Serving Colusa and Glenn Counties Since 1933

2014 ANNUAL REPORT

COLUSA-GLENN
FARM CREDIT

COLUSA-GLENN
FARM CREDIT

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Message from the chairman of the board and the chief executive officer

Farm Credit Services of Colusa-Glenn, ACA has maintained a high level of capital, credit quality, and financial performance through 2014, reporting net income of $4.9 million, a decrease of 13.6% from 2013 attributable to decreased average operating loan volume and rising non-interest expenses, and loan volume of $329.4 million, an increase of 7.1% related to growers requiring funds for prepayments near year end.

Overall, 2014 was another prosperous year for our members. Even with rising water costs and limited availability of water, growers were able to subsidize decreases in yield with increases in commodity prices. There was a significant drop in rice acreage planted in 2014 due to water concerns and almond growers reported a widespread decrease in yield. However, the rice and tree nut market remained strong, providing our borrowers with good returns on investment and improving the financial stability of our member base. Fixed and variable rates have not changed significantly in 2014, enabling us to maintain the interest rates charged to our members at a competitive level. The average interest rate charged to Association members during 2014 was 3.84% for commercial loans and 4.04% for mortgage loans. We intend to exert every effort to continue providing quality service and competitive interest rates to our members. One indicator of the Association's commitment to local agriculture is its emphasis on serving young, beginning and small farmers. Each year the Association's Board of Directors creates programs and sets goals to enhance opportunities for this group. The Association is a "Preferred Lender" with the local Farm Service Agency office, allowing express service access to loan guarantees and other FSA products geared toward young, beginning and small farmers. The Association also actively supports agricultural organizations and expositions as well as high school agriculture scholarship programs.

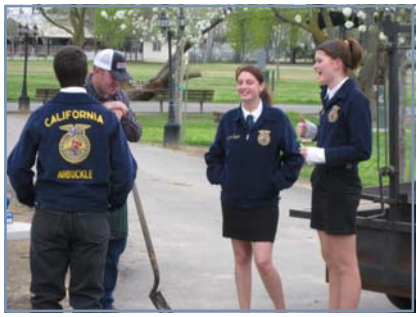
This report reviews the performance and financial condition of Farm Credit Services of Colusa-Glenn, ACA. Please refer to Management's Discussion and Analysis and other sections of this annual report for a complete discussion of financial performance. In the opinion of management and the Board of Directors, the financial statements included in this report fairly present the financial position and results of operations for Farm Credit Services of Colusa-Glenn, ACA.

We thank you for the continued support of your Association and wish you a prosperous year in 2015!

Michael Doherty
Chairman of the Board

Robert Faris
President and Chief Executive Officer

March 16, 2015



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REPORT OF MANAGEMENT

The consolidated financial statements of Farm Credit Services of Colusa-Glenn, ACA (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2014 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, the Association's internal auditors and review staff performed audits of the accounting records, reviewed accounting systems and internal controls, and recommended improvements as appropriate. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the Board of Directors has overall responsibility for the Association's system of internal control and financial reporting. The Audit Committee consults regularly with management and reviews the results of the examinations by the various entities named above. The independent auditors have direct access to the Audit Committee.

The undersigned certify the Farm Credit Services of Colusa-Glenn, ACA 2014 Annual Report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Michael Doherty
Chairman of the Board

Robert Faris
President and Chief Executive Officer

Mark Heidrick
Chief Financial Officer

March 16, 2015

COLUSA-GLENN FARM CREDIT

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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes five members from the Board of Directors of Farm Credit Services of Colusa-Glenn, ACA (Association). In 2014, four Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2014.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2014 were $120,402 for audit services, $14,200 for tax services.

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

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

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2014 (the "Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2014, and for filing with the Farm Credit Administration.

Chris Bonacorsi, Chairman of the Audit Committee

<u>Audit Committee Members</u>
August Henning
Brett Perry
Woodford Yerxa
Jeff Sutton

March 16, 2015

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2014	2013	2012	2011	2010
Statement of Condition Data					
Loans	**$ 329,446**	$ 307,578	$ 312,092	$ 295,441	$ 278,058
Less allowance for loan losses	**1,279**	1,446	1,364	1,547	1,181
Net loans	**328,167**	306,132	310,728	293,894	276,877
Investment in CoBank, ACB	**10,291**	10,287	10,281	10,277	6,704
Accrued interest receivable	**2,942**	2,344	2,920	2,954	3,313
Other assets	**9,393**	1,631	1,637	1,743	1,258
Total assets	**$ 350,793**	$ 320,394	$ 325,566	$ 308,868	$ 288,152
Obligations (short term and long term)	**$ 264,190**	$ 238,597	$ 249,486	$ 239,212	$ 227,443
Total liabilities	**264,190**	238,597	249,486	239,212	227,443
Capital stock and participation certificates	**607**	744	746	753	753
Unallocated retained earnings	**85,996**	81,053	75,334	68,903	59,956
Total shareholders' equity	**86,603**	81,797	76,080	69,656	60,709
Total liabilities and shareholders' equity	**$ 350,793**	$ 320,394	$ 325,566	$ 308,868	$ 288,152

	For the Year Ended December 31				
	2014	2013	2012	2011	2010
Statement of Income Data					
Net interest income	**$ 8,195**	$ 8,133	$ 8,542	$ 8,272	$ 7,995
Patronage distribution from Farm Credit institutions	**847**	910	928	5,072	153
Provision for loan losses/(Loan loss reversal)	**77**	(419)	(186)	361	1,801
Noninterest expense, net	**3,651**	3,271	2,525	2,736	2,497
Provision for income taxes	**371**	472	700	1,299	3
Net income/Comprehensive income	**$ 4,943**	$ 5,719	$ 6,431	$ 8,948	$ 3,847
Key Financial Ratios					
For the Year					
Return on average assets	**1.63%**	1.78%	2.03%	3.00%	1.34%
Return on average shareholders' equity	**5.88%**	7.25%	8.82%	13.73%	6.54%
Net interest income as a percentage of average earning assets	**2.85%**	2.81%	3.06%	2.89%	2.89%
Net charge-offs/(recoveries) as a percentage of average net loans	**0.09%**	(0.16%)	<(0.01%)	<(0.01%)	0.69%
At Year End					
Shareholders' equity as a percentage of total assets	**24.69%**	25.53%	23.37%	22.55%	21.07%
Debt as a ratio to shareholders' equity	**3.05:1**	2.92:1	3.28:1	3.43:1	3.75:1
Allowance for loan losses as a percentage of loans	**0.39%**	0.47%	0.44%	0.52%	0.42%
Permanent capital ratio	**21.51%**	20.67%	19.91%	18.81%	18.15%
Total surplus ratio	**21.34%**	20.46%	19.69%	18.58%	17.90%
Core surplus ratio	**20.72%**	19.82%	18.88%	17.81%	17.18%

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit Services of Colusa-Glenn, ACA for the year ended December 31, 2014. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. You should read these comments along with the accompanying consolidated financial statements, footnotes and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

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

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.californiafarmcredit.com, or upon request. We are located at 605 Jay Street, P.O. Box 449, Colusa, CA 95932 or may be contacted by calling (530) 458-4978.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

As of December 31, 2014, we are one of 77 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region in the California counties of Colusa and Glenn. We make long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses and production and intermediate-term loans for agricultural production or operating purposes. Additionally, we provide other related services to our borrowers, such as credit life insurance and advance conditional payment accounts. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

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

We, along with the borrower's investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 605 Jay Street, P.O. Box 449, Colusa, CA 95932 or by calling (530) 458-4978. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

Beginning in June 2014, we purchase technology and other operational services from AgVantis, which is a technology service corporation. Our Services Agreement with AgVantis expires on December 31, 2015. Management expects renewal of the agreement at that time. We are a shareholder in AgVantis, along with all other AgVantis customers. Prior to June 2014, AgVantis provided web-site hosting services to us. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

ECONOMIC OVERVIEW

The Association has continued to maintain a portfolio with strong credit quality through the year ended December 31, 2014. Having said this, there are a few factors that have impacted and will continue to impact the results of operations in the short-term and should be considered by the reader of this annual report. Though operating loan volume increased from December 31, 2013, to December 31, 2014, we realized a decrease in average operating loan volume throughout the majority of the past year. Our operating loan volume ultimately recovered late in 2014. This dip in operating loan volume was indicative of two major factors impacting our members: enhanced financial stability of our member base and potential members, and the severity of the drought. The improvement in the overall financial stability of growers in our area is a positive sign for the health of the agriculture industry, and, despite the short-term adverse impact on our loan portfolio, we feel that the long-term benefits of a strengthening agricultural community outweigh the losses of interest income sustained in 2014. The drought, however, is a major concern not only for the Association but the entire state.

Drought conditions within Colusa and Glenn Counties, as well as the majority of California, have remained at extreme levels and there does not appear to be any relief on the horizon. Growers looked at 2014 not only as a tough farming year, but as a prelude to an even tougher 2015. The rationing of water supply in 2014 to carry us through another drought year may end up being insufficient to cover 2015 crop needs. The availability of inexpensive and dependable sources of water for irrigation has always been a significant factor affecting land values and crop production on nearly all irrigated cropland and permanent plantings in the Sacramento Valley. Over the past several years, the reductions in water deliveries from most Federal and State managed water districts did not appear to affect either crop production and/or land values. With the transition of substantial acreage being converted from irrigated cropland to permanent plantings, growers are relying more and more on pumped groundwater to supplement less reliable district water. Several areas that have seen significant development to permanent plantings have historically limited sources of available groundwater. These areas are now experiencing groundwater depletion leading to the failure of some wells. Adequate average precipitation over the past few years has allowed many districts in the Sacramento Valley to provide full water deliveries and alleviate most concerns of shortages. However, conditions have changed drastically over the past several months with reduced irrigation water deliveries. Another concern, with sustained drought conditions, is the potential damage already incurred or damage that will be incurred on permanent plantings. We have and will continue to monitor the drought and its impact on the health of our portfolio, taking actions when necessary to avoid losses.

The Agricultural Act of 2014 (Farm Bill) was signed into law on February 7, 2014. This Farm Bill will govern an array of federal farm and food programs, including commodity price and support payments, farm credit, agricultural conservation, research, rural development, and foreign and domestic food programs for five years. The Farm Bill eliminates $23 billion in mandatory federal spending over a 10-year period, representing a reduction in the U.S. government farm policy support. The Farm Bill repeals direct payments and limits producers to risk management tools that offer protection when they suffer significant losses. The Farm Bill provides continued support for crop insurance programs, strengthens livestock disaster assistance and provides dairy producers with a voluntary margin protection program without imposing government-mandated supply controls.

LOAN PORTFOLIO

Total loans outstanding were $329.4 million at December 31, 2014, an increase of $21.8 million, or 7.1%, from loans at December 31, 2013, of $307.6 million, and an increase of $17.3 million, or 5.5%, from loans at December 31, 2012, of $312.1 million. The increase in loans was due to growth in real estate mortgage loans, resulting from increased investment in agricultural real estate, and additional purchases of participation loans. The types of loans outstanding at December 31 are reflected in the following table.

(dollars in thousands)	**2014** Volume	**2014** Percent	2013 Volume	2013 Percent	2012 Volume	2012 Percent
Real estate mortgage	**$ 184,948**	**56.14%**	$181,691	59.07%	$173,174	55.49%
Production and intermediate-term	**108,306**	**32.87%**	103,470	33.64%	115,219	36.92%
Agribusiness:						
Processing and marketing	**24,238**	**7.36%**	12,478	4.06%	14,496	4.64%
Farm related business	**11,954**	**3.63%**	9,939	3.23%	9,203	2.95%
Total	**$329,446**	**100.00%**	$307,578	100.00%	$312,092	100.00%

Real estate mortgage loans outstanding increased to $184.9 million, compared with $181.7 million at year-end 2013, primarily due to new loans for land purchases, net of annual repayments. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The Production and intermediate-term loans increased 4.7% to $108.3 million compared with 2013 loans of $103.5 million, primarily due to borrower prepayments of 2015 expenses prior to year-end 2014. As noted above, operating loan volume dipped over the course of 2014, but recovered by December 31, 2014. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years.

Portfolio Diversification

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

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

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

(dollars in thousands)	**2014**	2013	2012
Participations purchased	**$ 22,868**	$ 11,977	$ 12,161
Participations sold	**$ 14,391**	$ 11,998	$ 10,211

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

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

	2014	2013	2012
Colusa County	**64.62%**	67.43%	66.30%
Glenn County	**12.07%**	9.92%	9.70%
Other	**23.31%**	22.65%	24.00%
Total	**100.00%**	100.00%	100.00%

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

	December 31					
	2014		2013		2012	
SIC Category	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Rice	**$ 119,268**	**36.20%**	$ 110,516	35.93%	$ 119,434	38.27%
Orchard Crops	**96,909**	**29.41%**	74,047	24.07%	68,172	21.84%
Landlords	**34,455**	**10.46%**	29,376	9.55%	31,755	10.17%
Row Crops	**26,843**	**8.15%**	20,230	6.58%	23,505	7.53%
Other	**51,971**	**15.78%**	73,409	23.87%	69,226	22.19%
Total	**$ 329,446**	**100.00%**	$ 307,578	100.00%	$ 312,092	100.00%

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

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy. Of our loan volume at December 31, 2014, approximately 73% consists of borrowers with income not solely from agricultural sources, which was unchanged from 2013, and a slight increase from 72% for 2012. However, the overall year-to-year change is comparable.

The principal balance outstanding at December 31, 2014, for loans $250 thousand or less accounted for 16.0% of loan volume and 75.6% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loan principal by dollar size at December 31:

	2014		2013		2012	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 52,823**	**994**	$ 55,633	1,180	$ 55,479	1,191
$251 - $500	**53,716**	**154**	58,157	168	60,363	171
$501 - $1,000	**63,917**	**89**	63,682	91	64,893	91
$1,001 - $5,000	**143,939**	**76**	122,553	65	131,357	68
$5,001 - $25,000	**15,051**	**2**	7,553	1	–	–
Total	**$ 329,446**	**1,315**	$ 307,578	1,505	$ 312,092	1,521

Approximately 23% of our loans outstanding are attributable to 10 borrowers. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

Credit guarantees with government agencies of $6.0 million at year-end 2014, $5.7 million at year-end 2013 and $7.6 million at year-end 2012 were outstanding.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2014.

(dollars in thousands)	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Over 5 years**	**Total**
Commitments to extend credit	$ 66,446	$ 49,932	$ 22,391	$ 10,602	$ 149,371
Standby letters of credit	246	–	–	–	246
Total commitments	$ 66,692	$ 49,932	$ 22,391	$ 10,602	$ 149,617

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

High Risk Assets

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

(dollars in thousands)	**2014**	2013	2012
Nonaccrual loans:			
Real estate mortgage	**$ 24**	$ 969	$ 1,082
Production and intermediate-term	**123**	400	121
Total nonaccrual loans	**147**	1,369	1,203
Accruing loans 90 days past due:			
Production and intermediate-term	**486**	–	–
Total high risk assets	**$ 633**	$ 1,369	$ 1,203
Nonaccrual loans to total loans	**0.04%**	0.45%	0.39%
High risk assets to total loans	**0.19%**	0.45%	0.39%
High risk assets to total members' equity	**0.73%**	1.67%	1.58%

We had no loans classified as accruing restructured and no other property owned for the years presented.

Total high risk assets decreased $736 thousand, or 53.8%, to $633 thousand at December 31, 2014, compared with year-end 2013. Contributing to the decrease in high risk assets was the transfer of nonaccrual loans recorded as of December 31, 2013, to accrual status in 2014.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased $1.2 million compared with December 31, 2013, due to the transfer of nonaccrual loans to accrual based on their performance, as well as repayments on other nonaccrual loans. Three customers comprise 100% of total nonaccrual volume, all due to nonperformance. The following table provides additional information on nonaccrual loans as of December 31:

(dollars in thousands)	**2014**	2013	2012
Nonaccrual loans current as to principal and interest	**$ 147**	$ 1,237	$ 1,203

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

High risk asset volume is anticipated to decrease in the future with anticipated repayments on nonaccrual loans and borrowers bringing past due loans to current.

Credit Quality

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

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

- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are not considered collectible.

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

	2014	2013	2012
Acceptable	**98.07%**	97.93%	98.29%
OAEM	**1.03%**	1.67%	1.12%
Substandard	**0.90%**	0.40%	0.59%
Total	**100.00%**	100.00%	100.00%

During 2014, overall credit quality remained relatively unchanged, with a slight decline in Acceptable and OAEM since year-end 2013. Loans classified as Acceptable and OAEM were 99.10% at December 31, 2014, 99.60% at December 31, 2013, and 99.41% at December 31, 2012. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased, however, remained at a low level of 1.0% at December 31, 2014, compared with 0.15% at December 31, 2013, and none in 2012.

Allowance for Loan Losses

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

(dollars in thousands)	**2014**	2013	2012
Balance at beginning of year	**$ 1,446**	$ 1,364	$ 1,547
Charge-offs:			
Production and intermediate-term	**346**	–	–
Recoveries:			
Production and intermediate-term	**102**	501	3
Net charge-offs/(recoveries)	**244**	(501)	(3)
Provision for loan losses/(Loan loss reversal)	**77**	(419)	(186)
Balance at December 31	**$ 1,279**	$ 1,446	$ 1,364
Net charge-offs/(recoveries) to average net loans	**0.09%**	(0.16%)	<(0.01%)

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

(dollars in thousands)	**2014**	2013	2012
Real estate mortgage	**$ 416**	$ 355	$ 321
Production and intermediate-term	**764**	1,041	1,022
Agribusiness	**99**	50	21
Total	**$ 1,279**	$ 1,446	$ 1,364

The allowance for loan losses decreased $167 thousand from December 31, 2013, to $1.3 million at December 31, 2014. The decrease in allowance for loan losses was primarily due to the net charge-offs of $244 thousand offset by provision for loan losses of $77 thousand. The provision for loan losses was attributable to an increase in loan volume. Net charge-offs increased resulting from the charge-off of $346 thousand for one production and

intermediate-term loan, net of recoveries on multiple loans totaling $102 thousand. Overall, charge-off activity remains low relative to the size of our loan portfolio. During 2013, our allowance for loan losses increased $82 thousand from 2012 primarily due to recoveries of $501 thousand on previously charged-off loans, net of loan loss reversals of $419 thousand resulting from a decrease in loan volume combined with improved credit quality. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table:

	2014	2013	2012
Allowance as a percentage of:			
Loans	**0.39%**	0.47%	0.44%
Total impaired loans	**202.05%**	105.64%	113.32%
Nonaccrual loans	**870.07%**	105.64%	113.32%

The allowance for loan losses as a percentage of loans decreased due to the decline in nonaccrual loans combined with the increase in loans classified as Acceptable, requiring a lower allowance. The allowance for loan losses as a percentage of total impaired loans decreased due to an increase in loans 90 days past due and still accruing. The allowance for loan losses as a percentage of nonaccrual loans increased significantly due to the large decrease in nonaccrual loan volume.

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit and related services to young, beginning and small (YBS) farmers and ranchers. Our mission with respect to our YBS program is to be the leading lender in our territory, now and in the future. We will make available financing and related financing programs to all eligible young, beginning, and small farmer/operators, plus develop loan and loan related programs and services specifically targeting the young, beginning, and small sector in our chartered territory.

Following are FCA regulatory definitions for YBS farmers and ranchers.

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

The following table outlines YBS loans as a percentage of the number of loans in our loan portfolio while the USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2012 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

		December 31		
	USDA	**2014**	2013	2012
Young	12.90%	**17.87%**	16.52%	17.57%
Beginning	28.05%	**21.58%**	22.22%	24.07%
Small	67.22%	**26.95%**	26.96%	27.70%

Note that several differences exist in definitions between USDA statistics and our data due to our use of FCA definitions. Young farmers are defined as 34 years old and younger by the USDA, while FCA definitions include farmers 35 years old and younger. Beginning farmers are defined by FCA as those with 10 years or less farming experience; however, the USDA identifies beginning farmers as on their current farm less than 10 years. This may include both beginning farmers and experienced farmers who have recently changed farmsteads. Our percentages are based on the number of loans in our portfolio, while the USDA percentages are based on the number of farmers and ranchers. While these definition differences do exist, the information will be utilized as it is the best comparative information available.

We establish annual marketing goals to increase market share of loans to YBS farmers and ranchers. Our goals are as follows:

- Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;

- Take full advantage of opportunities for coordinating credit and services offered with other System institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and,
- Implement effective outreach programs to attract YBS farmers and ranchers.

We are pursuing our YBS qualitative goals, as set forth above and in our Business Plan, with special emphasis on working with the Farm Service Administration to provide financing to young, beginning and small farmers. Quarterly reports are provided to our Board of Directors detailing the number, volume and credit quality of our YBS customers. We have developed quantitative targets to monitor our progress.

- Loan volume and loan number goals for YBS farmers and ranchers in our territory;
- Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in our territory; and,
- Goals for capital committed to loans made to YBS farmers and ranchers in our territory.

YBS Goals as a percentage of outstanding loans by Number and Volume as of December 31:

	2015		2016		2017		2018	
	Number	Volume	Number	Volume	Number	Volume	Number	Volume
Young	17%	12%	17%	12%	17%	12%	17%	12%
Beginning	21%	12%	21%	12%	21%	12%	21%	12%
Small	25%	9%	25%	9%	25%	9%	25%	9%

YBS results as a percentage of outstanding loans by Number and Volume as of December 31:

	2014 Goal		2014 Actual		2014 Results	
	Number	Volume	Number	Volume	Number	Volume
Young	14%	12%	18%	13%	Yes	Yes
Beginning	21%	12%	22%	12%	Yes	Yes
Small	25%	9%	27%	9%	Yes	Yes

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize customized loan underwriting standards and loan guarantee programs.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio and also in our unfunded loan commitments and standby letters of credit. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

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

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

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

By regulation, we cannot have loan commitments to one borrower for more than 15% of our permanent capital. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established for individual and attributed loan size, loan type, commodity type, and special lending programs.

We have established internal lending delegations to properly control the loan approval process. Delegations to staff are based on our risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the

credit staff member. Larger and more complex loans or loans perceived to have higher risk are typically approved by our loan committee with the most experienced and knowledgeable credit staff serving as members.

One method for managing concentration is through the use of participation programs with other System and non-System institutions. Buying and selling loan volume, within and outside the System, can help reduce concentrations and manage growth and capital positions while allowing for a sharing of credit expertise. Concentrations and credit risk are also managed through the utilization of government guarantee programs. We have further diversified concentrations in agricultural production by developing part-time farmer and agribusiness portfolios. Part-time farmers often derive a significant portion of earnings from nonagricultural sources, thus helping diversify repayment risk to sources other than agricultural production income.

The majority of our lending is first mortgage real estate loans which must be secured by a first lien on real estate. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured by livestock, crops and equipment. Collateral evaluations are completed in compliance with FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All collateral evaluations must be performed by a qualified appraiser. Certain appraisals must be performed by individuals with a state certification or license.

We use a two-dimensional risk rating model (Model) based on the Farm Credit System's Combined System Risk Rating Guidance. The Model estimates each loan's probability of default (PD) and loss given default (LGD). PD estimates the probability that a borrower will experience a default within twelve months from the date of determination. LGD provides an estimation of the anticipated loss with respect to a specific financial obligation of a borrower assuming a default has occurred or will occur within the next twelve months. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. PDs and LGDs are utilized in loan and portfolio management processes and are utilized for the allowance for loan losses estimate. This Model also serves as the basis for economic capital modeling.

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

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

RESULTS OF OPERATIONS

Earnings Summary

In 2014, we recorded net income of $4.9 million, compared with $5.7 million in 2013, and $6.4 million in 2012. The decrease in 2014 was primarily due to an increase in provision for loan losses and noninterest expense. The decrease in 2013 was due to a decline in net interest income due to the impact of decreased interest rates charged to borrowers combined with an increase in noninterest expense related to increased personnel and overhead costs. The following table presents the changes in the significant components of net income from the previous year:

(dollars in thousands)	**2014 vs. 2013**	2013 vs. 2012
Net income, prior year	**$ 5,719**	$ 6,431
Increase/(Decrease) from changes in:		
Interest income	**(336)**	(697)
Interest expense	**398**	288
Net interest income	**62**	(409)
Provision for loan losses/Loan loss reversals	**(496)**	233
Noninterest income	**(95)**	(265)
Noninterest expense	**(348)**	(499)
Provision for income tax	**101**	228
Total decrease in net income	**(776)**	(712)
Net income, current year	**$ 4,943**	$ 5,719

Return on average assets decreased to 1.63% from 1.78% in 2013, and return on average shareholders' equity decreased to 5.88% from 7.25% in 2013, primarily as a result of decreased earnings.

Net Interest Income

Net interest income for 2014 was $8.2 million compared with $8.1 million for 2013 and $8.5 million for 2012. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to increased interest rate spread. The following table provides an analysis of the individual components of the change in net interest income during 2014 and 2013:

(dollars in thousands)	**2014 vs. 2013**	2013 vs. 2012
Net interest income, prior year	**$ 8,132**	$ 8,542
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned and paid	**(26)**	314
Volume of interest-bearing assets and liabilities	**4**	(720)
Interest income on nonaccrual loans	**85**	(3)
Increase/(Decrease) in net interest income	**63**	(409)
Net interest income, current year	**$ 8,195**	$ 8,133

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

	For the Year Ended December 31		
	2014	2013	2012
Net interest margin	**2.85%**	2.81%	3.06%
Interest rate on:			
Average loan volume	**3.99%**	4.08%	4.48%
Average debt	**1.51%**	1.63%	1.80%
Interest rate spread	**2.48%**	2.45%	2.68%

The increase in interest rate spread resulted from a 9 basis point decrease in interest rates on average loan volume and a 12 basis point decrease in interest rates on average debt. The increase in net interest margin was primarily due to the change in interest rate spread.

Provision for Loan Losses/(Loan Loss Reversals)

We monitor our loan portfolio on a regular basis to determine if any increase through a provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio. We recorded net provision for loan losses of $77 thousand in 2014, compared with loan loss reversals of $419 thousand in 2013 and $186 thousand in 2012. The provision for loan losses recorded during 2014 was primarily due to increased loan volume. The loan loss reversals recorded in 2013 and 2012 were primarily due to improved credit quality and fluctuations in loan volume.

Noninterest Income

During 2014, we recorded noninterest income of $863 thousand, compared with $958 thousand in 2013 and $1.2 million in 2012. Patronage distributions from CoBank are our primary source of noninterest income. Beginning in 2012, patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. Patronage earned from CoBank was $797 thousand in 2014, $906 thousand in 2013 and $924 thousand in 2012.

We received a patronage distribution from AgVantis, based on our services purchased from AgVantis during 2014. We received a Notice of Allocation with our total patronage of $47 thousand, which includes cash patronage of $9 thousand. The balance of the allocation is recorded in other assets. Prior to June 2014, we were not a shareholder of AgVantis and therefore were not eligible for patronage. Additionally, we received a cash patronage of $3 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services. This compares with $4 thousand recorded in 2013 and in 2012. Patronage from these two entities and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received mineral income of $7 thousand during 2014, which is distributed to us quarterly by CoBank. During 2012, we received a distribution of $233 thousand from Farm Credit System Insurance Corporation (FCSIC)

representing our allocated portion of the excess amount in the System's insurance fund above the 2.0% secure base amount. No such distribution was received in 2014 or 2013.

Noninterest Expense

Noninterest expense for 2014 increased $348 thousand, or 10.5%, to $3.7 million compared with 2013 and $847 thousand, or 30.0% compared with 2012. Noninterest expense for each of the three years ended December 31 is summarized as follows:

				Percent of Change	
(dollars in thousands)	**2014**	2013	2012	**2014/2013**	2013/2012
Salaries & employee benefits	**$ 2,271**	$ 1,984	$ 1,775	**14.47%**	11.77%
Occupancy & equipment	**128**	111	97	**15.32%**	14.43%
Purchased services	**335**	315	268	**6.35%**	17.54%
Supervisory & examination costs	**119**	118	121	**0.85%**	(2.48%)
Data processing services	**408**	147	141	**177.55%**	4.26%
Other	**214**	464	325	**(53.88%)**	42.77%
Total operating expense	**3,475**	3,139	2,727	**10.70%**	15.11%
Farm Credit Insurance Fund premium	**192**	180	93	**6.67%**	93.55%
Total noninterest expense	**$ 3,667**	$ 3,319	$ 2,820	**10.49%**	17.70%

For the year ended December 31, 2014, total operating expense increased $336 thousand, or 10.7%, compared with the year ended December 31, 2013, primarily due to additional salaries and employee benefits expense related to newly hired employees in 2013 and 2014, and retirement packages offered to former employees during 2014. We added several credit staff positions in 2013 and one administrative staff position in 2014. Insurance Fund premium increased $12 thousand to $192 thousand due to an increase in the premium rate and an increase in volume. Premium rates were 12 basis points during 2014 compared with 10 basis points in 2013 and 5 basis points in 2012. In 2014, we changed data processing providers from Bancline to AgVantis which resulted in additional data processing costs.

Provision for income taxes

We recorded $371 thousand in provision for income taxes during 2014, compared with $472 thousand in 2013 and $700 thousand in 2012. The decrease was primarily due to decreased average operating loan volume and associated net earnings.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with CoBank, fund loans and other commitments, and fund business operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction and liquidate nonearning assets. Our direct loan with CoBank, cash on hand and borrower loan repayments provide adequate liquidity to fund our on-going operations and other commitments.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank which matures on May 31, 2018. The annual average principal balance of the note payable to CoBank was $175.3 million in 2014 and $197.9 million in 2013 and in 2012.

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

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and its asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds.

Funds Management

We offer variable and fixed rate loans to borrowers. Our Board of Directors determines the interest rate charged based on the following factors: 1) the interest rate charged by CoBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2014, totaled $86.6 million, compared with $81.8 million at December 31, 2013, and $76.1 million at December 31, 2012. The increase of $4.8 million in shareholders' equity reflects net income, partially offset by net stock and participation certificate retirements. Our capital position is reflected in the following ratio comparisons:

	2014	2013	2012
Debt to shareholders' equity	**3.05:1**	2.92:1	3.28:1
Shareholders' equity as a percent of net loans	**26.39%**	26.59%	24.48%
Shareholders' equity as a percent of total assets	**24.69%**	25.53%	23.37%

Debt to shareholders' equity increased due to an increased note payable to CoBank related to loan growth disproportionate to the increase in equity. Shareholders' equity as a percent of net loans and of total assets decreased from 2013 primarily due to the increase in loan volume disproportionate to the increase in equity. Equity grew at a lesser rate than loan and note payable volume due to fewer earnings recorded.

Retained Earnings

Our retained earnings increased $4.9 million to $86.0 million at December 31, 2014, from $81.1 million at December 31, 2013, and increased $10.7 million from $75.3 million at December 31, 2012. The increase from 2013 was a result of net income of $4.9 million.

Stock

Our total stock and participation certificates decreased $137 thousand to $607 thousand at December 31, 2014, from $744 thousand at December 31, 2013, and decreased from $746 thousand at December 31, 2012. The decrease from 2013 was due to $206 thousand of stock retirements, partially offset by $69 thousand of stock issuances**.** We require a stock investment for each borrower. We have a Borrower Level Stock Program which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s). Prior to 2014, the stock investment was the lesser of one thousand dollars or 2.00% of the amount of the loan. Loan level stock of $118 thousand was retired during 2014 as a result of implementation of this program.

Capital Plan and Regulatory Requirements

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

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

FCA regulations establish minimum capital standards expressed as a ratio of capital to assets, taking into account relative risk factors for all System institutions. In general, the regulations provide for a relative risk weighting of assets and establish a minimum ratio of permanent capital, total surplus and core surplus to risk-weighted assets. Our capital ratios as of December 31 and the FCA minimum requirements follow:

	Regulatory Minimum	**2014**	2013	2012
Permanent capital ratio	7.00%	**21.51%**	20.67%	19.91%
Total surplus ratio	7.00%	**21.34%**	20.46%	19.69%
Core surplus ratio	3.50%	**20.72%**	19.82%	18.88%

Capital ratios continued to improve in 2014 from 2013 with continued strong earnings on slightly higher fiscal year end loan volume. As of December 31, 2014, we exceeded the regulatory minimum capital ratios and are expected to do so throughout 2015. However, the minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2014, we have exceeded our capital goals in dollars but have not met our capital ratio goals. Management plans to take advantage of opportunities to maximize or generate new earnings to further grow capital and exceed capital ratio goals in the future.

REGULATORY MATTERS

As of December 31, 2014, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

On May 8, 2014, the Farm Credit Administration approved a proposed rule to modify the regulatory capital requirements for System Associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as government-sponsored enterprises;
- To ensure that the Systems' capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System;
- To make System regulatory capital requirements more transparent; and
- To meet certain requirements of the Dodd-Frank Act.

As currently drafted, the proposed rule would, among other things, eliminate the core surplus and total surplus requirements and introduce common equity tier 1, tier 1 and total capital (tier 1 + tier 2) risk-based capital ratio requirements. The proposal would add a minimum tier 1 leverage ratio for all System institutions. In addition, the proposal would establish a capital conservation buffer, and modify and expand risk weightings. The revisions to the risk weightings of exposures would include alternatives to the use of credit ratings, as required by the Dodd-Frank Act. The proposed effective date is January 1, 2016.

The public comment period ended on February 16, 2015. While uncertainty exists as to the final form of the proposed rule, based on our preliminary assessment, we do not believe the new rule will impose any significant constraints on our business strategies or growth prospects.

GOVERNANCE

Board of Directors

We are governed by a ten member board that provides direction and oversees our management. Of these directors, eight are elected by the shareholders and two are appointed by the elected directors. Our Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, evaluates and compensates the Chief Executive Officer;
- approves the strategic plan, capital plan, financial plan and the annual operating budget;
- oversees the lending operations;
- directs management on significant issues; and,
- oversees the financial reporting process, communications with shareholders and our legal and regulatory compliance.

Director Independence

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

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

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of five members of the Board of Directors. During 2014, four meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and,
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns, regarding accounting, internal accounting controls or auditing matters.

Executive Loan Committee

The Executive Loan Committee is responsible for the oversight of credit risk, including lending and underwriting standards and assesses the conditions that may materially impact the loan portfolio. The Executive Loan Committee consists of five members of the Board of Directors.

Compensation Committee

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

Other Governance

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We strive to maintain strong governance and financial reporting through the following actions:

- a system for the receipt and treatment of whistleblower complaints;
- a code of ethics for our President/CEO, Chief Financial Officer and Chief Credit Officer;
- open lines of communication between the independent auditors, management, and the Audit Committee;
- “plain English” disclosures;
- officer certification of accuracy and completeness of the consolidated financial statements; and,
- information disclosure through our website.

FORWARD-LOOKING INFORMATION

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses

The allowance for loan losses is our best estimate of the amount of probable loan losses existing in and inherent in our loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. We determine the allowance for loan losses based on a regular evaluation of the loan portfolio, which generally considers recent historical charge-off experience adjusted for relevant factors.

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

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

CUSTOMER PRIVACY

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

Independent Auditor's Report

To the Board of Directors of
Farm Credit Services of Colusa-Glenn, ACA

We have audited the accompanying consolidated financial statements of Farm Credit Services of Colusa-Glenn, ACA, and its subsidiaries (the Association), which comprise the consolidated statement of condition as of December 31, 2014, 2013 and 2012, and the related consolidated statements of comprehensive income, of changes in shareholders' equity, and of cash flows for the years then ended.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit Services of Colusa-Glenn, ACA, and its subsidiaries at December 31, 2014, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 16, 2015

PricewaterhouseCoopers LLP, 1100 Walnut, Suite 1300, Kansas City, MO 64106
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Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2014	**2013**	2012
ASSETS			
Loans	**$ 329,446**	$ 307,578	$ 312,092
Less allowance for loan losses	**1,279**	1,446	1,364
Net loans	**328,167**	306,132	310,728
Cash	**7,484**	-	-
Accrued interest receivable	**2,942**	2,344	2,920
Investment in CoBank, ACB	**10,291**	10,287	10,281
Premises and equipment, net	**544**	555	475
Other assets	**1,365**	1,076	1,162
Total assets	**$ 350,793**	$ 320,394	$ 325,566
LIABILITIES			
Note payable to CoBank, ACB	**$ 230,678**	$ 215,458	232,894
Advance conditional payments	**26,948**	20,114	13,978
Accrued interest payable	**741**	294	317
Accrued benefits liability	**133**	81	92
Deferred tax liability	**759**	658	672
Unfunded disbursements	**1,703**	1,633	1,148
Other liabilities	**3,228**	359	385
Total liabilities	**264,190**	238,597	249,486
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Capital stock and participation certificates	**607**	744	746
Unallocated retained earnings	**85,996**	81,053	75,334
Total shareholders' equity	**86,603**	81,797	76,080
Total liabilities and shareholders' equity	**$ 350,793**	$ 320,394	$ 325,566

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2014	2013	2012
INTEREST INCOME			
Loans	**$ 11,457**	$ 11,793	$ 12,490
Total interest income	**11,457**	11,793	12,490
INTEREST EXPENSE			
Note payable to CoBank, ACB	**3,056**	3,522	3,783
Other	**206**	138	165
Total interest expense	**3,262**	3,660	3,948
Net interest income	**8,195**	8,133	8,542
Provision for loan losses/(Loan loss reversal)	**77**	(419)	(186)
Net interest income after provision for loan losses/(loan loss reversal)	**8,118**	8,552	8,728
NONINTEREST INCOME			
Financially related services income	**19**	13	16
Patronage distribution from Farm Credit institutions	**847**	910	928
Farm Credit Insurance Fund distributions	**-**	-	233
Mineral income	**7**	3	10
Other noninterest income	**(10)**	32	36
Total noninterest income	**863**	958	1,223
NONINTEREST EXPENSE			
Salaries and employee benefits	**2,271**	1,984	1,775
Occupancy and equipment	**128**	111	97
Purchased services	**335**	315	268
Farm Credit Insurance Fund premium	**192**	180	93
Supervisory and examination costs	**119**	118	121
Data processing services	**408**	147	141
Other noninterest expense	**214**	464	325
Total noninterest expense	**3,667**	3,319	2,820
Income before income taxes	**5,314**	6,191	7,131
Provision for income taxes	**371**	472	700
Net income/Comprehensive income	**$ 4,943**	$ 5,719	$ 6,431

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2011	$ 753	$ 68,903	$ 69,656
Comprehensive income		6,431	6,431
Stock and participation certificates issued	47		47
Stock and participation certificates retired	(54)		(54)
Balance at December 31, 2012	746	75,334	76,080
Comprehensive income		5,719	5,719
Stock and participation certificates issued	54		54
Stock and participation certificates retired	(56)		(56)
Balance at December 31, 2013	744	81,053	81,797
Comprehensive income		4,943	4,943
Stock and participation certificates issued	69		69
Stock and participation certificates retired	(206)		(206)
Balance at December 31, 2014	**$ 607**	**$ 85,996**	**$ 86,603**

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 4,943**	$ 5,719	$ 6,431
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**71**	53	43
Provision for loan losses/(Loan loss reversal)	**77**	(419)	(186)
Patronage stock from CoBank	**(2)**	(6)	(4)
Allocated patronage from AgVantis	**(38)**	-	-
Gains on sales of premises and equipment	**(14)**	-	-
Change in assets and liabilities:			
(Increase)/Decrease in accrued interest receivable	**(598)**	576	33
(Increase)/Decrease in other assets	**(249)**	92	(441)
Increase in unfunded disbursements	**70**	485	1,148
Increase/(Decrease) in accrued interest payable	**447**	(23)	(18)
Increase/(Decrease) in accrued benefits liability	**52**	(11)	(40)
Increase/(Decrease) in deferred tax liability	**101**	(14)	42
Increase/(Decrease) in other liabilities	**2,869**	(26)	104
Total adjustments	**2,786**	707	681
Net cash provided by operating activities	**7,729**	6,426	7,112
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase)/Decrease in loans, net	**(22,112)**	5,015	(16,649)
Increase in investment in CoBank	**(4)**	(6)	(4)
Expenditures for premises and equipment, net	**(46)**	(133)	(46)
Net cash (used in)/provided by investing activities	**(22,162)**	4,876	(16,699)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on/(repayment of) note payable to CoBank	**15,220**	(17,436)	9,680
Increase/(Decrease) in advance conditional payments	**6,834**	6,136	(641)
Capital stock retired	**(206)**	(56)	(54)
Capital stock issued	**69**	54	47
Net cash provided by/(used in) financing activities	**21,917**	(11,302)	9,032
Net increase/(decrease) in cash	**7,484**	-	(555)
Cash at beginning of year	**-**	-	555
Cash at end of year	**$ 7,484**	$ -	$ -
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 2,815**	$ 3,706	$ 3,965
Income taxes	**$ 486**	$ 400	$ 750
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Patronage stock from CoBank	**$ 2**	$ 6	$ 4
Allocated patronage from AgVantis	**$ 38**	$ -	$ -
Net charge-offs/(recoveries)	**$ 244**	$ (501)	$ (3)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)

NOTE 1 – ORGANIZATION AND OPERATIONS

A. Organization: Farm Credit Services of Colusa-Glenn, ACA and its subsidiaries, Farm Credit Services of Colusa-Glenn, FLCA, (Federal Land Credit Association (FLCA)) and Farm Credit Services of Colusa-Glenn, PCA, (Production Credit Association (PCA)), (collectively called "the Association") are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Colusa and Glenn in the state of California.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). At December 31, 2014, the System was comprised of three Farm Credit Banks, one Agricultural Credit Bank and 77 associations.

Effective January 1, 2012, U.S. AgBank, FCB (AgBank) merged with and into CoBank, FCB, a wholly owned subsidiary of CoBank, ACB (CoBank). As a result of the merger, CoBank became the funding bank of the Association beginning January 1, 2012.

CoBank, its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. As of December 31, 2014, the CoBank District consisted of CoBank, 25 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA), one FLCA and AgVantis.

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

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

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank is required to pay premiums, which may be passed on to the Associations, into the Insurance Fund based on its annual average outstanding insured debt adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments until the assets in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate Insured Debt or such other percentage of the Insured Debt as the Insurance Corporation, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, as necessary to maintain the Insurance Fund at the 2.0 percent 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. CoBank passes this premium expense and the return of excess funds as applicable through to each Association based on the Association's average adjusted note payable with CoBank.

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

The Association also offers credit life insurance and advance conditional payment accounts.

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting the Association at 605 Jay Street, P.O. Box 449, Colusa, CA 95932 or by calling (530) 458-4978. Upon request, Association shareholders will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of CoBank's and the District's financial condition, changes in financial condition, and results of operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires Association management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. 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 the current year's financial statement presentation.

The consolidated financial statements include the accounts of Farm Credit Services of Colusa-Glenn, PCA and Farm Credit Services of Colusa-Glenn, FLCA. All significant inter-company transactions have been eliminated in consolidation. Recently issued or adopted accounting pronouncements follow.

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. The Association is in the process of reviewing contracts to determine the effect, if any, on the Association's financial condition or its results of operations.

Below is a summary of our significant accounting policies.

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

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

   Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or when circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

   A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider.

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 collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

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

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

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

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of those circumstances. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated, the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model as previously discussed.

B. Cash: Cash, as included in the consolidated financial statements, represents cash on hand, deposits in transit and deposits at financial institutions.

C. Investment in CoBank: The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.00 percent of the prior year's average direct loan volume. The investment in CoBank is comprised of patronage based stock and purchased stock. The requirement for capitalizing its patronage-based participation loans sold to CoBank is 8.00 percent of the prior ten-year average of such participations sold to CoBank.

D. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful life for buildings is 39 years and ranges from 5 to 10 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.

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

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

G. Employee Benefit Plans: Substantially all employees of the Association participate in the Eleventh District Defined Benefit Retirement Plan (Pension) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401 (k)). The Defined Benefit Plan is a noncontributory plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Defined Benefit Plan was closed to employees hired after December 31, 1997.

The 401 (k) Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employees hired on or after January 1, 1998, 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.

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

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

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

Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over

50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings.

Deferred income taxes have not been recorded by the Association on stock patronage distributions received from the funding 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 funding Bank, or if converted to cash, to pass through any such earnings to Association borrowers through qualified patronage allocations.

The Association has provided deferred income taxes on amounts allocated to the Association which relate to the funding Bank's post-1992 earnings.

On December 31, 2011, AgBank, in anticipation of its January 1, 2012, merger with CoBank, recapitalized and distributed stock to its Association members. Deferred taxes have been recorded by the Association on that distribution.

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

J. Fair Value Measurement: Accounting guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

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

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments and the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and, (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about factors that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets include loans and other property owned.

The fair value disclosures are presented in Note 14.

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

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows:

	December 31		
	2014	2013	2012
Real estate mortgage	**$ 184,948**	$ 181,691	$ 173,174
Production and intermediate-term	**108,306**	103,470	115,219
Agribusiness:			
Processing and marketing	**24,238**	12,478	14,496
Farm related business	**11,954**	9,939	9,203
Total loans	**$ 329,446**	$ 307,578	$ 312,092

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2014:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 8,678	$ 13,698	$ –	$ 202	$ 8,678	$ 13,900
Production and intermediate-term	6,078	491	–	–	6,078	491
Agribusiness	8,112	–	–	–	8,112	–
Total	$ 22,868	$ 14,189	$ –	$ 202	$ 22,868	$ 14,391

The Association's concentration of credit risk in various agricultural commodities is shown in the following table:

	December 31					
	2014		2013		2012	
SIC Category	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Rice	**$ 119,268**	**36.20%**	$ 110,516	35.93%	$ 119,434	38.27%
Orchard crops	**96,909**	**29.41%**	74,047	24.07%	68,172	21.84%
Landlords	**34,455**	**10.46%**	29,376	9.55%	31,755	10.17%
Row crops	**26,843**	**8.15%**	20,230	6.58%	23,505	7.53%
Other	**51,971**	**15.78%**	73,409	23.87%	69,226	22.19%
Total	**$ 329,446**	**100.00%**	$ 307,578	100.00%	$ 312,092	100.00%

While the percentages shown in the previous table represent the relative amounts of the Association's potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's loans are collateralized. Accordingly, the Association's exposure to credit loss associated with lending activities is considerably less than the recorded loan balances. An estimate of the Association's current loss exposure is indicated in the consolidated financial statements in the allowance for loan losses.

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

Credit enhancements with federal government agencies of $6,006 at year-end 2014, $5,707 at year-end 2013 and $7,632 at year-end 2012 were outstanding. Farm Service Agency guarantees 90 percent of potential losses on guaranteed loans.

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

- Acceptable – assets are expected to be fully collectible and represent the highest quality,

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

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

	2014	2013	2012
Real estate mortgage			
Acceptable	**98.00%**	97.80%	98.87%
OAEM	**0.57%**	1.67%	0.51%
Substandard	**1.43%**	0.53%	0.62%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**99.19%**	97.72%	97.06%
OAEM	**0.53%**	2.03%	2.28%
Substandard	**0.28%**	0.25%	0.66%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**95.11%**	100.00%	100.00%
OAEM	**4.89%**	–	–
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**98.07%**	97.93%	98.29%
OAEM	**1.03%**	1.67%	1.12%
Substandard	**0.90%**	0.40%	0.59%
Total	**100.00%**	100.00%	100.00%

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

	December 31		
	2014	2013	2012
Nonaccrual loans:			
Current as to principal and interest	**$ 147**	$ 1,236	$ 1,203
Past due	**–**	133	–
Impaired accrual loans:			
90 days or more past due	**486**	–	–
Total impaired loans	**$ 633**	$ 1,369	$ 1,203

There were no loans classified as accruing restructured for the years presented.

Commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2014, totaled $25.

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

	December 31		
(dollars in thousands)	**2014**	2013	2012
Nonaccrual loans			
Real estate mortgage	**$ 24**	$ 969	$ 1,082
Production and intermediate-term	**123**	400	121
Total nonaccrual loans	**147**	1,369	1,203
Accruing loans 90 days past due			
Production and intermediate-term	**486**	–	–
Total high risk assets	**$ 633**	$ 1,369	$ 1,203

The Association had no other property owned at year-end 2014, 2013 and 2012.

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/14	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with related allowance for credit losses:					
Production and intermediate-term	$ –	$ –	$ –	$ 88	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 24	$ 32		$ 451	$ –
Production and intermediate-term	609	2,281		164	91
Agribusiness:					
Farm related business	–	7		–	12
Total	$ 633	$ 2,320		$ 615	$ 103
Total impaired loans:					
Real estate mortgage	$ 24	$ 32	$ –	$ 451	$ –
Production and intermediate-term	609	2,281	–	252	91
Agribusiness:					
Farm related business	–	7	–	–	12
Total	$ 633	$ 2,320	$ –	$ 703	$ 103

	Recorded Investment at 12/31/13	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 969	$ 1,337		$ 1,053	$ –
Production and intermediate-term	400	1,971		321	–
Agribusiness:					
Farm-related business	–	23		1	10
Total	$ 1,369	$ 3,331		$ 1,375	$ 10

	Recorded Investment at 12/31/12	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,082	$ 1,361		$ 1,171	$ –
Production and intermediate-term	121	2,181		123	–
Agribusiness:					
Farm-related business	–	32		–	13
Total	$ 1,203	$ 3,574		$ 1,294	$ 13

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

At year-end 2013, and 2012, there were no impaired loans with a related allowance for credit losses.

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

	For the Year Ended December 31		
	2014	2013	2012
Interest income recognized on:			
Nonaccrual loans	**$ 95**	$ 10	$ 13
Accrual loans 90 days or more past due	**4**	–	–
Interest income recognized on impaired loans	**$ 99**	$ 10	$ 13

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

	For the Year Ended December 31		
	2014	2013	2012
Interest income which would have been recognized under the original loan terms	**$ 106**	$ 547	$ 430
Less: interest income recognized	**95**	10	13
Foregone interest income	**$ 11**	$ 537	$ 417

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

December 31, 2014	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ –	$ –	$ –	$ 187,181	$ 187,181	$ –
Production and intermediate-term	405	486	891	107,960	108,851	486
Agribusiness	524	–	524	35,832	36,356	–
Total	$ 929	$ 486	$ 1,415	$ 330,973	$ 332,388	$ 486

December 31, 2013	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ –	$ 28	$ 28	$ 183,327	$ 183,355	$ –
Production and intermediate-term	454	104	558	103,525	104,083	–
Agribusiness	–	–		22,484	22,484	–
Total	$ 454	$ 132	$ 586	$ 309,336	$ 309,922	$ –

December 31, 2012	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ –	$ –	$ –	$ 175,105	$ 175,105	$ –
Production and intermediate-term	–	–	–	115,998	115,998	–
Agribusiness	–	–	–	23,909	23,909	–
Total	$ –	$ –	$ –	$ 315,012	$ 315,012	$ –

Note: The recorded investment in the loan receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the loan receivable.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The Association had no TDRs for the periods presented.

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

	Balance at December 31, 2013	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2014
Real estate mortgage	$ 355	$ –	$ –	$ 61	$ 416
Production and intermediate-term	1,041	346	102	(33)	764
Agribusiness	50	–	–	49	99
Total	$ 1,446	$ 346	$ 102	$ 77	$ 1,279

	Balance at December 31, 2012	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2013
Real estate mortgage	$ 321	$ –	$ –	$ 34	$ 355
Production and intermediate-term	1,022	–	501	(482)	1,041
Agribusiness	21	–	–	29	50
Total	$ 1,364	$ –	$ 501	$ (419)	$ 1,446

	Balance at December 31, 2011	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2012
Real estate mortgage	$ 517	$ –	$ –	$ (196)	$ 321
Production and intermediate-term	997	–	3	22	1,022
Agribusiness	33	–	–	(12)	21
Total	$ 1,547	$ –	$ 3	$ (186)	$ 1,364

	Allowance for Credit Losses Ending Balance at December 31, 2014		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2014	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 416	$ 24	$ 187,157
Production and intermediate-term	–	764	609	108,242
Agribusiness	–	99	–	36,356
Total	$ –	$ 1,279	$ 633	$ 331,755

	Allowance for Credit Losses Ending Balance at December 31, 2013		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2013	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 355	$ 969	$ 182,386
Production and intermediate-term	–	1,041	400	103,683
Agribusiness	–	50	–	22,484
Total	$ –	$ 1,446	$ 1,369	$ 308,553

	Allowance for Credit Losses Ending Balance at December 31, 2012		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2012	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 321	$ 1,082	$ 174,023
Production and intermediate-term	–	1,022	121	115,877
Agribusiness	–	21	–	23,909
Total	$ –	$ 1,364	$ 1,203	$ 313,809

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2014, the Association's investment in CoBank is in the form of Class A stock with a par value of $100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.00 percent of the Association's prior year average direct loan balance. The 2014 requirement for capitalizing its patronage-based participation loans sold to CoBank is 8.00 percent of the Association's prior ten-year average balance of such participation sold to CoBank. Under the current CoBank capital plan applicable to such participation sold, patronage from CoBank related to these participation sold is paid 75 percent cash and 25 percent Class A stock. The capital plan is evaluated annually by CoBank's Board of Directors and management and is subject to change.

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

The Association owned approximately 0.37 percent of the outstanding common stock of CoBank at December 31, 2014.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31		
	2014	2013	2012
Land	**$ 13**	$ 13	$ 13
Buildings and improvements	**897**	875	774
Furniture and equipment	**414**	475	444
	1,324	1,363	1,231
Less: accumulated depreciation	**780**	808	756
Total	**$ 544**	$ 555	$ 475

NOTE 6 – NOTE PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA) which provides for an open-ended revolving line of credit. The GFA and promissory note are subject to periodic renewals in the normal course of business. The GFA matures on May 31, 2018. Management expects renewal of the GFA at that time. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2014. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing. The weighted average interest rate was 1.74 percent for the year ended December 31, 2014, compared with 1.62 percent at December 31, 2013, and 1.64 percent at December 31, 2012.

The Association has the opportunity to commit loanable funds with CoBank under a variety of programs at either fixed or variable rates for specified timeframes. Participants in the program receive a credit on the committed loanable funds balance classified as a reduction of interest expense. These committed funds are netted against the note payable to the Bank. The average committed funds as of December 31, 2014, were $66,293 at an average rate of 0.11 percent.

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2014, the Association's note payable was within the specified limitations.

NOTE 7 – SHAREHOLDERS' EQUITY

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

A. Capital Stock and Participation Certificates

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

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00 percent of the amount of the loan to 10.00 percent of the loan. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. On June 1, 2014, the Board of Directors implemented a Borrower Level Stock program which changed the stock requirement from the lesser of one thousand dollars or 2.00 percent of the loan amount to the lesser of one thousand dollars or 2.00 percent of the borrower's combined loan volume. Currently, the Association has a stock requirement of the lesser of one thousand dollars or 2.00 percent of the amount of the borrower's combined loan volume.

B. Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00 percent of average risk-adjusted assets. Failure to meet the requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's consolidated financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. The FCA regulations also require other additional minimum standards for capital be maintained. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of average risk-adjusted assets of 7.00 percent and of core surplus (generally unallocated surplus) as a percentage of average risk-adjusted assets of 3.50 percent. At December 31, 2014, the Association's permanent capital ratio was 21.51 percent, total surplus ratio was 21.34 percent and core surplus ratio was 20.72 percent.

An existing regulation empowers FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. This regulation has not been utilized to date. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

C. Description of Equities

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

At December 31, 2014, the Association had the following classes of equity outstanding, all at a par value of $5 per share/unit:

Class	Number of Shares	Voting	Protected
C-common stock	114,625	Yes	No
F-Participation certificates	6,812	No	No

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

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

The changes in the number of shares of capital stock outstanding during 2014 are summarized in the following table:

Shares in whole numbers	Capital
Balance outstanding at January 1, 2014	148,893
Issuances	13,710
Retirements	(41,166)
Balance outstanding at December 31, 2014	121,437

D. Patronage and/or Dividends

The Association generally does not pay patronage or cash dividends. Amounts not distributed in cash are held as unallocated retained earnings.

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

	2014	2013	2012
CoBank	**$ 797**	$ 906	$ 924
AgVantis	**47**	NA	NA
Farm Credit Foundations	**3**	4	4
Total	**$ 847**	$ 910	$ 928

Patronage distributed from CoBank was in cash and stock. The amount earned in 2014 was accrued and will be paid by CoBank in March 2015. The amount earned and accrued in 2013 was paid by CoBank in March 2014. The amount declared in December 2012 by CoBank was accrued in 2012 and was paid in March 2013.

Patronage distribution from AgVantis was in the form of a Notice of Allocation; 20 percent was distributed in cash with the balance of the allocation recorded as an investment in AgVantis which is recorded in other assets in the year received. The Association did not purchase services from AgVantis in 2013 or 2012.

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

NOTE 9 – INCOME TAXES

The provision for income taxes follows:

	Year Ended December 31		
	2014	2013	2012
Current:			
Federal	**$ 269**	$ 484	$ 656
State	**2**	2	2
Deferred:			
Federal	**100**	(14)	42
Provision for income taxes	**$ 371**	$ 472	$ 700

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 follows:

	Year Ended December 31		
	2014	2013	2012
Federal tax at statutory rate	**$ 1,807**	$ 2,105	$ 2,424
State tax, net	**1**	2	2
Effect of non-taxable FLCA subsidiary	**(1,506)**	(1,543)	(1,727)
Other	**69**	(92)	1
Provision for income taxes	**$ 371**	$ 472	$ 700

Deferred tax assets and liabilities are comprised of the following:

	December 31		
	2014	2013	2012
Deferred income tax assets:			
Allowance for loan losses	**$ 279**	$ 368	$ 351
Annual leave	**–**	40	45
Postretirement benefits other than pensions	**–**	22	21
Other	**–**	–	4
Gross deferred tax assets	**279**	430	421
Deferred income tax liabilities:			
Bank patronage allocations	**(1,038)**	(1,088)	(1,093)
Gross deferred tax liability	**(1,038)**	(1,088)	(1,093)
Net deferred tax asset	**$ (759)**	$ (658)	$ (672)

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings.

The Association has no uncertain tax positions as of December 31, 2014, 2013, or 2012. The Association recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The Association accounts for income taxes in accordance with Accounting Standards Codification (ASC) 740, which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Association's tax returns to determine whether the tax positions are more-likely-than-not of being sustained upon examination by the applicable tax authority, based on the technical merits of the tax position, and then measuring the tax benefit that is more-likely-than-not to be realized. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current reporting period. The tax years that remain open for federal and major state income tax jurisdictions are 2011 and forward.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Certain employees participate in the Eleventh Retirement Plan, a multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This plan is noncontributory and covers eligible employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if the Association chooses to stop participating in the plan, the Association may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

The defined benefit pension plan reflects an unfunded liability totaling $85.2 million at December 31, 2014. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the plan was $247.2 million at December 31, 2014, $207.8 million at December 31, 2013, and $219.4 million at December 31, 2012. The fair value of the plan assets was $162.0 million at December 31, 2014, $157.0 million at December 31, 2013, and $141.0 million at December 31, 2012. The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $2.5 million in 2014, $3.3 million in 2013, and $8.8 million in 2012. The Association's allocated share of plan expenses included in salaries and employee benefits was $27 in 2014, $59 in 2013, and $67 in 2012. Participating employers contributed $5.1 million in 2014, $4.0 million in 2013, and $5.7 million in 2012 to the plan. The Association's allocated share of these pension contributions was $95 in 2014, $72 in 2013, and $111 in 2012. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary, on an actuarial basis, to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2015 is $6.7 million. The Association's allocated share of these pension contributions is expected to be $121. The amount ultimately to be contributed and the amount ultimately recognized as expense, as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are also provided through the Farm Credit Foundations Retiree Medical and Retiree Life Plans to eligible current and retired employees of the Association. Benefits provided are determined on a graduated scale, based on years of service. The anticipated costs of these benefits are accrued during the period of the employee's active service. Postretirement benefits expense (primarily health care benefits and life insurance) included in salaries and employee benefits were $11 in 2014 and 2013, and $9 in 2012. These expenses are equal to the Association's cash contributions for each year.

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan. The Contribution Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employer contributions to the Contribution Plan were $126 in 2014, $103 in 2013, and $99 in 2012.

NOTE 11 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or Other Assets Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board of Directors or employment.

Loan information to related parties for the years ended December 31 is shown below:

	2014	2013	2012
New loans	**$ 26,451**	$ 23,576	$ 23,999
Repayments	**$ 14,365**	$ 20,981	$ 22,483
Ending balance	**$ 42,146**	$ 23,936	$ 21,338

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2014, involved more than a normal risk of collectability.

The Association also has business relationships with certain other System entities. The Association paid $242 in 2014 to AgVantis for technology services. The Association did not purchase services from AgVantis in 2013 or 2012. One Association officer, elected by AgVantis' owners, serves as an AgVantis' director. The Association paid $86 in 2014, $48 in 2013, and $47 in 2012 to Foundations for human resource services.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2014, $149,371 of commitments to extend credit were outstanding.

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

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2014, $246 of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2015 to 2017. The maximum potential amount of future payments the Association is required to make under the guarantees is $246.

NOTE 14 – FAIR VALUE MEASUREMENTS

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

The Association has no assets or liabilities measured at fair value on a recurring basis for the periods presented. During the three years presented, the Association recorded no transfers in or out of Levels 1, 2, or 3.

At December 31, 2014, the Association had loans measured at fair value on a non-recurring basis with a value of zero. The Association had no assets measured at fair value on a non-recurring basis at December 31, 2013, and December 31, 2012. Total gains on loans recorded are $323 at December 31, 2014. There were no gains or losses recorded in 2013 or 2012. The Association has no liabilities measured at fair value on a non-recurring basis for any of the periods presented.

The estimated fair values of the Association's financial instruments recorded at carrying amount on the Consolidated Statement of Condition follow:

	December 31					
	2014		2013		2012	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans, net of allowance	**$ 328,167**	**$ 332,106**	$ 306,132	$ 307,331	$ 310,728	$ 311,961
Cash	**$ 7,484**	**$ 7,484**	$ –	$ –	$ –	$ –
Financial liabilities:						
Note payable to CoBank	**$ 230,678**	**$ 234,191**	$ 215,458	$ 215,862	$ 232,894	$ 230,383
Advance conditional payments	**$ 26,948**	**$ 26,948**	$ 20,114	$ 20,114	$ 13,978	$ 13,978

Valuation Techniques

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

Loans

Fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the District's current loan origination rates as well as management estimates of credit risk. Management has no basis to determine whether the estimated fair values presented would be indicative of the assumptions and adjustments that a purchaser of the Association's loans would seek in an actual sale.

For purposes of determining the fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated as described above, with appropriately higher interest rates, which reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate, which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of the net realizable value.

With regards to impaired loans, it is not practicable to provide specific information on inputs as each collateral property is unique. For certain loans evaluated for impairment under accounting impairment guidance, the fair value

is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. 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 the net loan is reported at its fair value.

Cash

The carrying value is a reasonable estimate of fair value.

Note Payable to the Funding Bank

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets), which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current interest rate that would be charged for borrowings. For purposes of this estimate, it is assumed the cash flow on the notes payable is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable.

Advance Conditional Payments

The carrying value is a reasonable estimate of fair value as these funds are held in cash.

Commitments to Extend Credit and Standby Letters of Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of standby letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations. These are generally classified as Level 3 and are valued by using discounted cash flows with unobservable inputs of rate of funding and risk-adjusted spread. As of December 31, 2014, 2013, and 2012, the fair value was considered nominal.

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2014, 2013, and 2012, follow:

	2014				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 1,866**	**$ 1,955**	**$ 2,045**	**$ 2,329**	**$ 8,195**
(Loan loss reversal)/Provision for loan losses	**(147)**	**(31)**	**257**	**(2)**	**77**
Noninterest expense, net	**1,049**	**663**	**672**	**791**	**3,175**
Net income	**$ 964**	**$ 1,323**	**$ 1,116**	**$ 1,540**	**$ 4,943**

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,894	$ 1,943	$ 2,117	$ 2,178	$ 8,132
Provision for loan losses/(Loan loss reversal)	3	(4)	36	(454)	(419)
Noninterest expense, net	606	653	713	860	2,832
Net income	$ 1,285	$ 1,294	$ 1,368	$ 1,772	$ 5,719

	2012				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,986	$ 2,089	$ 2,299	$ 2,168	$ 8,542
(Loan loss reversal)/Provision for loan losses	(133)	7	(17)	(43)	(186)
Noninterest expense, net	626	328	664	679	2,297
Net income	$ 1,493	$ 1,754	$ 1,652	$ 1,532	$ 6,431

NOTE 16 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 16, 2015, which is the date the financial statements were issued, and no material subsequent events were identified.

Disclosure Information Required By Farm Credit Administration Regulations

(Amounts in Whole Dollars)

Description of Business

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

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conduct of 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 to shareholders.

Description of Property

The following sets forth certain information regarding properties of the Association:

Location	Description
310 Sixth Street Colusa, California	Owned Office Building
605 Jay Street Colusa, California	Owned Office Building
201-B North Tehama Street Willows, California	Jointly Owned Office Building

Willows, California (50%) with Golden State Farm Credit, ACA (formerly Northern California Farm Credit, ACA)

Legal Proceedings and Enforcement actions

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

Description of Capital Structure

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

Description of Liabilities

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

The description of contingent liabilities and obligations required to be disclosed in this section is incorporated herein by reference from Note 13 to the financial statements, “Commitments and Contingencies” included in this annual report to shareholders.

Selected Financial Data

The selected financial data for the five years ended December 31, 2014, required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

DIRECTORS AND SENIOR OFFICERS

Farm Credit Administration (FCA) regulations require the disclosure of directors' business experience for the last five years, other entities on whose board the director serves, compensation received as an Association director, and certain other information.

The following represents these disclosures for the directors of the Farm Credit Services of Colusa-Glenn, ACA:

DIRECTORS

Michael F. Doherty, Chairman
Term of Office: 2014 - 2017
Committees: Executive Loan, Compensation
Board or Officer Experience: Colusa County Farm Supply (Director); Arbuckle-College City Fire Protection District (Director); Colusa County Fair Foundation (Director); Arbuckle Revitalization Committee (Vice Chairman and Director); Cortina Hulling & Shelling (Chairman and Director).

Mr. Doherty has been engaged in farming for the past five years.

George Costa, Vice Chairman
Term of Office: 2012 - 2015
Committees: Executive Loan, Compensation
Board or Officer Experience: Ridgetop Rice Dryer (Director); California Heritage Mill (Director); CICC Economic Development (Director).

Mr. Costa has been engaged in farming for the past five years.

Chris Bonacorsi, CPA, Outside Appointed Director
Term of Office: 2012 - 2015
Committees: Audit (Chairman)
Board or Officer Experience: Employed with K-Coe Isom (Principal); Boys & Girls Club Community Board (Director).

Mr. Bonacorsi has been involved in public accounting for the past five years.

August Henning, Director
Term of Office: 2012 - 2015
Committees: Audit
Board or Officer Experience: A. Henning Ranch, Inc. (Director); Henning Rice Farms, Inc. (Director); 27 Ranch (Director).

Mr. Henning has been involved in farming for the past five years.

Herbert Holzapfel, Director
Term of Office: 2013 - 2016
Committees: Executive Loan
Board or Officer Experience: Farm Credit Council (Director): Farmers Rice Cooperative (Chairman and Director).

Mr. Holzapfel has been involved in farming for the past five years.

Doug Parker, Director
Term of Office: 2013 - 2016
Committees: Executive Loan
Board or Officer Experience: Westside Water District (Director)

Mr. Parker has been involved in farming for the past five years.

Brett Perry, Director
Term of Office: 2014 - 2017
Committees: Audit
Board or Officer Experience: De Pue Warehouse, Inc. (Director).

Mr. Perry has been involved in farming for the past five years.

Jerry Southam, Director
Term of Office: 2014 - 2017
Committees: Executive Loan, Compensation
Board or Officer Experience: Jerry & Carole Farms, Inc. (Director); Southam Walnut Dryer (Director); Provident Irrigation District and Levee District #3, Glenn County (Director).

Mr. Southam has been involved in farming for the past five years.

Jeff Sutton, Outside Appointed Director
Term of Office: 2014 - 2017
Committees: Audit
Board or Officer Experience: North Sacramento Valley Integrated Regional Water Management Plan Board (Director).

Mr. Sutton has been employed as an Attorney/General Manager Tehama Colusa Canal Authority for the past five years.

Greg Weber, Director
Term of Office: 2013-2014
Committees: Executive Loan, Audit
Board or Officer Experience: Messicks's Ace Hardware, Inc. (CEO and Director)

Mr. Weber has been involved in farming for the past five years. Mr. Weber resigned from the Board of Directors in June of 2014. Mr. Yerxa was appointed to fill Mr. Weber's seat on the Board of Directors.

Woodford Yerxa, Director
Term of Office: 2014 - 2015
Committees: Audit
Board or Officer Experience: No other Boards

Mr. Yerxa has been involved in farming for the past five years.

SENIOR OFFICERS
FCA regulations also require the following disclosure of the business experience for the last five years for each senior officer:

Robert Faris
Robert Faris is the President and CEO of Farm Credit Services of Colusa-Glenn, ACA. After graduating from California State University in Chico, he began his career at a community bank in Northern California. Rob spent 14 years in California working for the Association as well as commercial banks in California. He returned to the Association in March of 2013.

Rebecca Myers
Mrs. Myers has served as Executive Vice President since August 18, 2014, and began her employment with the Association in November 2000.

Timothy Elrod
Mr. Elrod has served as Chief Operations Officer since November 1, 2014, and began his employment with the Association in May 2014. Prior to joining the Association, Mr. Elrod spent five years as Controller for Riverwest Processing, Inc., an almond processor and marketer.

Vincent Wurm
Mr. Wurm serves as Chief Credit Officer and has been employed by the Association since October 1984.

Mark Heidrick
Mr. Heidrick has served as Chief Financial Officer since October 1, 2011, and has been employed by the Association since October 2004.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors are compensated for their services based on daily honoraria of $150 and $300. Directors are also reimbursed for mileage, as well as documented business expenses while serving in an official capacity. The total compensation paid to directors for 2014, as outlined above was $47,400. The Audit Committee meetings were held in conjunction with regular board meetings, so no additional compensation was paid to the directors for those meetings. There were three Compensation Committee meetings in which compensation was paid to directors.

Additional information for each director is provided below:

	Number of Days Served at				
Name	Board Meetings	Other Official Activities	Board Meetings and Other Official Duties Compensation	CEO Evaluation Committee	Total Compensation Paid During 2014
Michael Doherty	12	6	$ 9,300	$ 300	$ 9,600
George Costa	12	3	8,700	300	9,000
Chris Bonacorsi	11	–	3,300	–	3,300
August Henning	9	1	3,000	–	3,000
Herbert Holzapfel	9	5	4,200	–	4,200
Doug Parker	11	4	4,650	–	4,650
Brett Perry	8	–	2,400	–	2,400
Jerry Southam	11	2	6,750	300	7,050
Greg Weber	4	–	1,200	–	1,200
Woody Yerxa	5	4	2,700	–	2,700
Jeff Sutton	1	–	300	–	300
Total Compensation			$ 46,500	$ 900	$ 47,400

The Association has adopted a policy concerning travel, subsistence and other related expenses as they apply to directors and senior officers. A copy of this policy is available to shareholders upon request. Reimbursement for travel, subsistence and related expenses for all directors as a group amounted to $8,236 in 2014, $5,487 in 2013, and $5,684 in 2012. The total compensation and reimbursement for travel paid to directors for 2014, as described above, amounted to $55,636.

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

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

The Association's policies on loans to and transactions with its senior officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 11 to the financial statements, "Related Party Transactions," included in this annual report to shareholders.

No loans to directors or senior officers, their immediate families, and affiliated organizations involved more than a normal risk of collectability during 2014.

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 which are required to be disclosed in this section.

RELATIONSHIP WITH INDEPENDENT AUDITORS

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

BORROWER PRIVACY

Your privacy is important to us. We want you to know that we hold your financial and other personal information in strict confidence. Since 1972, Farm Credit Administration regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without your consent. We do not sell or trade our customers' personal information to marketing companies or information brokers.

FCA rules allow us to disclose customer information to others only in these situations:

- We may give it to another Farm Credit institution that you do business with.
- We can be a credit reference for you with other lenders and provide information to a credit bureau or other consumer reporting agency.
- We can provide information in certain types of legal or law enforcement proceedings.
- We may provide information to auditors for the purpose of confirming loan balances and terms.
- FCA and other third-party examiners may review loan files during regular examinations of our association.
- If one of our employees applies to become a licensed real estate appraiser, we may give copies of real estate appraisal reports to the State agency that licenses appraisers when required. We will first remove as much personal information from the appraisal report as possible.

As a member/owner of this institution, your privacy and the security of your personal information are vital to our continued ability to serve your ongoing credit needs.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 16, 2015 and "Management's Discussion and Analysis," appearing as part of this annual report to shareholders, are incorporated herein by reference.

RELATIONSHIP WITH COBANK, ACB (COBANK)

The Association's statutory obligation to borrow from CoBank is discussed in Note 6. CoBank's ability to access the capital of the Association is discussed in Note 4. CoBank's role in mitigating the Association's exposure to interest rate risk is described in the Liquidity and Funding Sources section of "Management's Discussion & Analysis."

COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The stockholder's investment in the Association is materially affected by the financial condition and the results of operation of CoBank. Upon request, Association shareholders will be provided with a copy of the CoBank Annual and Quarterly Reports, which includes the combined financial statements of CoBank and its related Associations, and AgVantis. 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's Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation.

CoBank District reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 605 Jay Street, P.O. Box 449, Colusa, CA 95932 or calling (530) 458-4978. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

BOARD OF DIRECTORS

Member	Area
Michael Doherty, Chairman	Williams-Arbuckle-Grimes
George Costa, Vice Chairman	Maxwell-Delevan-Princeton
Chris Bonacorsi	Appointed Director
August Henning	Willows-Bayliss-Artois
Herbert Holzapfel	Willows-Bayliss-Artois
Doug Parker	Williams-Arbuckle-Grimes
Brett Perry	Maxwell-Delevan-Princeton
Jerry Southam	Colusa
Jeff Sutton	Appointed Director
Woodford Yerxa	Colusa

ADMINISTRATIVE STAFF

Name	Position
Robert Faris	President and Chief Executive Officer
Rebecca Myers	Executive Vice President
Tim Elrod	Chief Operations Officer
Mark Heidrick	Chief Financial Officer
Karen Cabral	Administrative Executive

COLUSA STAFF

Name	Position
Vincent Wurm	Chief Credit Officer
Jennifer Bowen	Assistant Vice President
Bradley Danner	Loan Officer
Nita Lang	Senior Loan Documentation Specialist
Jackie Martynski	Credit Analyst
Erica Miles	Loan Officer
Stacy Pearson	Loan Officer
William Rohde	Collateral Evaluation Manager
Tara Thompson	Loan Documentation Specialist
Brittany Watts	Loan Officer
Sue Wells	Accounting Specialist
Geni Zwald	Accounting Assistant

WILLOWS STAFF

Name	Position
William Berg	Branch Manager
Katie Grutter	Loan Officer
Sandra Martin	Operations Specialist

2015 NOMINATING COMMITTEE

Regular Members	Area
Joe Kalfsbeek	Colusa
Matt Southam	Maxwell-Delevan-Princeton
Jon Swaner	Willows-Bayliss-Artois
Don Traynham	Williams-Arbuckle-Grimes

Alternate Members	Area
Craig Felix	Maxwell-Delevan-Princeton
Roy Holzapfel	Willows-Bayliss-Artois
Ryan Parker	Williams-Arbuckle-Grimes
Joe Steidlmayer	Colusa

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COLUSA-GLENN
FARM CREDIT

Farm Credit Services of Colusa-Glenn, ACA

310 Sixth Street, P.O. Box 449
Colusa, California 95932
Phone: (530) 458-2163 Fax: (530) 458-2614

201-B North Tehama Street, P.O. Box 350
Willows, CA 95988
Phone: (530) 934-7086 Fax: (530) 934-2349

Website: www.californiafarmcredit.com