)</i> | TDRs in Nonaccrual Status | | |
|----------------------------------------|---------------------------|--------------|---------------|
| | 2022 | 2021 | 2020 |
| Production and intermediate-term loans | \$ 53 | \$ 61 | \$ 81 |
| Agribusiness loans | — | — | 47 |
| Total | <u>\$ 53</u> | <u>\$ 61</u> | <u>\$ 128</u> |

There were no additional commitments to lend to borrowers whose loans were modified in a TDR at December 31, 2022, 2021 or 2020.

Notes to Consolidated Financial Statements

The following table summarizes changes in the allowance and includes detail regarding charge-off, recovery, and provision activity by loan type.

| <i>(dollars in thousands)</i> | 2022 | 2021 | 2020 |
|----------------------------------------------------|-----------|-----------|-----------|
| Balance at beginning of year | \$ 69,600 | \$ 77,600 | \$ 73,800 |
| Provision for loan losses (loan loss reversal): | | | |
| Real estate mortgage loans | 767 | (1,951) | 710 |
| Production and intermediate-term loans | 2,423 | (3,692) | 4,516 |
| Agribusiness loans | 4,672 | (1,258) | 841 |
| Direct financing leases | 1,447 | (693) | (1,092) |
| Rural infrastructure loans | 51 | (789) | 514 |
| Rural residential loans | — | — | (1) |
| Other loans | 3 | 26 | — |
| Total provision | 9,363 | (8,357) | 5,488 |
| Charge-offs: | | | |
| Real estate mortgage loans | (218) | — | (392) |
| Production and intermediate-term loans | (28) | — | (2,048) |
| Agribusiness loans | — | — | (392) |
| Total charge-offs | (246) | — | (2,832) |
| Recoveries: | | | |
| Production and intermediate-term loans | 83 | 357 | 1,143 |
| Agribusiness loans | — | — | 1 |
| Total recoveries | 83 | 357 | 1,144 |
| Net charge-offs | (163) | 357 | (1,688) |
| Balance at December 31 | \$ 78,800 | \$ 69,600 | \$ 77,600 |
| Net charge-offs to average loans | 0.00% | 0.00% | 0.02% |

A breakdown of the allowance by loan type follows.

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|-------------------------------------------|-----------|-----------|-----------|
| Real estate mortgage loans | \$ 8,146 | \$ 7,597 | \$ 9,548 |
| Production and intermediate-term loans | 43,229 | 40,751 | 44,086 |
| Agribusiness loans | 20,786 | 16,114 | 17,372 |
| Direct financing leases | 5,414 | 3,967 | 4,660 |
| Rural infrastructure loans | 1,196 | 1,145 | 1,934 |
| Other loans | 29 | 26 | — |
| Total allowance for loan losses | \$ 78,800 | \$ 69,600 | \$ 77,600 |

The following tables contain summaries of the recorded investment in loans and the allowance for loan losses by loan type and whether collectively or individually evaluated for impairment.

| <i>Principal and interest December 31, 2022 (in thousands)</i> | Recorded Investment in Loans | | |
|------------------------------------------------------------------------|---------------------------------------------|---------------------------------------------|----------------|
| | Collectively Evaluated for Impairment | Individually Evaluated for Impairment | Total Loans |
| Real estate mortgage loans | \$ 7,376,214 | \$ 23,729 | \$ 7,399,943 |
| Production and intermediate-term loans | 2,965,680 | 17,151 | 2,982,831 |
| Agribusiness loans | 2,170,167 | 15,012 | 2,185,179 |
| Direct financing leases | 191,682 | — | 191,682 |
| Rural infrastructure loans | 612,940 | — | 612,940 |
| Rural residential loans | 82 | — | 82 |
| Other loans | 52,283 | — | 52,283 |
| Total | \$13,369,048 | \$ 55,892 | \$ 13,424,940 |

| <i>Principal and interest December 31, 2021 (in thousands)</i> | Recorded Investment in Loans | | |
|------------------------------------------------------------------------|---------------------------------------------|---------------------------------------------|----------------|
| | Collectively Evaluated for Impairment | Individually Evaluated for Impairment | Total Loans |
| Real estate mortgage loans | \$ 7,008,578 | \$ 41,735 | \$ 7,050,313 |
| Production and intermediate-term loans | 2,841,250 | 19,499 | 2,860,749 |
| Agribusiness loans | 1,812,627 | 15,193 | 1,827,820 |
| Direct financing leases | 218,035 | 48 | 218,083 |
| Rural infrastructure loans | 512,309 | — | 512,309 |
| Rural residential loans | 86 | — | 86 |
| Other loans | 39,048 | — | 39,048 |
| Total | \$ 12,431,933 | \$ 76,475 | \$ 12,508,408 |

| <i>Principal and interest December 31, 2020 (in thousands)</i> | Recorded Investment in Loans | | |
|------------------------------------------------------------------------|---------------------------------------------|---------------------------------------------|----------------|
| | Collectively Evaluated for Impairment | Individually Evaluated for Impairment | Total Loans |
| Real estate mortgage loans | \$ 6,792,390 | \$ 54,480 | \$ 6,846,870 |
| Production and intermediate-term loans | 2,073,235 | 25,572 | 2,098,807 |
| Agribusiness loans | 2,071,907 | 19,244 | 2,091,151 |
| Direct financing leases | 216,763 | 266 | 217,029 |
| Rural infrastructure loans | 429,211 | — | 429,211 |
| Rural residential loans | 89 | — | 89 |
| Total | \$ 11,583,595 | \$ 99,562 | \$ 11,683,157 |

Notes to Consolidated Financial Statements

| <i>December 31, 2022</i> <i>(in thousands)</i> | Allowance for Loan Losses | | |
|---------------------------------------------------|---------------------------------------------|---------------------------------------------|--------------------|
| | Collectively Evaluated for Impairment | Individually Evaluated for Impairment | Total Allowance |
| Real estate mortgage loans | \$ 8,146 | \$ — | \$ 8,146 |
| Production and intermediate-term loans | 41,639 | 1,590 | 43,229 |
| Agribusiness loans | 16,686 | 4,100 | 20,786 |
| Direct financing leases | 5,414 | — | 5,414 |
| Rural infrastructure loans | 1,196 | — | 1,196 |
| Other loans | 29 | — | 29 |
| Total | \$ 73,110 | \$ 5,690 | \$ 78,800 |

| <i>December 31, 2021</i> <i>(in thousands)</i> | Allowance for Loan Losses | | |
|---------------------------------------------------|---------------------------------------------|---------------------------------------------|--------------------|
| | Collectively Evaluated for Impairment | Individually Evaluated for Impairment | Total Allowance |
| Real estate mortgage loans | \$ 7,380 | \$ 217 | \$ 7,597 |
| Production and intermediate-term loans | 36,562 | 4,189 | 40,751 |
| Agribusiness loans | 11,389 | 4,725 | 16,114 |
| Direct financing leases | 3,967 | — | 3,967 |
| Rural infrastructure loans | 1,145 | — | 1,145 |
| Other loans | 26 | — | 26 |
| Total | \$ 60,469 | \$ 9,131 | \$ 69,600 |

| <i>December 31, 2020</i> <i>(in thousands)</i> | Allowance for Loan Losses | | |
|---------------------------------------------------|---------------------------------------------|---------------------------------------------|--------------------|
| | Collectively Evaluated for Impairment | Individually Evaluated for Impairment | Total Allowance |
| Real estate mortgage loans | \$ 9,283 | \$ 265 | \$ 9,548 |
| Production and intermediate-term loans | 40,015 | 4,071 | 44,086 |
| Agribusiness loans | 12,968 | 4,404 | 17,372 |
| Direct financing leases | 4,646 | 14 | 4,660 |
| Rural infrastructure loans | 1,934 | — | 1,934 |
| Total | \$ 68,846 | \$ 8,754 | \$ 77,600 |

Note 4 – Investment Securities

The following table is a summary of investments held for maintaining a liquidity reserve, managing short-term surplus funds, and managing interest rate risk, and are classified as available-for-sale:

| <i>(dollars</i> <i>in thousands)</i> | Investment Securities — Available-for-Sale | | | | Weighted Average Yield |
|-----------------------------------------|--------------------------------------------|----------------|----------------------|------------------|------------------------------|
| | Amortized Cost | Gross Gains | Unrealized Losses | Fair Value | |
| December 31, 2022 | \$890,173 | \$ — | \$(47,819) | \$842,354 | 2.34% |
| December 31, 2021 | 442,957 | — | (1,088) | 441,869 | 0.61% |
| December 31, 2020 | 399,921 | 27 | — | 399,948 | 0.11% |

The following table is a summary of the contractual maturity, fair value, amortized cost and weighted average yield of investments available-for-sale at December 31, 2022:

| <i>(dollars</i> <i>in thousands)</i> | U.S. Treasury Securities — Available-for-Sale | | | |
|-----------------------------------------|-----------------------------------------------|-----------------------------|-------------------------------|------------|
| | Due in one year or less | Due in one to five years | Due in 5 years to 10 years | Total |
| | Amount | Amount | Amount | Amount |
| Fair Value | \$ 74,683 | \$ 509,566 | \$ 258,105 | \$ 842,354 |
| Amortized Cost | 74,998 | 525,747 | 289,428 | \$ 890,173 |
| Weighted average yield | 0.14% | 2.92% | 1.83% | 2.34% |

See Note 17 for disclosures about estimated fair values of financial instruments, including investments.

Note 5 – Investment in CoBank

At December 31, 2022, the Association's investment in CoBank is in the form of Class A stock with a par value of \$100 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. As of December 31, 2022, the requirement for capitalizing its direct note from CoBank is 3.0% of Farm Credit West's prior one-year average direct note volume. Under the current CoBank capital plan applicable to participations Farm Credit West sold to CoBank, patronage from CoBank related to these participations is received as 75% cash and 25% Class A stock. The capital plan is evaluated annually by CoBank's board and management and it is subject to change.

CoBank may require the holders of its equities to subscribe for additional capital as agreed per a general financing agreement (GFA) that may be needed to help meet its capital requirements or its joint and several liability under the Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and other considerations, as it deems appropriate.

The Association owned approximately 9.12% of the outstanding common stock of CoBank at December 31, 2022.

Notes to Consolidated Financial Statements

Note 6 – Premises and Equipment

Premises and equipment consisted of the following.

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|------------------------------------|-----------|-----------|-----------|
| Land, buildings, and improvements | \$ 52,010 | \$ 54,183 | \$ 53,196 |
| Furniture and equipment | 10,070 | 9,500 | 9,156 |
| Vehicles | 1,553 | 1,738 | 1,759 |
| Construction in progress | 3 | 522 | — |
| Premises and equipment at cost | 63,636 | 65,943 | 64,111 |
| Less: accumulated depreciation | (17,813) | (17,859) | (15,208) |
| Total premises and equipment, net | \$ 45,823 | \$ 48,084 | \$ 48,903 |

Note 7 – Other Property Owned

Net gain on other property owned consisted of the following.

| <i>For the year ended December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|-------------------------------------------------------|----------|--------|--------|
| Gain on sale, net | \$ 2,026 | \$ 879 | \$ 894 |
| Operating (expense) income, net | (446) | 18 | (238) |
| Gain on other property owned, net | \$ 1,580 | \$ 897 | \$ 656 |

Note 8 – Other Assets and Other Liabilities

The following table is a summary of other assets at December 31, 2022:

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|----------------------------------------------|-----------|-----------|-----------|
| Investment in AgDirect | \$ 15,514 | \$ 13,579 | \$ 10,255 |
| Investments in other non-System institutions | 10,981 | 7,627 | 5,796 |
| Other property owned | 9,992 | 1 | 1 |
| Investments in System institutions | 3,826 | 3,803 | 3,440 |
| Equipment held for lease (operating leases) | 8,448 | 7,832 | 6,685 |
| Prepaid expenses | 1,435 | 1,761 | 1,329 |
| Other | 6,905 | 3,542 | 5,410 |
| Total | \$ 57,101 | \$ 38,145 | \$ 32,916 |

The following table is a summary of other liabilities at December 31, 2022:

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|------------------------------------|-----------|-----------|----------|
| Insurance Fund Corporation premium | \$ 19,780 | \$ 13,971 | \$ 7,737 |
| Accounts payable | 3,531 | 1,483 | 1,389 |
| Other | 10,967 | 10,054 | 186 |
| Total | \$ 34,278 | \$ 25,508 | \$ 9,312 |

Note 9 – Note Payable to CoBank

Farm Credit West's indebtedness to CoBank primarily represents borrowings by Farm Credit West to fund its loan portfolio. This indebtedness is collateralized by a pledge to CoBank of substantially all of Farm Credit West's assets, and is governed by the GFA. According to the agreement, the

aggregate outstanding amount of principal and accrued interest shall not at any time exceed the borrowing base (commitment amount). At December 31, 2022, Farm Credit West's borrowing base was approximately \$13.2 billion, while outstanding principal and interest due to CoBank was \$11.8 billion. The GFA is subject to renewal periodically in accordance with normal business practice and requires the Association to comply with certain covenants. Farm Credit West was in compliance with the terms and conditions of the GFA as of December 31, 2022. The associated promissory note is renewed annually. For additional information, refer to Note 19.

Farm Credit West is fully responsible for its asset/liability management – including funding by issuing debt. The weighted average interest rate was 3.13% at December 31, 2022, compared with 0.48% at December 31, 2021, and 0.53% at December 31, 2020.

Through the note payable to CoBank, Farm Credit West was liable for the following:

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|------------------------------------|---------------|---------------|--------------|
| Fixed rate debt | \$ 4,440,403 | \$ 5,483,446 | \$ 3,827,559 |
| Floating rate debt | 6,215,000 | 3,210,000 | 3,810,000 |
| Discount notes | 373,165 | 699,720 | 1,138,870 |
| Daily revolving line of credit | 745,475 | 1,022,515 | 792,881 |
| Total | \$ 11,774,043 | \$ 10,415,681 | \$ 9,569,310 |

Fixed rate debt typically has original maturities ranging from one to 30 years, and at December 31, 2022, included callable debt of \$1.4 billion, with a range of call dates between January 2023 and August 2025. Floating rate notes generally have maturities ranging from one year to five years. Discount notes have maturities from one day to 365 days. The daily revolving line of credit with CoBank is renewed annually and is priced based on the 30-day discount note rate. The maturities of debt within the note payable to CoBank as of December 31, 2022 are shown below:

| <i>Year of Maturity (in thousands)</i> | Amount | Weighted Average Interest Rate |
|----------------------------------------|---------------|--------------------------------|
| 2023 | \$ 5,581,292 | 3.17% |
| 2024 | 3,778,637 | 3.88% |
| 2025 | 359,048 | 1.09% |
| 2026 | 313,201 | 1.27% |
| 2027 | 166,032 | 1.63% |
| Subsequent years | 1,575,833 | 2.21% |
| Total | \$ 11,774,043 | 3.13% |

Under the Farm Credit Act, Farm Credit West is obligated to borrow only from CoBank unless CoBank gives approval to borrow elsewhere. Other than the funding relationship with CoBank, the Association has no other uninsured or insured borrowings. 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

Notes to Consolidated Financial Statements

December 31, 2022, the Association's note payable was within the specified limitations.

Note 10 – Members' Equity

Descriptions of Farm Credit West's capitalization requirements, capital protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided in the following sections.

Common Equity Investment Requirement – Capital Stock and Participation Certificates

In accordance with Farm Credit West's capitalization bylaws, as a condition of borrowing, each borrower is required to make a common equity investment in capital stock (for agricultural producers) or participation certificates (for non-producers). Those capitalization bylaws allow stock requirements to range from (1) the lesser of \$1 thousand or 2.0% of the amount of the loan to (2) 7.0% of the loan. The Board of Directors has the authority to change the common equity requirement as long as the change is within this range. At December 31, 2022 and for all periods presented in the Consolidated Balance Sheets, the required investment was \$1 thousand per voting common stockholder and \$1 thousand per nonvoting participation certificate holder. Farm Credit West may require shareholders to subscribe to additional common equity to meet minimum FCA capital adequacy regulations.

Some borrowers are not currently required to make a cash investment to acquire capital stock or participation certificates; however, their obligation to pay for the capital stock or participation certificates is maintained as an interest free obligation with Farm Credit West. Borrowers are responsible for payment of the cash investment upon demand by Farm Credit West. Capital stock and participation certificates receivable are included within members' equity in the Consolidated Balance Sheets under a contra account titled "Less: capital stock and participation certificates receivable".

Farm Credit West 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 at-risk equities will be solely at the discretion of the Board of Directors, or by Farm Credit West's President when consistent with authority delegated by the Board. Such retirements will generally be at the lower of par or book value. Repayment of a loan does not automatically result in retirement of the corresponding common equity investment.

Regulatory Capitalization Requirements and Restrictions

The FCA sets minimum regulatory capital requirements for Banks and Associations. The tables below summarize each of the ratios and their primary components:

| Type of capital as a % of risk-weighted assets | Primary Components of Numerator |
|------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Common Equity Tier 1 (CET1) Capital ratio | Unallocated retained earnings and common cooperative equities (qualifying capital stock and allocated equity) ¹ |
| Tier 1 Capital ratio | CET1 Capital and non-cumulative perpetual preferred stock |
| Total Capital ratio | Tier 1 Capital, allowance for loan losses ² , other common cooperative equities ³ , term preferred stock and subordinated debt ⁴ |
| Permanent Capital ratio | Retained earnings, common stock, preferred H stock, and subordinated debt, subject to certain limits |

| Type of leverage as a % of total assets | Primary Components of Numerator |
|-----------------------------------------------|------------------------------------------------------------------|
| Tier 1 Leverage | Tier 1 Capital |
| Minimum URE Leverage ratio | URE, URE Equivalents and purchased stock in Farm Credit entities |

¹ Equities subject to minimum redemption or revolvment period of 7 or more years

² Capped at 1.25% of risk weighted assets and inclusive of the reserve for unfunded commitments

³ Equities subject to a minimum redemption or revolvment period of 5 or more, but less than 7 years

⁴ Equities subject to a minimum redemption or revolvment period of 5 or more years

Notes to Consolidated Financial Statements

The table below summarizes regulatory requirements and Farm Credit West results at December 31, 2022, 2021 and 2020:

| <i>December 31,</i> | 2022 | 2021 | 2020 | Minimum Requirement with Buffer |
|-------------------------------------------|---------------|--------|--------|---------------------------------|
| Common Equity Tier 1 Capital (CET1) ratio | 14.14% | 13.85% | 14.37% | 7.00% |
| Tier 1 Capital ratio | 14.14% | 13.85% | 14.37% | 8.50% |
| Total Capital ratio | 14.67% | 14.46% | 15.00% | 10.50% |
| Tier 1 Leverage ratio | 14.80% | 14.74% | 15.70% | 5.00% |
| Minimum URE Leverage ratio | 14.77% | 16.30% | 17.31% | 1.50% |
| Permanent Capital ratio | 14.21% | 16.88% | 17.75% | 7.00% |

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

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. Farm Credit West has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

Preferred Stock

Changes in regulatory capital requirements diminished the capital value of the program. On January 20, 2022, the Board of Directors of Farm Credit West voted to discontinue the preferred stock program. All shares of preferred stock outstanding were called (retired) as of May 1, 2022.

Common Equity Outstanding

Each owner of class C capital stock is entitled to a single vote. Other classes of borrower equities do not provide general 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, 2022, Farm Credit West had 895,400 shares of class C capital stock at a par value of \$5.00 per share.

Under certain circumstances, Farm Credit West is also authorized to issue nonvoting class A common stock with a par value of \$5.00 per share. At December 31, 2022, no shares of class A stock were outstanding. Farm Credit West issues nonvoting class F participation certificates to those eligible borrowers who are not eligible to hold class C voting stock per FCA regulations. At December 31, 2022, 91,000 shares of class F stock were outstanding at a par value of \$5.00 per share.

Unallocated Retained Earnings

As a cooperative, Farm Credit West can distribute net income annually as patronage in the form of cash or allocated retained earnings. Unallocated retained earnings include

patronage-sourced net income that is retained each year. The Board must approve any use of unallocated retained earnings.

Any net losses, to the extent they exceed any contingency reserve and unallocated retained earnings shall, except as otherwise provided in the Farm Credit Act, be treated as impairing: first, non-designated unallocated retained earnings and unallocated retained earnings evidenced by nonqualified written notices of allocation; second, allocated retained earnings, if any, evidenced by qualified written notices of allocation in the reverse order of issuance until all such allocated retained earnings has been impaired; third, to all classes of common stock and participation certificates until fully impaired; and fourth, to preferred stock until fully impaired.

In the event of liquidation or dissolution of Farm Credit West, any assets remaining after payment or retirement of all liabilities shall be distributed in the following order of priority. First, to the holders, pro rata, of all classes of preferred stock until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders. Second, to the holders, pro rata, of all classes of common stock and participation certificates, until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders. Third, to the holders of allocated retained earnings evidenced by qualified written notices of allocation, if any. Fourth, to the holders of unallocated retained earnings evidenced by nonqualified written notices of allocation. Fifth, any remaining assets after such distributions shall be distributed to present and former patrons on a patronage basis, to the extent practicable.

Patronage Distributions

Consistent with its bylaws which provide for the allocation of patronage dividends, Farm Credit West operates under Subchapter T of the Internal Revenue code (i.e., the Association operates as a cooperative). All patronage distributions to a borrower are on such proportionate patronage basis as may be approved by the Board.

Farm Credit West allocates 100% of its patronage-sourced income before income taxes, less preferred stock dividends paid, to its patrons. At each year-end, the Board evaluates whether to retain Farm Credit West's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified (cash) patronage dividend. That portion of Farm Credit West's patronage-sourced income before income taxes, less preferred stock dividends paid, not distributed in cash is also allocated to patrons. In accordance with Internal Revenue Service requirements, each customer is sent a nonqualified written notice of allocation. Nonqualified allocations, but not qualified (cash) patronage dividends, are included in Farm Credit West's unallocated retained earnings account and in accordance with generally accepted accounting principles, are

Notes to Consolidated Financial Statements

reported as unallocated retained earnings on the accompanying Consolidated Balance Sheets and Consolidated Statements of Changes in Members' Equity. Such allocations may provide a future basis for a distribution of capital. The Farm Credit West Board considers these unallocated 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.

The Board approved a cash patronage distribution of \$180.0 million out of 2022 patronage-sourced income before income taxes of \$359.1 million; that \$180.0 million was paid in early 2023. The Board approved a cash patronage distribution of \$172.0 million out of 2021 patronage-sourced income before income taxes of \$324.8 million; that \$172.0 million was paid in early 2022. The Board approved a cash patronage distribution of \$185.0 million out of 2020 patronage-sourced income before income taxes of \$292.3 million; that \$185.0 million was paid in two installments, the first for \$55.0 million in mid-2020 and the second for \$130.0 million in early 2021.

Accumulated Other Comprehensive Loss

Farm Credit West reports other comprehensive income (loss) as a component of comprehensive income in the accompanying Consolidated Statements of Income and Comprehensive Income and Consolidated Statements of Changes in Members' Equity. Accumulated other comprehensive income is reported as a component of members' equity in the accompanying Consolidated Balance Sheets.

As described in Note 13, other comprehensive loss at December 31, 2022 resulted from the unrealized net actuarial loss component of the Pension Restoration Plan liability at Farm Credit West. Additionally, as an equity owner in FPI, Farm Credit West's service provider of technology services, the Association has also recorded its proportional share of FPI's pension-related unrealized actuarial loss. Lastly, Farm Credit West recorded other comprehensive income based on the market value of the Association's investment securities held as available-for-sale.

The following is a summary of accumulated other comprehensive loss included in the Consolidated Balance Sheets.

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|----------------------------------------------------------------------|--------------------|------------|------------|
| Unrealized (loss) gain on investment securities – available-for-sale | \$ (47,819) | \$ (1,088) | \$ 27 |
| Unrealized net actuarial loss on Pension Restoration Plan | (3,322) | (3,385) | (4,168) |
| Unrealized actuarial loss in FPI pension plan | (1,059) | (1,052) | (1,488) |
| Accumulated other comprehensive loss | \$ (52,200) | \$ (5,525) | \$ (5,629) |

Note 11 – Patronage Distributions from Farm Credit Institutions

Patronage income received from Farm Credit institutions follows.

| <i>For the year ended December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|-------------------------------------------------------|------------------|-----------|-----------|
| CoBank | \$ 75,070 | \$ 63,870 | \$ 50,264 |
| Other Farm Credit institutions | 20,658 | 13,040 | 11,516 |
| Total patronage income | \$ 95,728 | \$ 76,910 | \$ 61,780 |

Patronage distributions from CoBank relating to the Association's average direct note borrowings are distributed in cash. For CoBank patronage relating to average participated loan volume sold to CoBank, a portion of the annual patronage is distributed in cash and the remainder in the form of allocated equity.

The amount earned in 2022 was accrued as of December 31, 2022 and will be paid by CoBank in March 2023. Included in the 2022 amount was a \$12.4 million one-time special cash patronage declared by CoBank in 2022. The amount earned in 2021 was accrued as of December 31, 2021 and was paid by CoBank in March 2022. Included in the 2021 amount was a \$9.7 million one-time special cash patronage declared by CoBank in 2021. The amount earned in 2020 was accrued as of December 31, 2020 and was paid by CoBank in March 2021. In addition, included in the 2020 amount was an \$8.7 million one-time special cash patronage declared by CoBank in 2020.

Farm Credit West receives patronage distributions from other Farm Credit institutions to whom it has sold loan participations or from whom it receives services.

Notes to Consolidated Financial Statements

Note 12 – Income Taxes

The provision for income taxes follows.

| <i>For the year ended December 31,</i> | | | |
|----------------------------------------|-------------|-------------|-------------|
| <i>(in thousands)</i> | 2022 | 2021 | 2020 |
| Current federal tax provision | \$ — | \$ 2 | \$ 6 |
| Current state tax provision | 2 | — | — |
| Provision for income taxes | \$ 2 | \$ 2 | \$ 6 |

The provision for income tax differs from the amount of income tax determined by applying the applicable U. S. statutory federal income tax rate to pretax income as quantified in the following table.

| <i>For the year ended December 31,</i> | | | |
|-----------------------------------------------------|-----------------|-------------|-------------|
| <i>(in thousands)</i> | 2022 | 2021 | 2020 |
| Federal tax at statutory rate | \$ 75,409 | \$ 68,523 | \$ 62,244 |
| State tax, net | — | — | 3 |
| Effect of non-taxable FLCA subsidiary | (38,811) | (31,094) | (23,882) |
| Patronage distribution declared by taxable entities | (37,800) | (36,120) | (38,850) |
| Decrease/(increase) in deferred tax asset valuation | 1,202 | (1,304) | 494 |
| Other | 2 | (3) | (3) |
| Provision for income taxes | \$ 2 | \$ 2 | \$ 6 |

As detailed in the following table, deferred tax assets and liabilities are established considering the commitment of the Farm Credit West Board and management to make operating decisions that will ultimately utilize such deferred tax assets. The Association's valuation allowance was \$12.9 million in 2022, \$11.6 million in 2021 and \$13.0 million in 2020. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

Deferred tax assets and liabilities are comprised of the following at the dates indicated.

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|-------------------------------------------------|-----------------|-------------|-------------|
| Deferred tax assets: | | | |
| Allowance for loan losses | \$ 12,385 | \$ 10,666 | \$ 12,282 |
| Nonaccrual income | 1,027 | 795 | 472 |
| Loss carry forwards | 3,186 | 3,186 | 3,186 |
| Gross deferred tax assets | 16,598 | 14,647 | 15,940 |
| Less: valuation allowance | (12,851) | (11,649) | (12,953) |
| Deferred tax assets, net of valuation allowance | 3,747 | 2,998 | 2,987 |
| Deferred tax liabilities: | | | |
| Lease adjustment | (20) | (35) | (487) |
| Patronage distribution from CoBank | (3,727) | (2,963) | (2,500) |
| Gross deferred tax liabilities | (3,747) | (2,998) | (2,987) |
| Net deferred tax liability | \$ — | \$ — | \$ — |

Farm Credit West has no uncertain tax positions to be recognized as of December 31, 2022, 2021 or 2020.

The Association recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2017 and forward.

Pursuant to its bylaws, the Farm Credit West Board has approved patronage resolutions that, subject to first making other bylaw-required applications (including the setting aside of necessary and appropriate additions to unallocated retained earnings), call for Farm Credit West (and subsidiaries) to be operated as a cooperative utilizing a patronage program. In years when operational circumstances allow, patronage allocations will be declared based on that year's results with payment occurring early in the following year. See the Patronage Distributions section of Note 10 for a history of patronage declarations and payments.

Note 13 – Employee Benefit Plans

Certain Farm Credit West employees participate in 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 is a noncontributory plan which covers eligible employees. Benefits are based on salary and years of service. The Defined Benefit Plan was closed to future employees and current employees not yet vested at December 31, 1997.

Notes to Consolidated Financial Statements

The multi-employer Defined Benefit Plan, which includes other associations as employers, reflects an unfunded liability totaling \$1.8 million at December 31, 2022. The pension benefits funding status reflects the net difference of the fair value of the plan assets and the projected benefit obligation. 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 compensation levels. The projected benefit obligation of the plan was \$238.6 million at December 31, 2022, \$298.8 million at December 31, 2021 and \$318.4 million at December 31, 2020. The fair value of the plan assets was \$236.8 million at December 31, 2022, \$291.1 million at December 31, 2021 and \$271.7 million at December 31, 2020.

Defined Benefit Plan costs are determined for each individual employer based on costs directly related to its eligible employees in the plan as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under the plan. Farm Credit West recognizes its proportional share of expense and contributes its proportional share of funding. Total plan expense for all participating employers was \$1.5 million in 2022, \$1.3 million in 2021 and \$1.3 million in 2020. Farm Credit West's allocated share of plan expenses included in salaries and employee benefits was a contra-expense of \$0.4 million in 2022 and \$0.3 million in 2021 compared to expense of \$0.4 million in 2020. Participating employers contributed \$23.0 million in 2022, \$23.0 million in 2021 and \$23.0 million in 2020 to the plan. The Association's allocated share of these pension contributions was \$6.4 million in 2022, \$6.3 million in 2021, and \$6.3 million in 2020. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plan during 2023 is \$1.5 million and the Association's allocated share of these pension contributions is expected to be \$0.4 million.

Eligible current and retired employees of Farm Credit West are provided post-retirement benefits other than pensions through the Farm Credit Foundations Retiree Medical Plan and Retiree Life Plan. 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. Post-retirement benefits (primarily health care benefits) included in salaries and employee benefits expense were less than \$0.1 million in 2022, 2021 and 2020. These expenses are equal to Farm Credit West's cash contributions for each year.

Farm Credit West also participates in a non-qualified defined benefit plan (Pension Restoration Plan) that is unfunded. The purpose of this plan is to supplement a participant's benefits

under the Defined Benefit Plan to the extent that such benefits are reduced by the limitations imposed by the Internal Revenue Code. Benefits payable under the Pension Restoration Plan are offset by a reduction in the benefits payable from the Defined Benefit Plan. Pension Restoration Plan expenses included in salaries and employee benefits were \$1.6 million in 2022, \$1.6 million in 2021 and \$1.3 million in 2020.

The amounts recognized in Farm Credit West's Consolidated Balance Sheets for the Pension Restoration Plan follows.

| <i>For the year ended December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|---------------------------------------------------------------|--------------------|-------------|-------------|
| Change in benefit obligation: | | | |
| Beginning benefit obligation | \$ 11,959 | \$ 11,630 | \$ 10,177 |
| Service cost | 491 | 407 | 370 |
| Interest cost | 150 | 92 | 210 |
| Actuarial loss | 936 | 298 | 1,467 |
| Benefits paid | (404) | (468) | (594) |
| Ending benefit obligation | 13,132 | 11,959 | 11,630 |
| Change in plan assets: | | | |
| Company contributions | 404 | 468 | 594 |
| Benefits paid | (404) | (468) | (594) |
| Ending fair value of plan assets | — | — | — |
| December 31 net amount recognized (accrued benefit liability) | \$ (13,132) | \$ (11,959) | \$ (11,630) |

Amounts included in accumulated other comprehensive loss for the Pension Restoration Plan on Farm Credit West's Consolidated Balance Sheets follows.

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|-------------------------------------------------|-----------------|----------|----------|
| Unrecognized net actuarial loss | \$ 3,322 | \$ 3,385 | \$ 4,168 |
| Accumulated other comprehensive loss recognized | \$ 3,322 | \$ 3,385 | \$ 4,168 |

Information for pension plans with a projected benefit obligation in excess of plan assets is as follow.

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|------------------------------------|------------------|-----------|-----------|
| Projected benefit obligation | \$ 13,132 | \$ 11,959 | \$ 11,630 |

Information for pension plans with an accumulated benefit obligation in excess of plan assets is as follow.

| <i>December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|------------------------------------|------------------|-----------|-----------|
| Accumulated benefit obligation | \$ 11,241 | \$ 11,043 | \$ 10,077 |

Notes to Consolidated Financial Statements

Components of net periodic pension expense for the Pension Restoration Plan included in Farm Credit West's Consolidated Statements of Income and Comprehensive Income follow.

| <i>For the year ended December 31,</i> | | | |
|--------------------------------------------------|-------------|----------|----------|
| <i>(in thousands)</i> | 2022 | 2021 | 2020 |
| Service cost | \$ 491 | \$ 407 | \$ 370 |
| Interest cost | 150 | 92 | 210 |
| Net amortization and deferral of actuarial costs | 1,000 | 1,081 | 708 |
| Net periodic benefit cost | \$ 1,641 | \$ 1,580 | \$ 1,288 |

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

| <i>For the year ended December 31,</i> | | | |
|-------------------------------------------------------|-------------|----------|----------|
| <i>(in thousands)</i> | 2022 | 2021 | 2020 |
| Current year net actuarial loss | \$ 937 | \$ 298 | \$ 1,467 |
| Amortization of: | | | |
| Net actuarial loss | (1,000) | (1,081) | (708) |
| Total recognized in other comprehensive (income) loss | \$ (63) | \$ (783) | \$ 759 |

An estimated net actuarial loss of less than \$0.1 million for the Pension Restoration Plan will be amortized into income during 2023.

Weighted average assumptions used to determine benefit obligation (liability) follow.

| <i>December 31,</i> | 2022 | 2021 | 2020 |
|-------------------------------|-------------|-------|-------|
| Discount rate | 4.66% | 1.54% | 1.03% |
| Rate of compensation increase | 6.70% | 4.60% | 4.60% |

Weighted average assumptions used to determine net periodic benefit cost (expense) follow.

| <i>December 31,</i> | 2022 | 2021 | 2020 |
|-------------------------------|-------------|-------|-------|
| Discount rate | 1.54% | 1.03% | 2.35% |
| Rate of compensation increase | 4.60% | 4.60% | 4.60% |

The Association expects to contribute \$0.7 million to the Pension Restoration Plan in 2023.

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

| <i>(in thousands)</i> | Pension Restoration Benefits |
|-----------------------|------------------------------|
| 2023 | \$ 685 |
| 2024 | \$ 865 |
| 2025 | \$ 10,088 |
| 2026 | \$ 171 |
| 2027 through 2032 | \$ 4,102 |

Farm Credit West participates in the Farm Credit Foundations Defined Contribution Plan (Defined Contribution Plan). 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, Farm Credit West 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. Farm Credit West matches a certain percentage of employee contributions. Employer contributions to the defined contribution plan were \$4.3 million for the year ended December 31, 2022, \$3.9 million for the year ended December 31, 2021 and \$3.7 million for the year ended December 31, 2020.

Note 14 – Related Party Transactions

In the ordinary course of business, Farm Credit West may enter into loan transactions with directors and senior officers of Farm Credit West, directors and senior officers of CoBank, the immediate families of such directors and officers, and other organizations with which such directors and officers may be affiliated. Such loans to directors and senior officers are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. There were no loans outstanding to senior officers or their immediate family members at December 31, 2022.

Information related to loans/leases as well as the underlying loans related to the Farmer Mac-guaranteed securities made to such persons are shown below.

| <i>For the year ended December 31,</i> | | | |
|----------------------------------------|-------------|------------|------------|
| <i>(in thousands)</i> | 2022 | 2021 | 2020 |
| New loans/draws | \$ 272,841 | \$ 250,050 | \$ 254,475 |
| Repayments/transfers | \$ 284,372 | \$ 236,903 | \$ 251,038 |
| Ending loan balances | \$ 296,427 | \$ 307,958 | \$ 294,811 |

In the opinion of management, none of these loans outstanding at December 31, 2022 involved more than a normal risk of collectability.

Notes to Consolidated Financial Statements

Farm Credit West has a director loan quality policy that, unless waived in specific instances while ensuring Association safety and soundness, calls for a director to immediately resign and be ineligible for appointment, election, or reelection if that director is obligated to Farm Credit West on a loan that is subject to adverse circumstances. If a waiver is permissible, the director must prepare a signed corrective plan detailing steps to eliminate the adverse circumstance within a specified period. Additionally, Farm Credit West has an employee loan quality policy calling for various authorities and responsibilities of an employee to be suspended if the employee is party to a loan that becomes delinquent or adversely classified.

The following table shows information related to the preferred stock holdings of Association directors.

| <i>For the year ended December 31, (in thousands)</i> | 2022 | 2021 | 2020 |
|-----------------------------------------------------------|----------|----------|----------|
| Preferred stock issued | \$ — | \$ — | \$ 500 |
| Preferred stock retired | \$ 1,214 | \$ 931 | \$ 508 |
| Ending preferred stock balances | \$ — | \$ 1,214 | \$ 2,138 |

Association employees were not eligible to hold preferred stock.

Farm Credit West also has non-lending business relationships with certain other System entities. During 2022, 2021 and 2020, the Association paid \$10.2 million, \$10.2 million and \$10.5 million, respectively, to Financial Partners, Inc. for technology services. The Association paid \$0.4 million in 2022, \$0.4 million in 2021 and \$0.3 million in 2020 to Foundations for human resource services. Farm Credit West is an owner in each entity along with certain other Farm Credit entities.

Note 15 – Regulatory Enforcement Matters

There are no regulatory enforcement actions in effect for Farm Credit West.

Note 16 – Commitments and Contingencies

Farm Credit West has various commitments to extend credit and contingent liabilities.

Farm Credit West may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements.

Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may

require payment of a fee by the borrower. At December 31, 2022, \$4.1 billion in commitments to extend credit, excluding standby letters of credit, were outstanding.

Farm Credit West participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payment of specified financial obligations. Farm Credit West's agreement to guarantee payment is supported by a commitment to repay Farm Credit West from the borrower on whose behalf the letter of credit was issued. At December 31, 2022, \$26.4 million of standby letters of credit were outstanding. Given the borrower obligations that support these letters of credit, combined with the modest marginal fees charged and modest marginal expenses incurred in their extension, management deems these standby letters of credit to have no reportable fair value. At December 31, 2022, \$5.7 million of those letters of credit expire in 2023, \$6.5 million expire in 2024, \$13.7 million expire in 2025 and \$0.5 million expire after 2026.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance sheet credit risk because their amounts are not reflected on Farm Credit West's Consolidated Balance Sheets 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. Management applies the same credit policies to these instruments. Upon fully funding an instrument, the credit risk amounts are equal to the contract amounts and the potential for loss from such transactions is subject to borrower repayment or the value of collateral securing the loan (if any). The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Farm Credit West does not anticipate any material losses as a result of these commitments or letter of credit transactions.

In the ordinary course of business Farm Credit West may be party to legal claims in which monetary damages are asserted. Management is unaware of any pending claims for which the ultimate liability would have a material effect on Farm Credit West's financial position or results of operations.

Note 17 – Fair Value Measurements

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2 for additional information. Fair value measurements are determined on a recurring basis or nonrecurring basis. Assets measured at fair value on a recurring basis for each of the fair value hierarchy values are

Notes to Consolidated Financial Statements

summarized below. During the three years presented, the Association recorded no transfer in or out of Levels 1, 2 or 3. There were no liabilities measured at fair value on a recurring basis for the periods presented.

| <i>(in thousands)</i> | Fair Value Measurement Using | | | Total |
|------------------------------------------------------|------------------------------|------------|---------|------------|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| Assets: | | | | |
| Assets held in trusts for nonqualified benefit plans | | | | |
| December 31, 2022 | \$ — | \$ — | \$ — | \$ — |
| December 31, 2021 | 148 | — | — | 148 |
| December 31, 2020 | 525 | — | — | 525 |
| Investment securities – available-for-sale | | | | |
| December 31, 2022 | \$ — | \$ 842,354 | \$ — | \$ 842,354 |
| December 31, 2021 | — | 441,869 | — | 441,869 |
| December 31, 2020 | — | 399,948 | — | 399,948 |

Assets measured at fair value on a non-recurring basis were considered Level 3 and are summarized in the following table. There were no liabilities measured at fair value on a non-recurring basis for the periods presented.

| <i>(in thousands)</i> | Fair Value Measurement Using Significant Unobservable Inputs (Level 3) | | Total Fair Value |
|-----------------------------------------------------|------------------------------------------------------------------------|-----------|------------------|
| | Assets: | | |
| Nonaccrual loans, net of related specific allowance | | | |
| December 31, 2022 | \$ 19,941 | \$ 19,941 | |
| December 31, 2021 | 17,937 | 17,937 | |
| December 31, 2020 | 26,373 | 26,373 | |
| Other property owned, appraised value | | | |
| December 31, 2022 | \$ 11,165 | \$ 11,165 | |
| December 31, 2021 | 1 | 1 | |
| December 31, 2020 | 1 | 1 | |

Valuation Techniques

As more fully discussed in Note 2, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represents a brief summary of the valuation techniques used by Farm Credit West for assets and liabilities subject to fair value measurement.

Assets held in trust: Assets held in trust for nonqualified benefit plans are related to supplemental retirement plans and are generally classified under Level 1 and 2. The trust assets held by Farm Credit West include cash, money market funds and mutual funds that have quoted market prices in an active market and are therefore classified within Level 1.

Investment Securities: Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an

active market, the fair value of securities are estimated using pricing models, quoted prices for similar securities received from pricing services, or discounted cash flows. Generally, these securities would be classified as Level 2. This would include U.S. Treasury, U.S. agency and certain mortgage-backed and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Farm Credit West's security portfolio is made up of U.S. Treasuries and thus classified as Level 2.

Nonaccrual Loans: For nonaccrual loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans and real estate is the collateral. With regard to impaired loans, it is not practicable to provide specific information on inputs as each collateral property is unique. The fair value measurement process uses independent appraisals and other market-based information, market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established and loans are reported at fair value.

Other Property Owned: With regard to other property owned, it is not practicable to provide specific information on inputs as each property is unique. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. As a result, these fair value measurements fall within Level 3 of the fair value hierarchy. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Notes to Consolidated Financial Statements

Note 18 – Quarterly Financial Information (Unaudited)

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

| <i>(in thousands)</i> | 2022 | | | | |
|-----------------------------------------|-----------------|-----------------|------------------|------------------|------------------|
| | First | Second | Third | Fourth | Total |
| Net interest income | \$90,174 | \$92,365 | \$ 100,856 | \$ 100,834 | \$384,229 |
| Provision for loan losses | (3,058) | (1,114) | (4,395) | (796) | (9,363) |
| Noninterest income (expense), net | 5,308 | (3,862) | (10,077) | (7,146) | (15,777) |
| Net income pre-tax | <u>\$92,424</u> | <u>\$87,389</u> | <u>\$ 86,384</u> | <u>\$ 92,892</u> | <u>\$359,089</u> |
| | 2021 | | | | |
| <i>(in thousands)</i> | First | Second | Third | Fourth | Total |
| Net interest income | \$81,429 | \$82,269 | \$ 84,726 | \$ 88,293 | \$336,717 |
| Reversal of loan losses | 804 | 3,604 | 3,044 | 905 | 8,357 |
| Noninterest income (expense), net | 819 | (2,364) | (11,210) | (6,018) | (18,773) |
| Net income pre-tax | <u>\$83,052</u> | <u>\$83,509</u> | <u>\$ 76,560</u> | <u>\$ 83,180</u> | <u>\$326,301</u> |
| | 2020 | | | | |
| <i>(in thousands)</i> | First | Second | Third | Fourth | Total |
| Net interest income | \$80,537 | \$77,099 | \$ 79,480 | \$ 80,309 | \$317,425 |
| (Provision for) reversal of loan losses | (1,933) | (3,565) | 4 | 6 | (5,488) |
| Noninterest income/(expense), net | 343 | (1,151) | (7,622) | (7,109) | (15,539) |
| Net income pre-tax | <u>\$78,947</u> | <u>\$72,383</u> | <u>\$ 71,862</u> | <u>\$ 73,206</u> | <u>\$296,398</u> |

Note 19 – Subsequent Events

Farm Credit West has evaluated subsequent events through March 10, 2023, the date the financial statements were available to be issued. Effective January 1, 2023, Farm Credit West, ACA and its PCA and FLCA subsidiaries (Farm Credit West) merged with and into Northwest FCS (the continuing association) and its respective PCA and FLCA subsidiaries, whereupon all shareholders of Farm Credit West became shareholders of the continuing association.

Additionally, upon the effective date of the merger, the continuing association and its PCA and FLCA subsidiaries changed their names to AgWest Farm Credit, ACA, AgWest Farm Credit, PCA and AgWest Farm Credit, FLCA, respectively (AgWest). AgWest will be subject to certain conditions of the Farm Credit Administration and the Chief Executive Officer will be Mark D. Littlefield.

The merger was accounted for under the acquisition method of accounting in accordance with the FASB Accounting

Standards Codification 805 “Business Combinations”. As the acquirer, Northwest FCS recognized the identifiable assets acquired and liabilities assumed in the merger as of January 1, 2023, at their respective fair values. No goodwill was recognized in connection with the transaction. The fair values were based on various assumptions that management believes were reasonable utilizing information available at the time of the transaction.

As of December 31, 2022, Northwest FCS had \$15.8 billion of total assets and serves customers in Alaska, Idaho, Montana, Oregon, and Washington. AgWest renewed the prior Northwest FCS GFA with CoBank effective January 1, 2023 and will own approximately 19.7% of CoBank outstanding common stock as of the merger date. Management expects to renew the GFA in advance of the maturity date on January 1, 2028.

There have been no other material subsequent events through March 10, 2023.

Disclosure Information Required by Farm Credit Administration Regulations (unaudited)

Description of Business

The description of the territory served, persons eligible to borrow, types of lending activities engaged in and financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the consolidated financial statements included in this Annual Report.

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” included in this Annual Report.

Legal Proceedings

Information required to be disclosed in this section is incorporated herein by reference from Note 15 and Note 19 to the consolidated financial statements included in this Annual Report.

Description of Capital Structure

Information required to be disclosed in this section is incorporated herein by reference from Note 10 to the consolidated financial statements included in this Annual Report.

Description of Liabilities

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Notes 1, 9 and 13 to the consolidated financial statements included in this Annual Report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 1 and Note 16 to the consolidated financial statements in this Annual Report.

Selected Financial Data

The selected financial data for the five years ended December 31, 2022 required to be disclosed in this section is incorporated herein by reference from the “Five-Year Summary of Selected Financial Data” in this Annual Report.

Management’s Discussion and Analysis

“Management’s Discussion and Analysis” in this Annual Report is required to be disclosed in this section and is incorporated herein by reference.

Board of Directors’ Charter, Code of Ethics, and Independence

On January 1, 2023, Farm Credit West merged with and into Northwest Farm Credit Services (Northwest FCS) and its name changed to AgWest Farm Credit (AgWest). These disclosures reflect descriptions of Farm Credit West’s Corporate Governance and Board activities in 2022.

The Farm Credit West Board of Directors has adopted a Charter to support the Board’s leadership and oversight role in the accomplishment of the Association’s mission. Also, the Board has adopted a Code of Ethics, whereby the Board and each director commit to conduct business in accordance with the highest ethical standards. In accordance with the Farm Credit West Board of Directors’ Charter, annually the Corporate Governance Committee determines the independence of each director (as defined in the subject Charter). Evaluating each situation using established “independence” criteria, the Board has determined each Farm Credit West director to be “independent” in accordance with those criteria. Both the Charter and Code of Ethics documents can be viewed on the AgWest Farm Credit website (www.AgWestFC.com).

Board Committees

Farm Credit West maintains four committees that are composed of directors: a Corporate Governance Committee, an Audit Committee, an Enterprise Risk Management Committee, and a Human Capital Committee. The members of those committees are identified in the following director disclosures. The full Board considers these committees to have the range of expertise and experience to meet their responsibilities.

Corporate Governance Committee

Farm Credit West’s Corporate Governance Committee is comprised of the Chair of the Board of Directors (who also Chairs this Corporate Governance Committee), the Vice Chair of the Board, the prior Chair of the Board, the Chairs of the Audit Committee, Enterprise Risk Management Committee and Human Capital Committee. The Corporate Governance Committee meets as needed to act on broad issues, typically when the full board is not available to meet. A copy of the Corporate Governance Committee Charter can be viewed on the AgWest Farm Credit website.

Human Capital Committee

Farm Credit West’s Human Capital Committee meets as needed to address Farm Credit West’s ability to attract and retain staff. These responsibilities include, but are not limited to, annually reviewing/approving Farm Credit West’s compensation programs, establishing performance standards for the President and CEO, and conducting the President and CEO’s performance evaluation. A copy of the Human Capital Committee Charter can be obtained by members upon request.

Enterprise Risk Management Committee

Farm Credit West’s Enterprise Risk Management Committee meets as needed to provide oversight for the majority of the enterprise risk management practices of the Association. The committee monitors risk within the financial, information technology, credit and valuation functions as well as overall

Disclosure Information Required by Farm Credit Administration Regulations (unaudited)

risk management performance of the Association. The committee also determines the basis on which to require deeper analysis such as industry/stress studies, financial risk studies, or other operational risk studies as needed. Additionally, it monitors compliance with the applicable policies and recommends policy changes to the full Board. A copy of the Enterprise Risk Management Committee Charter can be obtained by members upon request.

Audit Committee

Farm Credit West's Audit Committee manages the audit function as detailed in an internal audit policy and an Audit Committee charter. At least one Audit Committee member is designated a "financial expert" as defined in FCA regulations. All committee members are expected to have a practical knowledge of finance and accounting. A copy of the Audit Committee Charter can be obtained by members upon request.

The primary functions of the Audit Committee are to: (1) assist the full Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the process for monitoring compliance with laws/regulations; (2) pre-approve and oversee all auditing and non-audit services provided by independent auditors; and (3) oversee the audit effort of the Association's internal audit function. A Report of the Audit Committee is included in this Annual Report.

Directors

Farm Credit regulations require the disclosure of directors' business experience for the last five years, other entities on whose board the director serves, compensation received as a Farm Credit West director, and certain other information. Compensation amounts are presented in whole dollars.

The FCW Board is on a 3 year term cycle for leadership positions. As 2022 was the end of a 3 year term, the Board made changes to Board and Committee leadership positions at its meeting in March, 2022. The following changes were made to leadership and committee assignments:

Doug Filipponi was elected Board Chair and Mark Cook Board Vice Chair; Tom Ikeda became Chair and Catherine Fanucchi became Vice Chair of the Enterprise Risk Management Committee; Brian Talley became Chair and Blake Harlan became Vice Chair of the Human Capital Committee; Barry Powell remains as Chair and Teresa Castanias became Vice Chair of the Audit Committee; Governance Committee members are Board Chair Douglas Filipponi, Board Vice Chair Mark Cook, Audit Chair Barry Powell, Enterprise Risk Management Chair Tom Ikeda, Human Capital Chair Brian Talley, and past Board Chair Sureena Thiara.

Douglas C. Filipponi, Chair of the Board of Directors

Term of Office: Mr. Filipponi has served on the Board since 2006. His current term ends in 2025.

Mr. Filipponi serves as Chair of the Farm Credit West Board and Corporate Governance Committee and is a National Association of Corporate Directors (NACD) Governance Fellow. He demonstrates his commitment to the highest standards of boardroom excellence by earning NACD Fellowship, the gold standard director credential, year after year. NACD Fellowship is a comprehensive and continuous program of study that empowers directors with the latest insights, intelligence, and leading boardroom practices. Mr. Filipponi is president of Filipponi-Thompson Drilling, Inc. (drills water wells) and managing member of Margarita Vineyards, LLC (wine grapes). He is also managing member of Santa Margarita Cattle Company, LLC (cattle); owner of Vaquero Water Ranch (cattle); and managing member of Santa Margarita Ranch, LLC (landlord); Mission Lakes, LLC (landlord for quarry operation); DKF I, LLC (wine grapes); and Major Domo, LLC (agricultural land). He is a general partner of Filipponi & Thompson (agricultural land) and chief operating officer of Ancient Peak, Inc. In 2022, Mr. Filipponi served 30 days at Board and Board committee meetings and 4 days in other official activities on behalf of the Board, for which he was compensated \$77,904.

Mark A. Cook, Vice Chair of the Board of Directors

Term of Office: Mr. Cook has served on the Board since 2016. His current term ends in 2025.

Mr. Cook serves as Vice Chair of the board. Mr. Cook is President of North Bowie Farming, LLC (custom farming and farm management), Sierra Farming Company, Inc. (pistachios and custom farming), and Producers Pump Company, LLC (irrigation pump sales and service). He is a member of Sierra Land Company, LLC (land ownership); managing member of Four Star Pistachio, LLC (pistachios); managing officer of J&P Pistachio Ranch, LLC (pistachios), WPD Pistachio, LLC (pistachios), Double K Orchard, LLC (pistachios), and Lazy Dog Orchard, LLC (pistachios). Mr. Cook is President of Whitetail Creek Orchards, LLC (pecans, pistachios, alfalfa); President of Ironwood Pistachio, LLC (pecans, pistachios, alfalfa); President/CEO of A&P Growers Cooperative (ag marketing cooperative); and managing officer of R&R Orchards, LLC (pecans, pistachios, alfalfa). He is a director of Arizona Nut Company (pistachio hulling/processing); director of A&P Growers International, LLC (export sales); director of A&P Export Sales, Inc. (IC-DISC); and director of Cochise County Farmers Association (propane and lubricant sales). Mr. Cook is vice president of Arizona Pistachio Growers Association, director of Arizona Pecan Growers Association, and director of Western Pecan Growers Association (industry organizations). In 2022, Mr. Cook served 16 days at Board and Board committee meetings

Disclosure Information Required by Farm Credit Administration Regulations (unaudited)

and 4 days in other official activities on behalf of the Board, for which he was compensated \$70,800.

Joseph (Joey) C. Airosso, Director

Term of Office: Mr. Airosso has served on the Board since 2007. His current term ends in 2023.

Mr. Airosso serves on the Farm Credit West Enterprise Risk Management Committee and Corporate Governance Committee and is a National Association of Corporate Directors (NACD) Governance Fellow. He demonstrates his commitment to the highest standards of boardroom excellence by earning NACD Fellowship, the gold standard director credential, year-after-year. NACD Fellowship is a comprehensive and continuous program of study that empowers directors with the latest insights, intelligence, and leading boardroom practices. Mr. Airosso operates a family-owned dairy and farm, Airosso Dairy Farms. He is a board member of College of Sequoias Ag Advisory; Southern California Gas Community Advisory Committee; Pixley Irrigation Water Commission, CA Farm Bureau Federation representing Tulare County in 2022-2023, and The Tule Basin Land and Water Trust. In 2022, Mr. Airosso served 31 days at Board and Board committee meetings and 3 days at other official activities on behalf of the Board, for which he was compensated \$63,528.

Robert Amarel, Jr., Director

Term of Office: Mr. Amarel has served on the Board since 2007. His current term ends in 2023.

Mr. Amarel serves as Chair of the Farm Credit West Human Capital Committee and serves on the Corporate Governance Committee and is a National Association of Corporate Directors (NACD) Board Leadership Fellow. He demonstrates his commitment to the highest standards of boardroom excellence by earning NACD Fellowship, the gold standard director credential, year after year. NACD Fellowship is a comprehensive and continuous program of study that empowers directors with the latest insights, intelligence, and leading boardroom practices. Mr. Amarel manages Reason Farms, which is involved in growing prunes, walnuts, almonds and also owns commercial properties. He is also a director of Sunsweet Growers, a prune processing and marketing cooperative; the California Dried Plum Board-State Marketing Order; Prune Marketing Committee-Federal Prune Marketing Order; and is a Farm Bureau member ag spokesman. He also serves as CoBank's representative on the board of the California Farm Water Coalition. In 2022, Mr. Amarel served 13 days at Board and Board committee meetings and 4 days in other official activities on behalf of the Board, for which he was compensated \$65,031.

Teresa Castanias, Appointed Director

Term of Office: Ms. Castanias has served on the Board since 2016. She retired from the Board on December 31, 2022.

Ms. Castanias serves on the Farm Credit West Audit Committee and is a National Association of Corporate Directors (NACD) Governance Fellow. She demonstrates her commitment to the highest standards of boardroom excellence by annually earning a NACD Fellowship, the gold standard director credential. NACD Fellowship is a comprehensive and continuous program of study that empowers directors with the latest insights, intelligence, and leading boardroom practices. The Board has determined that she is an audit committee financial expert. Ms. Castanias has a tax consulting practice operating as Teresa Castanias, CPA, focused on cooperative issues and other business and individual tax matters. Ms. Castanias has substantial experience leading and coordinating tax engagements and focuses on consulting with cooperatives on business and tax issues. Ms. Castanias is an active member of the Legal, Tax and Accounting ("LTA") Committee of the National Council of Farmer Cooperatives ("NCFC"); active member of the Tax Committee of the National Society of Accountants for Cooperatives ("NSAC"); member of the American Institute of Certified Public Accountants; and a member of the Utah Society of Certified Public Accountants. She also served on the board of the California Center for Cooperative Development, a non-profit for community and economic development, in Davis, California, until her resignation in November 2022. Ms. Castanias is a Finance Committee member appointed by the Board of Davis Food Cooperative, Inc. In 2022, Ms. Castanias served 15 days at Board and Board committee meetings and 8 days in other official activities on behalf of the Board, for which she was compensated \$63,528.

Catherine Fanucchi, Director

Term of Office: Ms. Fanucchi has served on the Board since 2015. Her current term ends in 2025.

Ms. Fanucchi serves as Vice Chair of the Farm Credit West Audit Committee. Ms. Fanucchi is a manager, grower and operator for Tri-Fanucchi Farms, LLC; Poso Ridge, LLC; and La Carota Farms, LLC (all farming entities). This is a diversified family farm producing fruit, vegetables and almonds. She is secretary for Gold Ribbon Potato Co., Inc. (potato packing shed); manager member of Cal Diamonds, LLC (agricultural property); president of Catchu, Inc. (farming); vice president and secretary of Lucca Exports, Inc. (IC Disc corporation); managing member of Bag Katu, LLC and Hye Yem, LLC; and manager member of G3 Trees, LLC (all agricultural properties). Ms. Fanucchi is a director for the Arvin Edison Water Storage District, and for Western Growers Association (agricultural advocate and insurance provider). She is a member of the California State Bar Association. In 2022, Ms. Fanucchi served 16 days at Board and Board committee meetings and 4 days in other official

Disclosure Information Required by Farm Credit Administration Regulations (unaudited)

activities on behalf of the Board, for which she was compensated \$63,528.

Craig C. Gnos, Director

Term of Office: Mr. Gnos has served on the Board since 2002. His current term ends in 2024.

Mr. Gnos serves as Chair of the Farm Credit West Enterprise Risk Management Committee and also serves on the Corporate Governance Committee. He is a National Association of Corporate Directors (NACD) Governance Fellow. He demonstrates his commitment to the highest standards of boardroom excellence by earning NACD Fellowship, the gold standard director credential, year-after-year. NACD Fellowship is a comprehensive and continuous program of study that empowers directors with the latest insights, intelligence, and leading boardroom practices. Mr. Gnos is involved in the production of alfalfa, corn, cucumbers, tomatoes, squash, sunflowers, watermelons, almond trees and wheat at E & H Farms and Batavia Farms. Mr. Gnos serves as president for Gnos Bros. Inc (equipment rental) and Batavia Inc. (payroll). In 2022, Mr. Gnos served 15 days at Board and Board committee meetings and 4 days in other official activities on behalf of the Board, for which he was compensated \$65,031.

Robert N. Hansen, Director

Term of Office: Mr. Hansen has served on the Board since 1999. His current term ends in 2026.

Mr. Hansen serves on the Farm Credit West Enterprise Risk Management Committee and is a National Association of Corporate Directors (NACD) Governance Fellow. He demonstrates his commitment to the highest standards of boardroom excellence by earning NACD Fellowship, the gold standard director credential, year after year. NACD Fellowship is a comprehensive and continuous program of study that empowers directors with the latest insights, intelligence, and leading boardroom practices. Mr. Hansen is a partner in Hansen Farms (which raises irrigated field crops) and 3-H Cattle Company (cattle). He is a board member of the Duncan Reclamation District (reclamation district). In 2022, Mr. Hansen served 13 days at Board and Board committee meetings and 4 days in other official activities on behalf of the Board, for which he was compensated \$63,528.

Blake Harlan, Director

Term of Office: Mr. Harlan has served on the Board since 2003. His current term ends in 2027.

Mr. Harlan serves on the Farm Credit West Human Capital Committee and is a National Association of Corporate Directors (NACD) Governance Fellow. He demonstrates a commitment to the highest standards of boardroom excellence by annually earning NACD Fellowship, the gold standard director credential. NACD Fellowship is a comprehensive and continuous program of study that empowers directors with the latest insights, intelligence, and

leading boardroom practices. Mr. Harlan is president of Harlan Family Ranch (farming). He also does business as Harlan Feed, which manufactures and distributes hay cubes to the livestock industry. Mr. Harlan is also a partner in Wilson Bend Farms (farming). In 2022, Mr. Harlan served 26 days at Board and Board committee meetings and 4 days in other official activities on behalf of the Board, for which he was compensated \$63,528.

Tom Ikeda, Director

Term of Office: Mr. Ikeda has served on the Board since 2017. His current term ends in 2027.

Mr. Ikeda serves as Chair of the Farm Credit West Enterprise Risk Management Committee. Mr. Ikeda is corporate secretary of Ikeda Bros (a diversified farming operation of vegetables, citrus and avocados). Mr. Ikeda also serves as president of Fukuhara Farms, Inc. (agricultural land leasing). Mr. Ikeda serves on the Board of San Luis Obispo County Farm Bureau (agricultural advocacy); California Leafy Green Research Board (agricultural research funding); Grower-Shipper Association of Santa Barbara and San Luis Obispo Counties; and the San Luis Obispo County Agricultural Liaison Advisory Board (agricultural advocacy). In 2022, Mr. Ikeda served 17 days at Board and Board committee meetings and 4 days in other official activities on behalf of the Board, for which he was compensated \$68,379.

Colin Mellon, Director

Term of Office: Mr. Mellon has served on the Board since 2015. His current term ends in 2026.

Mr. Mellon serves on the Farm Credit West Audit Committee. He was a board member of Farm Credit Services Southwest since 2007 and with the merger in November 2015 is now a member of the Farm Credit West board. Mr. Mellon is grower/owner of a diversified farming enterprise in Yuma, Arizona operating as Mellon Farms. He is president of C.L. Mellon Inc. and Doug Mellon Farms II, Inc. (farming operations); and Desert Applicators, Inc. (agricultural services). He is also a managing member of 5 M Holding, LLC and Mellon Brothers, LLC (real estate holdings) and Tri Farm Investors, LLC (farming). In 2022, Mr. Mellon served 32 days at Board and Board committee meetings and 4 days in other official activities on behalf of the Board, for which he was compensated \$63,528.

Mark N. Osterkamp, Director

Term of Office: Mr. Osterkamp was elected to the Board in June 2018 and has served on the Board since July 2018. He retired from the Board on December 31, 2022.

Mr. Osterkamp serves on the Farm Credit West Audit Committee. Mr. Osterkamp is president of Osterkamp Farms, Inc. (farming). He also serves as a director for Rockwood Chemical Company (agricultural chemicals cooperative); Imperial County Farm Bureau and CA Beet Growers Association (both agricultural advocacy); Field

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Inspection LLC (transportation and field inspections); Keystone Agricultural Company (agricultural equipment and management); Planters Hay Inc. (hay press and forage export); Planters Hay Trucking (equipment transport holding company); and PHX Management Inc. (agricultural management). In 2022, Mr. Osterkamp served 14 days at Board and Board committee meetings and 1 day in other official activities on behalf of the Board, for which he was compensated \$63,528.

Barry T. Powell, Appointed Director

Term of Office: Mr. Powell has served on the Board since 2007. His current term ends in 2027.

Mr. Powell serves as Chair of the Farm Credit West Audit Committee and serves on the Corporate Governance Committee and is a National Association of Corporate Directors (NACD) Board Leadership Fellow. He demonstrated his commitment to the highest standards of boardroom excellence by earning NACD Fellowship, the gold standard director credential. NACD Fellowship is a comprehensive and continuous program of study that empowers directors with the latest insights, intelligence, and leading boardroom practices. The Board has determined that he is an audit committee financial expert. Mr. Powell is a financial consultant (Powell Consulting) within the agricultural sector. On December 31, 2021, Mr. Powell retired as CEO for North Valley Ag Services, a fertilizer and crop input cooperative, and effective January 1, 2022 serves as an outside Director. In 2022, Mr. Powell served 38 days at Board and Board committee meetings and 4 days in other official activities on behalf of the Board, for which he was compensated \$73,053.

Brian Talley, Director

Term of Office: Mr. Talley has served on the Board since 2016. His current term ends in 2024.

Mr. Talley serves as Chair of the Farm Credit West Human Capital Committee and is a National Association of Corporate Directors (NACD) Governance Fellow. He demonstrates his commitment to the highest standards of boardroom excellence by earning NACD Fellowship, the gold standard director credential, year-after-year. NACD Fellowship is a comprehensive and continuous program of study that empowers directors with the latest insights, intelligence, and leading boardroom practices. Mr. Talley is President and CEO of Talley Farms and Talley Vineyards. Talley Farms is a grower, packer and shipper of vegetables and operates a direct to consumer harvest box program. Talley Vineyards specializes in estate grown chardonnay and pinot noir wines. Mr. Talley is managing member of Lopez Company, LLC (land); HIOJT, LLC (land); and Biddle Ranch Company, LLC (land). Mr. Talley is a member of the SLO County Flood Control District Zone 3 Advisory Committee (water advisory committee), and serves a director of the Las Ventanas Ranch Mutual Benefit Water Company

(mutual water company). Mr. Talley was President of Las Ventanas Ranch, Inc. until it was dissolved in early 2022; additionally he served as treasurer of SLO Coast AVA Association (vintners association) until it was disbanded in 2022. In 2022, Mr. Talley served 20 days at Board and Board committee meetings and 4 days in other official activities on behalf of the Board, for which he was compensated \$68,379.

Sureena S. Bains Thiara, Director

Term of Office: Ms. Thiara has served on the Board since 2005. She retired from the Board on December 31, 2022. Effective January 1, 2023, Ms. Thiara was elected to the Board of Directors of CoBank, ACB, a cooperative bank serving agribusiness, rural infrastructure providers and Farm Credit Associations throughout the United States.

Ms. Thiara serves as Chair of the Farm Credit West Board (ending March 2022) and also on the Corporate Governance Committee. Ms. Thiara is a National Association of Corporate Directors (NACD) Governance Fellow. She demonstrates her commitment to the highest standards of boardroom excellence by earning NACD Fellowship, the gold standard director credential, year after year. NACD Fellowship is a comprehensive and continuous program of study that empowers directors with the latest insights, intelligence, and leading boardroom practices. Ms. Thiara is a partner in Far Horizon Insurance Partnership (insurance). She is also a partner in Manseena Orchards (owns and leases agricultural land). She is a managing member of Four Leaf Farms LLC (farming walnuts and almonds). In 2020, she was a managing member in JKB Land Holdings, LLC (agricultural land) and JKB Enterprises, LLC (farming). She is also a crop insurance agent. In 2022, Ms. Thiara served 29 days at Board and Board committee meetings and 4 days in other official activities on behalf of the Board, for which she was compensated \$67,284.

Effective January 1, 2023, the following individuals became directors of AgWest along with those previously discussed.

Nate Riggers – Nezperce, Idaho, term expires 2024

Nels Debruycker – Choteau, Montana, term expires 2023

Susan Doverspike – Burns, Oregon, term expires 2025

Vicki Eggebrecht – Malta, Montana, term expires 2026

Duane (Skip) Gray – Albany, Oregon, term expires 2025

John Helle – Dillon, Montana, term expires 2027

Greg Hirai – Wendell, Idaho, term expires 2024

Beth Kennar – Spokane, Washington, term expires 2026

Bill Martin – Rufus, Oregon, term expires 2025

Derek Schafer – Ritzville, Washington, term expires 2027

Shawn Walters – Newdale, Idaho, term expires 2026

Andy Werkhoven – Monroe, Washington, term expires 2026

Disclosure Information Required by Farm Credit Administration Regulations (unaudited)

Director Compensation, Travel, Subsistence, and Other Related Expenses

Director compensation is under the oversight of the Board's Human Capital Committee. During 2022, each Farm Credit West director was compensated based on an annual retainer paid in monthly installments. Approved compensation rates, effective April 2022, based on position were as follows: Board Chair - \$80,813; the Board Vice Chair and Board Audit committee Chairs - \$74,348; Board committee Chairs - \$71,116; and all other directors - \$64,651. The total compensation Farm Credit West paid all directors for 2022 amounted to \$1,000,557.

Directors, senior officers, and other staff are reimbursed reasonable costs of essential travel, subsistence, and other related expenses. A copy of the policy authorizing such reimbursements is available to shareholders upon request. The total amount of reimbursements to directors for travel, subsistence, and other related expenses totaled \$64,902, \$35,724 and \$24,152 in 2022, 2021 and 2020, respectively.

Senior Officers

Farm Credit regulations also require the disclosure of the business experience for the last five years for each senior officer and comprehensive compensation information that follows.

The information below on the experience of the Farm Credit West senior officers is through December 31, 2022. Where applicable, additional information for each senior officer is provided based on their roles for AgWest effective January 1, 2023.

Mark D. Littlefield, President and Chief Executive Officer

Mr. Littlefield has served as Chief Executive Officer since January 2011. Prior to that, he served as an Executive Vice President (and Senior Vice President) of Farm Credit West since its founding in 2001. He has been employed in the Farm Credit System since 1984. Mr. Littlefield is a National Association of Corporate Directors (NACD) Governance Fellow. He demonstrates his commitment to the highest standards of boardroom excellence by earning NACD Fellowship, the gold standard director credential, year-after-year. NACD Fellowship is a comprehensive and continuous program of study that empowers directors with the latest insights, intelligence, and leading boardroom practices. Mr. Littlefield serves on the board of Financial Partners, Inc. (Farm Credit technology service provider). Effective January 1, 2023, Mr. Littlefield became President and Chief Executive Officer of AgWest.

John Barcelos, Executive Vice President – Chief Risk Officer

Mr. Barcelos has served as Executive Vice President (and Senior Vice President) - Chief Risk Officer since October

2015. Prior to that he served as a Senior Vice President (and Vice President) in risk management positions since 2011. He has been employed in the Farm Credit System since 2003. Mr. Barcelos serves on the board of Financial Partners, Inc. (Farm Credit technology service provider) where he is also a member of the Audit Committee. Effective January 1, 2023, Mr. Barcelos became Chief Risk Officer of AgWest.

Chris N. Brumfield, Executive Vice President – General Counsel & Corporate Secretary

Mr. Brumfield has served as Executive Vice President – General Counsel since the founding of Farm Credit West in 2001. Prior to that he was legal counsel for Central Coast Farm Credit, ACA (as well as its predecessors) from 1993 until the merger that formed Farm Credit West. He has been employed in the Farm Credit System since 1988, except for an 18-month period from 1991 to 1993.

Daniel R. Clawson, Executive Vice President – Chief Credit Officer

Mr. Clawson has served as Executive Vice President (and Senior Vice President) - Chief Credit Officer since January 2014. Prior to that he served as a Regional Vice President or a Senior Vice President in credit operations since 2008. He has been employed in the Farm Credit System since 1986. Effective January 1, 2023, Mr. Clawson became Chief Lending Officer-South of AgWest.

Denise Warkomski, Executive Vice President – Business and Customer Solutions

Ms. Warkomski has served as Executive Vice President – Business and Customer Solutions since January 2022. Prior to that, she served Farm Credit West as SVP - Chief Underwriting Officer (since May 2016) and SVP - Strategy (from 2015-2016). She has been employed in the Farm Credit System since 2002, working in various credit, lending, and operational roles for Farm Credit Services Southwest and CoBank. Ms. Warkomski and her husband together own and operate Aztec Hills Farms, LLC, and Sisson Farms, LP located in Arizona. Effective January 1, 2023, Ms. Warkomski became Chief Business Solutions Officer of AgWest.

Kevin Ralph, Executive Vice President – Lending Services

Mr. Ralph has served as Executive Vice President – Administrative Services since November, 2015 and manages the Special Assets, Appraisal and Chattel Departments. Prior to that he served as Regional Vice President of Special Assets since 2012 and Vice President of the Leasing Department since 2008. Mr. Ralph started his Farm Credit career in 1988 as a loan officer. In addition, Mr. Ralph spent ten years with a large commercial bank.

Disclosure Information Required by Farm Credit Administration Regulations (unaudited)

Chris Roche, Executive Vice President – Chief Administrative Officer

Ms. Roche has served as Executive Vice President – Chief Administrative Officer since October, 2021. Prior to that she served as Executive Vice President – Chief Human Resources Officer or Senior Vice President – Human Resources since May 2011. From 2006 to 2011, she was a human resources manager for Aerojet Inc., an aerospace and defense contractor. Ms. Roche was also previously employed in the Farm Credit System from 1993 to 2002 as a human resources director.

Jean L. Koenck, Executive Vice President – Chief Financial Officer

Ms. Koenck served as Chief Financial Officer since July 2016. Prior to that, she served as Senior Vice President and Chief Financial Officer for Farm Credit West since November 2015 and as Executive Vice President – Chief Financial Officer for Farm Credit Services Southwest since January 2015. She has been employed in the Farm Credit System since 2004. Prior to 2004, Ms. Koenck spent 13 years with a large commercial bank. Ms. Koenck is a Certified Public Accountant (CPA). Ms. Koenck retired January 31, 2022.

Qing Lu, Executive Vice President – Chief Financial Officer

Ms. Lu served as Executive Vice President – Chief Financial Officer from October 2021 to August 2022. Prior to that, she served as Chief Financial Officer at Northwest Community Credit Union in Oregon beginning in June 2016. Prior to joining the credit union industry, she worked in public accounting, financial management in health care and investment institutions. Ms. Lu is a CPA.

Esmeralda Guizar, Interim Chief Financial Officer

Ms. Guizar served as Interim Chief Financial Officer from September 2022 to December 31, 2022. Prior to that she served as SVP – Controller, VP – Finance and Accounting and Assistant Controller since 2011. Prior to joining Farm Credit West, Ms. Guizar worked in public accounting and private industry. Ms. Guizar is a CPA.

Tom Nakano, Chief Financial Officer

Effective January 1, 2023, Mr. Nakano became Chief Financial Officer of AgWest. Mr. Nakano has served as Executive Vice President – Chief Administrative and Financial Officer of Northwest FCS since January 1, 2014. Prior to that, he held various positions with Northwest FCS since being hired in 1993. Mr. Nakano serves on the board of directors of Financial Partners, Inc. (FPI), which provides information technology solutions for various Farm Credit entities, including Northwest FCS. He is also the Chair of FPI's Audit Committee. Mr. Nakano serves as a board

member of the Oregon State University Foundation, which is the primary fund raising organization for the university.

Effective January 1, 2023, the following additional individuals are senior officers of AgWest.

Bill Perry – Chief Lending Officer-North

John Phelan – Chief Risk and Credit Officer

Linda Hendricksen – Chief Engagement Officer

Tom McKeirnan – General Counsel

Compensation of CEO and Senior Officers

The following information is provided in accordance with Farm Credit Administration (FCA) regulations regarding senior officer disclosure.

Overview

Our total compensation philosophy for the President and CEO (CEO) and senior officers of Farm Credit West (FCW) is designed to align the interests of our senior officers with those of our shareholders. We accomplish this by providing incentive compensation that rewards management for performance that builds long-term value for our stockholders, fulfills our mission, ensures safety and soundness of our organization and enhances the value of our cooperative.

Compensation Philosophy and Objectives

The Human Capital Committee (HCC) of the Board of Directors follows a comprehensive compensation philosophy where the goals are to:

- Attract, retain, and reward a qualified and diverse workforce with the skills required to accomplish FCW's strategic business objectives by offering competitive market-based compensation;
- Place a portion of total compensation for senior officers at risk and contingent upon the Association remaining sound financially and meeting established performance goals; and
- Enhance management of risk and accountability.

The compensation plan is intended to:

- Support a strong and enduring cooperative enterprise;
- Reward successful business year results through an Annual Incentive Plan;
- Foster long-term financial stability through the Long-Term Officer Incentive Plan; and
- Significantly contribute to the retention of the CEO and other senior officers.

Disclosure Information Required by Farm Credit Administration Regulations (unaudited)

The HCC annually reviews market information related to the level and mix of salaries, benefits, and incentive plans for the CEO and other senior officers. Due to the cooperative business structure of the Association, the compensation plan does not contain stock-based compensation components. The HCC recommends to the Board of Directors the annual compensation level of the CEO, comprised of salary and supplemental compensation, including short- and long-term incentive compensation. The CEO is responsible for setting the compensation levels of the Association's senior officers.

Summary Compensation Table

Compensation earned by our CEO and aggregate compensation of other senior officers and highly compensated employees for the years ended December 31, 2022, 2021 and 2020 is disclosed in the accompanying table. Our current Board policy regarding reimbursements for travel, subsistence and other related expenses states that all employees, including senior officers, shall be reimbursed for actual reasonable travel and related expenses that are necessary and that support our business activities. A copy of our policy is available to shareholders upon request.

Summary Compensation Table¹ (in whole dollars)

| Name of Individual or Number in Group ¹ | Year | Salary | Annual Incentive Compensation ² | Long-Term Incentive Compensation ² | Deferred/Perquisites ³ | Other ⁴ | Total |
|--------------------------------------------------------------------------------------|-----------|-------------|--------------------------------------------|-----------------------------------------------|-----------------------------------|--------------------|-------------|
| Mark D. Littlefield President & CEO | 2020 | \$750,000 | \$434,265 | \$337,500 | \$62,108 | \$1,015,993 | \$2,599,866 |
| | 2021 | \$760,000 | \$447,782 | \$342,000 | \$63,017 | \$504,717 | \$2,117,516 |
| | 2022 | \$790,000 | \$449,959 | \$355,500 | \$92,882 | (\$144,015) | \$1,544,326 |
| Aggregate number of senior officers and highly compensated employees (excluding CEO) | | | | | | | |
| | 2020 (7) | \$2,018,000 | \$821,609 | \$593,750 | \$405,711 | \$667,318 | \$4,506,388 |
| | 2021 (8) | \$2,222,917 | \$945,998 | \$656,625 | \$630,164 | \$462,817 | \$4,918,521 |
| | 2022 (10) | \$2,522,337 | \$931,418 | \$970,084 | \$798,213 | \$2,989,060 | \$8,211,112 |

- The senior officers and highly compensated employees included above are those officers defined by FCA regulations Section 619.9310 and Section 620.6. In 2022, there are three individuals who were included as Senior Officers for a portion of the year and another included as a highly compensated individual after retirement from being a Senior Officer during the year.
- Incentive compensation amounts represent amounts earned in the reported fiscal year, which are paid in the 1st quarter of the subsequent year, and pro rata long-term incentive amounts to be paid in future years that were earned by senior officers in the year of their departure. The annual incentive compensation amounts are calculated based on relevant performance factors for the reported fiscal year, while the long-term incentive compensation amounts are calculated based on the relevant performance factors for each of the respective plan years.
- Represents company contributions to a 401(k) retirement savings plan and nonqualified deferred compensation plan, as well as payment for certain other expenses, such as: relocation, automobile allowance/fringe, excess vacation payout, retirement gifts, service and retention awards, long-term disability insurance benefits, and life insurance benefits.
- Represents amounts paid to and earned by departed senior officers and highly compensated individuals pursuant to Separation Agreements and changes in pension value. The changes in pension value are generally due to the annual changes in compensation, years of service, age, change in date of commencement of benefits and actuarial assumptions such as the discount rate.

Disclosure Information Required by Farm Credit Administration Regulations (unaudited)

The Salary, Annual Incentive Compensation, and Long-Term Incentive Compensation columns of the Summary Compensation Table include all amounts earned during 2022 regardless of whether a portion of such compensation has been deferred by the CEO or other Senior Officers' elections pursuant to the Farm Credit Foundations Defined Contribution /401(k) Plan ("401(k) Plan") and the Farm Credit Foundations Nonqualified Deferred Compensation Plan ("NQDC Plan"). Individual compensation for any Senior Officer included here in the aggregate is available to shareholders upon written request.

The Deferred/Perquisites Compensation column of the Summary Compensation Table is primarily comprised of company contributions to benefit plans, taxable automobile benefits, group term life insurance premiums, and long-term disability premiums. In 2022, the Association's employer matching contribution to the CEO's account in the 401(k) Plan was \$18,000 and its contribution to the CEO's account in the NQDC Plan to restore the employer match that was limited due to restrictions in the Internal Revenue Code was \$29,225. For 2022, the Association's employer matching and non-elective contributions for the other Senior Officers' accounts in the 401(k) Plan were \$249,268 and contributions to their accounts in the NQDC Plan were equal to \$158,586.

Annual Incentive Compensation – In addition to base salary, substantially all employees can earn additional compensation under the annual Performance Based Compensation program which is tied to the overall business performance and to the employee's performance. The annual performance-based program is based on the fiscal year and is designed to motivate employees to exceed annual performance targets established by the Board of Directors. In 2022, performance targets were established for the following factors:

- Capital – CET1 Ratio;
- Asset Quality – Acceptable & OAEM loans / total loans, adverse assets / total regulatory capital, nonearning asset volume, and average loan volume;
- Management – FCA efficiency ratio, customer survey, and new customer development; and
- Earnings – net income and return on assets.

The plan includes provisions for the Board to evaluate the Association's performance in other important but subjective areas of operations through a discretionary rating component. In addition to the company-wide goals established by the Board, individual goals for each employee are established by management to incent specific performance objectives.

Long-Term Incentive Plans – The Long-Term Incentive Plan component provides targeted long-term awards for key management personnel based on position and responsibilities. For each senior officer, a long-term incentive award was established and communicated at the beginning of the plan

term. The payout of the Long-Term Incentive award is three years later and is conditioned upon satisfactory performance of the senior officer and the Association exceeding the threshold CIPA score and FCA Efficiency Ratio as determined in the plan. Employees that voluntarily terminate employment or do not maintain satisfactory performance forfeit these long-term awards.

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

Retirement Plan Overview – The CEO and a senior officer participate in two defined benefit retirement plans: (a) the 11th Farm Credit District Employee's Retirement Plan; and (b) the former 9th and 11th District Pension Restoration Plan, which is a nonqualified retirement plan. Additionally, substantially all employees participate in the 401(k) Plan, which has an employer matching contribution. Certain eligible employees participate in the NQDC Plan, which allows individuals to defer compensation and which restores the benefits limited in the 401(k) Plan by restrictions in the Internal Revenue Code.

Qualified Pension Plan – In general, the 11th Farm Credit District Employees' Retirement Plan provides participants with a single life annuity benefit at normal retirement that is equal to 1.95% of average monthly compensation during the 60 consecutive months in which an individual receives his highest compensation (High 60) multiplied by his/her years of service. The benefit is actuarially adjusted if the individual chooses a different form of distribution than a single life annuity. The pension valuation was determined using a blended approach assuming 30% of the benefits would be paid as a lump sum and 70% as an annuity at the participants earliest unreduced retirement age. The 11th Farm Credit District Employee's Retirement Plan pays benefits up to the applicable limits under the Internal Revenue Code.

Non-qualified Pension Restoration Plan – The Former 9th and 11th District Pension Restoration Plan is unfunded and non-qualified for tax purposes. Benefits payable under this plan are equal to the excess of the amount that would be payable under the terms of the Qualified Pension Plan, disregarding the limitations imposed under Internal Revenue Code Sections 401(a)(17) and 415, over the pension actually payable under the Qualified Pension Plan. The plan also restores any benefits attributable to non-qualified deferred compensation excluded from the benefit determined under the Qualified Pension Plan. The non-qualified pension restoration valuation was determined using an assumption that benefits would be paid as a lump sum at the participants earliest unreduced retirement age.

Disclosure Information Required by Farm Credit Administration Regulations (unaudited)

Pension Benefits

The table below shows certain pension benefit information by plan for the President and CEO and the senior officer group, including highly compensated employees, as of December 31, 2022. Amounts are in whole dollars.

| Name of Individual | Plan Name | Number of Years of Credited Service | Actuarial Present Value of Accumulated Benefits | Payments During Last Fiscal Year |
|--------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------|----------------------------------|
| Mark D. Littlefield President & CEO | 11 th Farm Credit District Employees' Retirement Plan | 40 | \$3,126,736 | \$- |
| | Former 9 th and 11 th District Pension Restoration Plan | 40 | \$8,365,689 | \$- |
| Total | | 40 | \$11,492,425 | \$- |
| Aggregate Number of Senior Officers and Highly Compensated Employees (excluding the CEO): | | | | |
| Number in Group ¹ | Plan Name | Number of Years of Credited Service | Actuarial Present Value of Accumulated Benefits | Payments During Last Fiscal Year |
| 1 Participant | 11 th Farm Credit District Employees' Retirement Plan | 42 | \$4,104,591 | \$189,197 |
| 1 Participant | Former 9 th and 11 th District Pension Restoration Plan | 42 | \$2,988,315 | \$- |
| Total | | 42 | \$7,092,906 | \$189,197 |

1. The senior officers and highly compensated employees to be included in the pension benefits disclosure are those defined by FCA regulations Section 619.9310 and Section 620.6.

Disclosure Information Required by Farm Credit Administration Regulations (unaudited)

Transactions with Senior Officers and Directors

Farm Credit West’s policies on loans to and transactions with its full-time officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 14 to the consolidated financial statements included in this Annual Report. At December 31, 2022, no loans to Farm Credit West directors or full-time officers, CoBank directors or full-time officers, their immediate families, or affiliated organizations involved more than a normal risk of collectability.

Director and Officer Preferred Stock Ownership

The following table shows information related to the preferred stock holdings of Association directors.

| For the year ended December 31, 2022 (in thousands) | Preferred Stock | | |
|-----------------------------------------------------------|---------------------|--------|----------|
| | Year-end Balance | Issued | Retired |
| Joseph C. Airosso | \$ — | \$ — | \$ 57 |
| Robert E. Amarel Jr. | — | — | 124 |
| Douglas C. Filippini | — | — | 1,033 |
| Total | \$ — | \$ — | \$ 1,214 |

Farm Credit West has had a comprehensive policy dealing with the equitable issuance and retirement of its class H preferred stock. The preferred stock program was discontinued as of May 2022, reflecting no preferred stock balances held by directors at December 31, 2022. The average preferred stock dividend rate for 2022 was 0.50% for all preferred stockholders. Farm Credit West preferred stock policy prohibited ownership of preferred stock by Association employees.

Involvement of Directors and Officers in Certain Legal Proceedings

There were no matters which came to the attention of management or the Board of Directors regarding involvement of current directors or senior officers in specified legal proceedings other than what is discussed in Note 15 to the consolidated financial statements included in this Annual Report.

Relationship with CoBank

The financial condition and results of operations of CoBank materially affect stockholder investments in Farm Credit West. Copies of the CoBank Annual Report and copies of CoBank’s most recent quarterly financial report are available from Farm Credit West free of charge.

Farm Credit West’s statutory obligation to borrow from CoBank is discussed in Note 9 to the consolidated financial statements included in this Annual Report.

Farm Credit West’s requirement to invest in CoBank capital is discussed in Note 5 to the consolidated financial statements included in this Annual Report.

CoBank’s role in mitigating Farm Credit West’s exposure to interest rate risk is described in the Liquidity and Funding Sources section of “Management’s Discussion and Analysis” included in this Annual Report.

Relationship with Independent Auditor

There were no changes in independent auditor and no material disagreements with the independent auditor on any matters of accounting principle or financial statement disclosures during 2022.

Audit Fees and Expenses

Fees and expenses incurred by Farm Credit West for services rendered by its independent public auditor, PricewaterhouseCoopers LLP, were \$320,000 for audit services.

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 10, 2023, as well as “Management’s Discussion and Analysis” in this Annual Report, are incorporated herein by reference.

Description of Property

Certain information regarding office properties owned and/or occupied by Farm Credit West at December 31, 2022 can be found on the last page of this report. All properties listed are owned by Farm Credit West. Farm Credit West also owns some commercial real estate parcels adjacent to the Kern County, Santa Maria, Templeton, Tulare, and Woodland offices, all of which are held as investments in land to generally accommodate future expansion.

In early 2020, Farm Credit West purchased two office buildings in Rocklin, California, adjacent to its current administrative office. Farm Credit West honored the lease contracts of the existing tenants at time of purchase and continues to lease some of the building. On January 10, 2022, Farm Credit West took occupancy of a section of one of the buildings.

Young, Beginning and Small Farmer and Rancher Program

Definitions

We have specific young, beginning, and small farmer and rancher programs to provide credit and related needs to young, beginning, and small (YBS) customers and potential customers in our chartered territory. The definitions of YBS farmers and ranchers follow.

Young: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the as of the loan transaction date.

Beginning: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the loan transaction date.

Disclosure Information Required by Farm Credit Administration Regulations (unaudited)

Small: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than \$250,000 in annual gross sales of agricultural or aquatic products as of the loan transaction date.

Our YBS Mission Statement

We will encourage the financing of young, beginning, small, minority, socially disadvantaged and military veteran farmers, ranchers, and producers or harvesters of aquatic products by implementing a program designed to meet the needs of these applicants to the fullest extent of their creditworthiness. The Association will support government efforts to provide beginning farmer assistance through special programs.

Demographics

The following table outlines the percentage of each type of YBS operation in the market as a whole (the “Percent of Market” column) and the percentage of our portfolio that is made up of each type of YBS loan (the “Farm Credit West Percent” column) at December 31, 2022. Market data is from the 2017 U.S Department of Agriculture (USDA) Census, the most current data available, and is based on the number of farms in our territory. Using the USDA Census, there were 17,960 farms in our territory; 25% of those operations are classified as “Young”. Our percentages are based on the number of loans in our portfolio and 8% of our loans are to “Young” borrowers.

Although YBS definitions differ between USDA and the FCA regulations, the USDA information is utilized as it is the best comparative information available. FCA small producers generate less than \$250,000 in annual gross sales of agricultural or aquatic products, while the USDA considers small producers as those who generate less than \$350,000 in annual gross cash farm income.

| | 2017 USDA Farm in Market | Percent of Market | Farm Credit West Loans | Farm Credit West Percent |
|-----------------------|--------------------------------|----------------------|---------------------------|--------------------------------|
| Total number of Farms | 17,960 | | | |
| Total number of Loans | | | 9,743 | |
| Young Farmer | 4,470 | 25% | 794 | 8% |
| Beginning Farmer | 12,945 | 72% | 1,475 | 15% |
| Small Farmer | 11,970 | 67% | 1,023 | 10% |

USDA farm demographics are based on farms with annual sales of \$10,000 or greater; except in the Small Farmer category which consists of farms with annual sales of \$10,000 to \$349,999.

Due to regulatory definitions, a farmer may be included in multiple categories as he would be included in each category in which the definition was met.

Young Farmer Loans: The table above shows that 8% of our total loans are in the young category, compared with USDA “Percent of Market” at 25% of farms.

Beginning Farmer Loans: The table above shows that 15% of our total loans are in the beginning category, compared with the USDA “Percent of Market” at 72% of farms.

Small Farmer Loans: The table above shows that 10% of our total loans are in the small category, compared with the USDA “Percent of Market” at 67% of farms.

YBS Qualitative Goals

We establish annual marketing goals with the objective of increasing our market share of loans to YBS farmers and ranchers. Our goals emphasize:

- ❖ Promoting related services, either directly or in coordination with others, that are responsive to the needs of YBS farmers and ranchers in our territory;
- ❖ Coordinating credit and services offered with other System institutions as well as with governmental and private sources who offer credit and services to YBS farmers and ranchers in our territory; and,
- ❖ Implementing effective outreach programs and communication methods to attract YBS farmers and ranchers.

YBS Outreach Programs

Our YBS outreach programs include the following.

Young Farmer and Rancher Executive Institute:

Farm Credit West hosted the Young Farmer & Rancher Executive Institute to provide a combination of real-life scenarios and sound professionally developed theory to generations transitioning from farm employees to management. This program was originally partnered with professors from California Polytechnic State University, San Luis Obispo (Cal Poly) who designed a hands-on curriculum to meet the needs of our YBS customers. Over time, the curriculum has been adjusted to incorporate more industry and business experts to broaden the experience for participants. Since the program began in 2000, the Institute has graduated young professionals from 309 operations.

Internships: In 2022, seven college students were provided with a paid internship (in addition to college units). They received the opportunity to gain practical experience and explore careers in agriculture. The ten-week program provides the interning students hands-on experience in lending/agri-finance, real estate appraisal and risk management.

College Scholarships: Each school year, our association awards a number of college scholarships to students with majors directly related to agriculture. For the past 28 years, approximately \$1,135,000 in scholarship funds have been distributed to 296 students.

FFA Loan Quiz Contest: Our association actively supports FFA projects and programs in all communities across our

Disclosure Information Required by Farm Credit Administration Regulations (unaudited)

chartered territory. One of our flagship areas of support is the FFA Loan Quiz contest in the South San Joaquin Valley. Throughout this program, our employees work with FFA high school classes in Tulare, Kings, and Kern counties to provide educational information for a seminar focusing on agriculture finance. Specifically, topics covered include requirements to obtain a farm loan, and the credit analysis process. Following receipt of this instruction, FFA students completed a loan quiz with the top responses receiving monetary rewards.

Loan Writing Exercise: Our staff facilitated and reviewed student loan submissions in conjunction with Cal Poly providing an opportunity for students to experience reality-based loan scenarios and make recommendations based on their credit analysis. Individual students were given a few weeks to complete a written credit analysis. Staff graded the submissions and provide feedback on the students' credit understanding.

Cal Poly Endowment: Farm Credit West, in partnership with CoBank, American AgCredit, Fresno Madera Farm Credit, Golden State Farm Credit and Yosemite Farm Credit has funded programs in the Agribusiness Department at Cal Poly, San Luis Obispo. Farm Credit initiated this outreach to develop advanced finance and appraisal courses to better prepare potential future employees in credit and risk management. Also developed were farmer/agribusiness-related seminars that have been available to our customers. In 2020, the funding made available for this program was transitioned to an endowment, financing student-led projects that can benefit the Farm Credit sponsors and their customers while providing real business experience to the students. The projects are administered through the College of Agriculture, Food and Environmental Sciences (CAFES) Summer Undergraduate Research Projects (SURP) program.

Latino Conference: Farm Credit West, together with American Ag Credit, CoBank, Fresno Madera Farm Credit, and Yosemite Farm Credit, sponsored the annual Latino Farmer Conference hosted in Tulare, CA. This conference – held entirely in Spanish - provided a wide range of information for beginning and seasoned farmers. Sessions focus on conservation strategies and practices help farmers become increasingly sustainable. Recently, discussion topics were added including financing for beginning farmers and pathways to ownership. Farm Credit West staff have participated as presenters at this event, providing an opportunity for growers to receive immediate feedback on their financing questions.

Regenerator Program: Farm Credit West together with American Ag Credit and CoBank, sponsor the Regenerator Program, hosted by FarmLink. This program is entirely virtual and allows young farmers and ranchers in California the opportunity to participate in a two-month, cohort-based learning experience that results in actionable farm succession plans. With the impacts of COVID-19 at the beginning of

2020, the programs at FarmLink shifted entirely online. With this new model, participants engage in smaller groups over a longer period, allowing their learning experience to be more in-depth than in the past.

Multicultural Mentorship and Scholarship Program at CSU Fresno: Farm Credit West partnered with American AgCredit, Fresno Madera Farm Credit and CoBank to contribute to Fresno State University annually. Our contribution was applied to an endowment in our names to support Multicultural Scholars in Agriculture. Through this program, Fresno State agriculture students mentor middle and high school students interested in pursuing careers in agriculture, science or technology. In return for their service, Fresno State students receive scholarships of up to \$5,000.

Veteran Program: Farm Credit West continued to facilitate a program to support returning service men and women in joining or creating viable agricultural businesses and careers. Our staff liaised with campus veteran groups to identify those interested in agriculture as a career and provide access to relevant programs such as our internship and scholarship programs. In addition, we continued our support of the Farmer Veteran Coalition, an independent organization with the mission to provide veterans with viable employment and meaningful careers in agriculture. Since 2021, several Farm Credit West senior leaders served on a Farmer-Veteran Coalition workgroup charged with reviewing and grading grant applications from farmer-veterans across the country. The grants are intended to assist these farmers to finance new or expanded operations.

Center for Land-Based Learning: Farm Credit West, together with other California Farm Credit associations and CoBank, supported the Center for Land-Based Learning, a non-profit that inspires, educates, and cultivates future generations of California farmers and agricultural leaders. The funds contributed are used for tuition assistance for the Farm Academy, a program that introduces high school students to college and career opportunities in agriculture, particularly the STEM fields in science, technology, engineering, and math. The program recently expanded its offerings when it received state certification for its new Beginning Farm and Ranch Manager Apprenticeship Program, which requires 250 hours of coursework and 3,000 hours of paid on-the-job training on a farm under the mentorship of a seasoned farmer. Furthermore, the organization is authorized to receive funding from the GI Bill. Farm Credit West also joined with other California Farm Credit entities to provide financial assistance to a capital campaign. These dollars supplemented the cost to build a new headquarters building, allowing for additional training and mentorship opportunities for small and beginning farmers.

California Small Farm Conference: In 2021, Farm Credit West joined with other California-based Farm Credit associations to sponsor the California Small Farm

Disclosure Information Required by Farm Credit Administration Regulations (unaudited)

Conference. The conference is designed to provide educational and networking opportunities and resources to small-scale farmers and rancher and farmer market managers.

Micro Loan Program: Farm Credit West offered a micro-loan program, where qualified borrowers are eligible to receive up to a \$75,000 loan or lease. The qualifications for these loans and leases are not as rigid as our traditional underwriting, which is designed to allow a broader spectrum of agriculture producers to gain access to funds. These funds can be used as working capital or for other operating needs, equipment purchases, or as a down payment for certain other loans, like FSA, VA, or other government-sponsored loan programs. Our association partnered with other local organizations to identify prospective customers for this program. In 2022, we originated 14 micro loans to 10 customers with total commitments equaling approximately \$506,500.

YBS Quantitative Programs

We have developed quantitative targets to guide our progress in serving YBS customers. In 2022, our goals were expressed as new loan activity during the fiscal year for young, beginning and small farmers. For example, our goal for December 31, 2022 was to establish 170 loans to young farmers, compared to the actual of 147 loans for 2022.

| | Young Farmer | Beginning Farmer | Small Farmer |
|------------------------------------------------|--------------|------------------|--------------|
| Farm Credit West YBS Results December 31, 2022 | 147 | 318 | 132 |
| Farm Credit West YBS Goals December 31, 2022 | 170 | 250 | 160 |

Quantitative targets are expressed in terms of the number of new loans to each of the YBS segments as is noted in the following table.

| | Young Farmer | Beginning Farmer | Small Farmer |
|----------------------------------------|--------------|------------------|--------------|
| Farm Credit West YBS Goals - New Loans | | | |
| December 31, 2023 | 175 | 255 | 165 |
| December 31, 2024 | 180 | 260 | 170 |
| December 31, 2025 | 185 | 265 | 175 |

Management provides quarterly reports to our Board detailing the number, volume, and credit quality of our YBS customers.

YBS Program Safety and Soundness

We established a small loan function in 2003 to better serve YBS customers. Service to those customers through that function has expanded each year. Procedures have been established to streamline the delivery of small loans utilizing credit scoring. Loans will continue to be made on a sound basis, with proper emphasis on the fundamentals of sound credit. Loans made under this program meet all our requirements for eligibility and scope of financing, interest rates, and length of term. Co-makers and guarantors (financially responsible family members or other individuals) and secondary collateral are utilized when available and appropriate to minimize risk. Excessively ambitious growth plans are restricted.

Disclosure Information Required by Farm Credit Administration Regulations (unaudited)

Office Locations

ADMINISTRATIVE OFFICE

3755 Atherton Road
Rocklin, CA 95765
916.780.1166
800.909.5050

DINUBA

940 W. El Monte Way
Dinuba, CA 93618
559.591.9378

HANFORD

1111 W. Lacey Boulevard
Hanford, CA 93230
559.584.2681

IMPERIAL VALLEY

485 Business Park Way
Imperial, CA 92251
760.355.0291

KERN COUNTY

19628 Industry Parkway Drive
Bakersfield, CA 93308
661.399.7360

RURAL ARIZONA/SAFFORD

1120 S. 20th Avenue
Safford, AZ 85546
928.348.9571

SANTA MARIA

1178 Tama Lane
Santa Maria, CA 93455
805.922.7991

TEMPE

3003 S. Fair Lane
Tempe, AZ 85282
602.431.4100

TEMPLETON

175 Cow Meadow Place
Paso Robles, CA 93446
805.434.3665

TULARE

200 E. Cartmill Avenue
Tulare, CA 93274
559.684.1478

VENTURA

2031 Knoll Drive
Ventura, CA 93003
805.477.1020

WOODLAND

440 Pioneer Avenue
Woodland, CA 95776
530.666.3333

YUBA CITY

1800 Lassen Boulevard
Yuba City, CA 95993
530.671.1420

YUMA

2490 S. 5th Avenue
Yuma, AZ 85364
928.344.3200