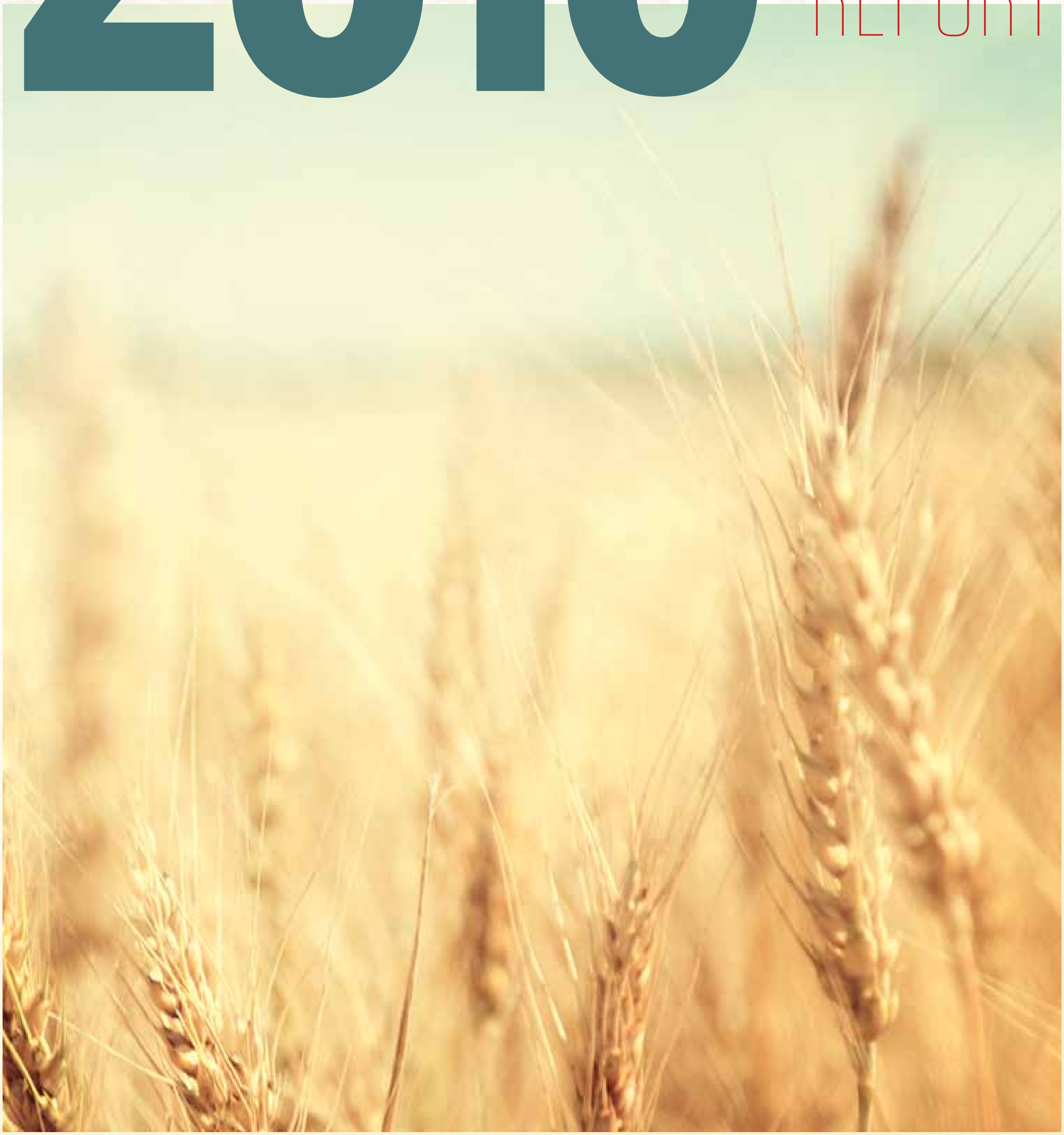
2016 ANNUAL REPORT



COLUSA-GLENN FARM CREDIT

FARM CREDIT 100 ESTABLISHED 1916

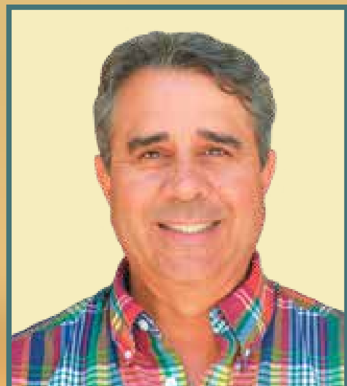
Colusa-Glenn Farm Credit

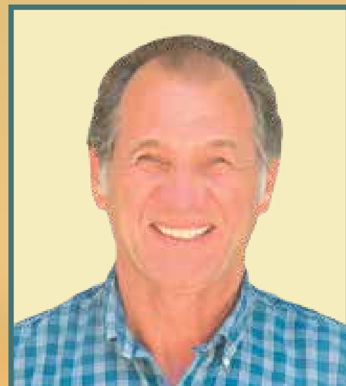
Farm Credit 100 Established 1916

TABLE OF CONTENTS

BOARD OF DIRECTORS

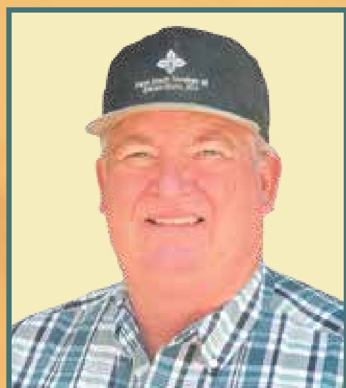

Michael Doherty
CHAIRMAN


George Costa
VICE CHAIRMAN


John Amaro
DIRECTOR


Chris Bonacorsi
CPA, OUTSIDE APPOINTED DIRECTOR, CHAIRMAN OF AUDIT COMMITEE


Herbert Holzapfel
DIRECTOR


Doug Parker
DIRECTOR


Brett Perry
DIRECTOR


Jerry Southam
DIRECTOR


Jeff Sutton
OUTSIDE APPOINTED DIRECTOR, VICE CHAIRMAN OF AUDIT COMMITTEE


Woody Yerxa
DIRECTOR

OFFICERS

Robert Faris
PRESIDENT & CHIEF EXECUTIVE OFFICER

Rebecca Myers
EXECUTIVE VICE PRESIDENT

Timothy Elrod
CHIEF OPERATING OFFICER & CHIEF FINANCIAL OFFICER

Lucas Reimers
CHIEF CREDIT OFFICER

Amy Ceballos
CONTROLLER

MESSAGE FROM THE CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

We believe that our key to success is our continued support of rural communities and agriculture with reliable, consistent credit and financial services today and tomorrow. Farm Credit Services of Colusa-Glenn, ACA (the "Association") strives to be the leader in its chartered territory, providing quality service at competitive interest rates to our members.

On behalf of our Management Team and the Board of Directors, Farm Credit Services of Colusa-Glenn, ACA is proud to share our 2016 Annual Report. As you will find in the following pages, we have continued to maintain a high level of capital, credit quality, and financial performance through 2016. Overall, it was another prosperous year for the Association and our Members. During 2016, we were able to grow our portfolio while maintaining a strong capital position and good overall credit quality. As interest rates increase, we intend to exert every effort to continue providing quality service and competitive interest rates to our members.

As mentioned above, a major component of our overall mission is to support the rural community we serve. An 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 also actively supports agricultural organizations and expositions as well as high school agriculture scholarship programs.

Our 2016 Annual 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 2017!

Michael Doherty
Chairman of the Board

Robert Faris
President & Chief Executive Officer

March 16, 2017

COLUSA-GLENN FARM CREDIT

FARM CREDIT SERVICES OF COLUSA-GLENN, ACA
P.O. Box 449 ◆ 310 6th Street ◆ Colusa, California 95932 ◆ (530) 458-2163 ◆ (530) 458-2614 Fax
P.O. Box 350 ◆ 201-B N Tehama Street ◆ Willows, California 95988 ◆ (530) 934-7086 ◆ (530) 934-2349 Fax
www.fcscolusaglenn.com

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 2016 annual report is consistent with that in the financial statements.

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

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

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

Michael Doherty
Chairman of the Board

Robert Faris
President & Chief Executive Officer

Tim Elrod
Chief Financial Officer &
Chief Operating Officer

March 16, 2017

COLUSA-GLENN FARM CREDIT

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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes 10 members from the Board of Directors of Farm Credit Services of Colusa-Glenn, ACA (Association). In 2016, 11 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 2016.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2016 were $27,500 for audit services, $7,900 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, 2016 (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, 2016 and for filing with the Farm Credit Administration.

Chris Bonacorsi, Chairman of the Audit Committee

<u>Audit Committee Members</u>

Jeff Sutton, Vice Chairman	Doug Parker
John Amaro	Brett Perry
George Costa	Jerry Southam
Michael Doherty	Woody Yerxa
Herbert Holzapfel	

March 16, 2017

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2016	2015	2014	2013	2012
Statement of Condition Data					
Loans	**$ 366,610**	$ 343,398	$ 329,446	$ 307,578	$ 312,092
Less allowance for loan losses	**2,237**	1,839	1,279	1,446	1,364
Net loans	**364,373**	341,559	328,167	306,132	310,728
Investment in CoBank, ACB	**10,301**	10,292	10,291	10,287	10,281
Accrued interest receivable	**4,187**	3,220	2,942	2,344	2,920
Other assets	**5,857**	3,561	9,393	1,631	1,637
Total assets	**$ 384,718**	$ 358,632	$ 350,793	$ 320,394	$ 325,566
Obligations (short term and long term)	**$ 287,241**	$ 266,637	$ 264,190	$ 238,597	$ 249,486
Reserve for unfunded commitments	**95**	57	-	-	-
Total liabilities	**287,336**	266,694	264,190	238,597	249,486
Capital stock and participation certificates	**563**	571	607	744	746
Unallocated retained earnings	**96,819**	91,367	85,996	81,053	75,334
Total shareholders' equity	**97,382**	91,938	86,603	81,797	76,080
Total liabilities and shareholders' equity	**$ 384,718**	$ 358,632	$ 350,793	$ 320,394	$ 325,566

	For the Year Ended December 31				
	2016	2015	2014	2013	2012
Statement of Income Data					
Net interest income	**$ 9,387**	$ 8,696	$ 8,195	$ 8,133	$ 8,542
Patronage distribution from Farm Credit institutions	**1,154**	916	847	910	928
Provision for credit losses/(Credit loss reversal)	**816**	541	77	(419)	(186)
Noninterest expense, net	**3,343**	3,448	3,651	3,271	2,525
Provision for income taxes	**90**	252	371	472	700
Net income/Comprehensive income	**$ 6,292**	$ 5,371	$ 4,943	$ 5,719	$ 6,431
Key Financial Ratios					
For the Year					
Return on average assets	**1.78%**	1.65%	1.63%	1.78%	2.03%
Return on average shareholders' equity	**6.67%**	6.02%	5.88%	7.25%	8.82%
Net interest income as a percentage of average earning assets	**2.78%**	2.80%	2.85%	2.81%	3.06%
Net charge-offs/(recoveries) as a percentage of average net loans	**0.11%**	(0.02%)	0.09%	(0.16%)	<(0.01%)
At Year End					
Shareholders' equity as a percentage of total assets	**25.31%**	25.64%	24.69%	25.53%	23.37%
Debt as a ratio to shareholders' equity	**2.95:1**	2.90:1	3.05:1	2.92:1	3.28:1
Allowance for loan losses as a percentage of loans	**0.61%**	0.54%	0.39%	0.47%	0.44%
Permanent capital ratio	**21.33%**	21.89%	21.51%	20.67%	19.91%
Total surplus ratio	**21.19%**	21.74%	21.34%	20.46%	19.69%
Core surplus ratio	**20.59%**	20.94%	20.72%	19.82%	18.88%
Net Income Distribution					
Cash patronage declared	**$ 840**	$ -	$ -	$ -	$ -

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, 2016. 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.fcscolusaglenn.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

We are one of 73 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region 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.

Unaudited

We purchase technology and other operational services from AgVantis, which is a technology service corporation. Our current service agreement expires on December 31, 2018. We are a shareholder in AgVantis, along with all other AgVantis customers. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

ECONOMIC OVERVIEW

We have continued to maintain a portfolio with strong credit quality through the year ended December 31, 2016, due, in part, to our conservative lending approach and the financial stability of our member-base. Economic conditions in our region in 2016 have remained stable as commodity prices have declined from 2015 and 2014 levels. Drought conditions have improved, allowing our members to plant more acres in 2016 compared to 2015, especially in the case of rice. Overall loan volume has continued to increase with additional mortgage loan originations and purchases of participation interests. Looking forward, the strength of the U.S. dollar may continue to negatively impact commodity prices. We have and will continue to monitor and assess the impact that commodity price volatility could have on the quality 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 governs 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 eliminated $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 $366.6 million at December 31, 2016, an increase of $23.2 thousand, or 6.76%, from loans at December 31, 2015 of $343.4 million, and an increase of $37.2 thousand, or 11.28%, from loans at December 31, 2014 of $329.4 million. The increase in loans was due to growth within our mortgage portfolio and increased participations purchased. The types of loans outstanding at December 31 are reflected in the following table.

	2016		2015		2014	
(dollars in thousands)	**Volume**	**Percent**	Volume	Percent	Volume	Percent
Real estate mortgage	**$ 214,251**	**58.44%**	$ 197,045	57.38%	$ 184,948	56.14%
Production and intermediate-term	**103,952**	**28.36%**	109,293	31.83%	108,306	32.87%
Agribusiness:						
Cooperatives	**1,500**	**0.41%**	–	–	–	–
Processing and marketing	**34,177**	**9.32%**	25,321	7.37%	24,238	7.36%
Farm related business	**9,269**	**2.53%**	11,739	3.42%	11,954	3.63%
Rural infrastructure:						
Energy	**3,461**	**0.94%**	–	–	–	–
Total	**$ 366,610**	**100.00%**	$ 343,398	100.00%	$ 329,446	100.00%

Real estate mortgage loans outstanding increased to $214.3 million, compared with $197.0 million at year-end 2015, primarily due to originating more mortgage loans in 2016 due to our members investing in highly demanded agricultural properties and increased participations purchased. 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.

Production and intermediate-term loans decreased 4.9% to $104.0 million compared with 2015 loans of $109.3 million, primarily due to the fact that there were less disbursements, net of repayments, made near the end of 2016 as compared to 2015. Even though loan volume was down at December 31, 2016, from December 31, 2015, average loan volume was greater for 2016 than 2015. 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

Unaudited

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)	**2016**	2015	2014
Participations purchased	**$ 37,327**	$ 26,287	$ 22,868
Participations sold	**$ 21,588**	$ 19,781	$ 14,391

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.

	2016	2015	2014
Colusa County	**67.07%**	65.40%	64.62%
Glenn County	**12.06%**	12.13%	12.07%
Other	**20.87%**	22.47%	23.31%
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 includes more than one commodity.

	December 31					
	2016		2015		2014	
SIC Category	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Rice	**$ 136,968**	**37.36%**	$ 131,769	38.37%	$ 119,268	36.20%
Orchard Crops	**120,457**	**32.85%**	111,667	32.52%	96,909	29.41%
Landlords	**39,951**	**10.90%**	32,909	9.58%	34,455	10.46%
Row Crops	**29,058**	**7.93%**	30,266	8.81%	26,843	8.15%
Other	**40,176**	**10.96%**	36,787	10.72%	51,971	15.78%
Total	**$ 366,610**	**100.00%**	$ 343,398	100.00%	$ 329,446	100.00%

Our loan portfolio contains a concentration of rice and orchard crop producers due to the geographic restrictions in our territory. 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 outstanding loan volume at December 31, 2016, approximately 78% consists of borrowers with income not solely from agricultural sources, an increase from 71% for 2015, and 73% for 2014.

Unaudited

The principal balance outstanding at December 31, 2016 for loans $250 thousand or less accounted for 13.2% of loan volume and 66.1% 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.

	2016		2015		2014	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 48,308**	**734**	$ 49,481	828	$ 52,823	994
$251 - $500	**59,701**	**171**	56,457	160	53,716	154
$501 - $1,000	**79,020**	**114**	73,963	102	63,917	89
$1,001 - $5,000	**159,554**	**89**	148,519	79	143,939	76
$5,001 - $25,000	**20,027**	**3**	14,978	2	15,051	2
Total	**$ 366,610**	**1,111**	$ 343,398	1,171	$ 329,446	1,315

Approximately 24% of our loans outstanding is attributable to ten 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 $4.5 million at year-end 2016, $4.9 million at year-end 2015 and $6.0 million at year-end 2014 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 and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy 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, 2016.

(dollars in thousands)	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Over 5 years**	**Total**
Commitments to extend credit	$ 48,335	$ 49,676	$ 24,269	$ 21,515	$143,795
Standby letters of credit	100	88	–	–	188
Total commitments	$ 48,435	$ 49,764	$ 24,269	$ 21,515	$ 143,983

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

High Risk Assets

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

Unaudited

(dollars in thousands)	**2016**	2015	2014
Nonaccrual loans:			
Real estate mortgage	**$ –**	$ –	$ 24
Production and intermediate-term	**154**	659	123
Total nonaccrual loans	**154**	659	147
Accruing loans 90 days past due:			
Production and intermediate-term	**–**	–	486
Total high risk assets	**$ 154**	$ 659	$ 633
Nonaccrual loans to total loans	**0.04%**	0.19%	0.04%
High risk assets to total loans	**0.04%**	0.19%	0.19%
High risk assets to total members' equity	**0.16%**	0.72%	0.73%

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

Total high risk assets decreased $505 thousand, or 76.6%, to $154 thousand at December 31, 2016 compared with year-end 2015. The reduction in high risk assets was largely due to improved credit quality in our portfolio.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased $505 thousand compared with December 31, 2015, due to charge offs of nonaccrual loans and collection of nonaccrual balances offset by transfers to nonaccrual. Two borrowers comprise 100% of total nonaccrual volume at December 31, 2016, all due to nonperformance. One borrower farms rice and one borrower farms corn. Much of the deterioration of these credits was due to reductions in market price for their commodity, unanticipated reductions in yield and loss of collateral or a combination of both.

Nonaccrual volume at December 31, 2015, increased $512 thousand compared with December 31, 2014, due to the transfer of loans to nonaccrual status, offset by transfers of loans to accrual status, and payoffs. Three customers comprised 100% of total nonaccrual volume, all due to nonperformance. Two of the three customers were rice growers.

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

(dollars in thousands)	**2016**	2015	2014
Nonaccrual loans current as to principal and interest	**$ 78**	$ 659	$ 147

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.

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.

Unaudited

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

	2016	2015	2014
Acceptable	**98.83%**	98.47%	98.07%
OAEM	**0.95%**	1.14%	1.03%
Substandard	**0.19%**	0.23%	0.90%
Doubtful	**–**	0.16%	–
Loss	**0.03%**	–	–
Total	**100.00%**	100.00%	100.00%

During 2016, overall credit quality improved. Loans classified as Acceptable and OAEM were 99.78% at December 31, 2016, 99.61% at December 31, 2015 and 99.10% at December 31, 2014. We had three loans classified as Doubtful at December 31, 2015. We had two loans classified as Loss at December 31, 2016. 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 0.27% at December 31, 2016, compared with none at December 31, 2015 and 1.0% at December 31, 2014.

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)	2016	2015	2014
Balance at beginning of year	**$ 1,839**	$ 1,279	$ 1,446
Charge-offs:			
Production and intermediate-term	**380**	–	346
Recoveries:			
Production and intermediate-term	**–**	76	102
Net charge-offs/(recoveries)	**380**	(76)	244
Provision for loan losses	**778**	484	77
Balance at December 31	**$ 2,237**	$ 1,839	$ 1,279
Net charge-offs/(recoveries) to average net loans	**0.11%**	(0.02%)	0.09%

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

(dollars in thousands)	2016	2015	2014
Real estate mortgage	**$ 452**	$ 460	$ 416
Production and intermediate-term	**1,644**	1,233	764
Agribusiness	**99**	146	99
Energy	**42**	–	–
Total	**$ 2,237**	$ 1,839	$ 1,279

The allowance for loan losses increased $398 thousand from December 31, 2015, to $2.2 million at December 31, 2016. The increase in allowance for loan losses was primarily due to the provision for loan losses totaling $778 thousand that was recorded due to increased loan volume and increased reserves to provide coverage over probable losses in the portfolio resulting from decreased commodity prices. Net charge-offs of $380 thousand were recorded during 2016. Charge-offs were comprised of the full charge-off of two loans to rice producers and the partial charge-off of one loan to a corn producer. All three loans were in our production and intermediate portfolio. Overall, charge-off activity remains low relative to the size of our loan portfolio.

During 2015, our allowance for loan losses increased $560 from 2014 primarily due to specific reserves for impaired loans, increased loan volume, and recoveries. Net recoveries of $76 thousand were recorded during 2015.

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.

	2016	2015	2014
Allowance as a percentage of:			
Loans	**0.61%**	0.54%	0.39%
Total impaired loans	**1,452.60%**	279.06%	202.05%
Nonaccrual loans	**1,452.60%**	279.06%	870.07%

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

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

	2016	2015
Balance at beginning of year	**$ 57**	$ –
Provision for unfunded commitments	**38**	57
Total	**$ 95**	$ 57

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 our percentage of YBS loans as a percentage of the number of loans in our loan portfolio while the USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 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	**2016**	2015	2014
Young	12.90%	**18.05%**	18.80%	17.87%
Beginning	28.05%	**21.93%**	23.20%	21.58%
Small	67.22%	**25.02%**	26.40%	26.95%

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.

Unaudited

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.

A major component of supporting our rural community is advancing young, beginning and small farmers and ensuring that there are opportunities for young people to get involved in agriculture early in life. In addition to our donations to the Colusa County Fair and Glenn County Fair, we support various agriculture education programs for our local youths, namely Future Farmers of America (FFA) and 4-H. FFA makes a positive difference in the lives of students by developing their potential for premier leadership, personal growth and career success through agricultural education. Similar to FFA, 4-H is the nation's largest positive youth development and youth mentoring organization, empowering six million young people throughout the U.S. 4-H provides life changing programs that are research-backed and available through 4-H clubs, camps, afterschool and school enrichment programs. Our close contact with agricultural departments at local schools enables us to support and participate in these programs. In addition to program support, we provide direct financing to local youths participating in local livestock projects.

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 representative of the demographics of 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.

	2017		2018		2019		2020	
	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:

	2016 Goal		2016 Actual		2016 Results	
	Number	Volume	Number	Volume	Number	Volume
Young	17%	12%	18%	12%	Yes	No
Beginning	21%	12%	22%	13%	Yes	Yes
Small	25%	9%	25%	9%	Yes	No

All YBS goals for outstanding loans by Number and Volume were met with the exception of our Volume goals for young and small farmers and ranchers. Our actual young farmer and rancher volume as a percentage of total volume was 11.83% which is short of our 12.00% goal. Our actual small farmer and rancher volume as a percentage of total volume was 8.74% which is short of our 9.00% goal. We did not meet these goals due to greater than expected increases in total outstanding loan volume. 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. Additionally, we are actively involved in developing and sponsoring educational opportunities for YBS farmers and ranchers.

Credit Risk Management

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

Unaudited

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 loan size, commodity type, and special lending programs. We have adopted an internal hold limit of $11 million which is under our legal lending limit. This internal hold limit is adjusted as needed to meet our credit risk-bearing ability.

We have established internal lending delegations to properly control the loan approval process. Delegations to staff are based on our risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the credit staff member. Larger and more complex loans or loans perceived to have higher risk are typically approved by our loan committee with the most experienced and knowledgeable credit staff serving as members.

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

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

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

Management provides for additional reserves within the calculation for the allowance for loan losses and reserve for unfunded commitments determined to have increased credit risk, namely our rice, orchard crops, and landlord portfolios. Utilizing the Model's 14 point PD scale and LGD scale, we apply stress assumptions to determine the level of reserves required to mitigate credit losses.

Unaudited

RESULTS OF OPERATIONS

Earnings Summary

In 2016, we recorded net income of $6.3 million, compared with $5.4 million in 2015, and $4.9 million in 2014. The increase in 2016 was primarily due to an increase of net interest income of $691 thousand, an increase of $504 thousand for noninterest income and a decrease in the provision for income tax of $162 thousand. Net interest income increased with loan volume and higher interest rates. The increase in noninterest expense was driven by an increase in Farm Credit Insurance Fund premiums in 2016 versus 2015.

The increase in 2015 was primarily due to an increase in net interest income of $501 thousand. Additional smaller increases were noted in noninterest income and decreases in noninterest expense and the provision for income tax. These increases were partially offset by an increase in provision for loan losses due to specific reserves on impaired loans.

(dollars in thousands)	**2016 vs. 2015**	2015 vs. 2014
Net income, prior year	**$ 5,371**	$ 4,943
Increase/(Decrease) from changes in:		
Interest income	**1,179**	72
Interest expense	**(488)**	429
Net interest income	**691**	501
Provision for credit losses	**(275)**	(464)
Noninterest income	**504**	131
Noninterest expense	**(161)**	141
Provision for income tax	**162**	119
Total increase in net income	**921**	428
Net income, current year	**$ 6,292**	$ 5,371

Return on average assets increased to 1.78% from 1.65% in 2015, and return on average shareholders' equity increased to 6.67% from 6.02% in 2015, primarily as a result of increased net earnings disproportionate to the increase in average assets and average shareholders' equity.

Net Interest Income

Net interest income for 2016 was $9.4 million compared with $8.7 million for 2015 and $8.2 million for 2014. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to increased loan volume and interest rate increases. The following table provides an analysis of the individual components of the change in net interest income during 2016 and 2015.

(dollars in thousands)	**2016 vs. 2015**	2015 vs. 2014
Net interest income, prior year	**$ 8,696**	$ 8,195
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned and paid	**(58)**	(38)
Volume of interest-bearing assets and liabilities	**756**	627
Interest income on nonaccrual loans	**(7)**	(88)
Increase in net interest income	**691**	501
Net interest income, current year	**$ 9,387**	$ 8,696

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		
	2016	2015	2014
Net interest margin	**2.78%**	2.80%	2.85%
Interest rate on:			
Average loan volume	**3.77%**	3.72%	3.99%
Average debt	**1.30%**	1.21%	1.51%
Interest rate spread	**2.47%**	2.51%	2.48%

Unaudited

The decrease in interest rate spread resulted from a 9 basis point increase in interest rates on average debt, partially offset by a 5 basis point increase in interest rates on average loan volume. The decrease in net interest margin was primarily due to a greater percentage increase in average earning assets versus the increase in net interest income.

Provision for Credit Losses/(Credit Loss Reversals)

We monitor our loan portfolio and unfunded commitments on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for loan losses or reserve for unfunded commitment is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio and unfunded commitments. We recorded net provision for credit losses of $816 thousand in 2016, compared with $541 thousand in 2015 and $77 thousand in 2014. The provision for loan losses of $778 thousand recorded during 2016 was primarily due to increased loan volume and increased reserves needed to provide coverage over probable losses in the portfolio resulting from decreased commodity prices. Management has provided for additional allowance for loan losses for sections of the portfolio determined to have increased credit risk, namely our rice, orchard crops, and landlord portfolios. Utilizing the Model's 14 PD scale and LGD scale, we apply stress assumptions to determine the level of reserves required to mitigate credit losses. The provision for loan losses of $484 thousand recorded during 2015 was primarily due to specific reserves for impaired loans, increased loan volume, and recoveries. The provision for loan losses recorded during 2014 was primarily due to increased loan volume.

The provision for reserve for unfunded commitments of $38 thousand was recorded during 2016 due to increased available commitment and credit quality deterioration within loans classified as Acceptable. The provision for reserve for unfunded commitments of $57 thousand was recorded during 2015 in order to establish reserves against unfunded commitment. There was no provision for reserve for unfunded commitments for 2014.

Noninterest Income

During 2016, we recorded noninterest income of $1.5 million, compared with $994 thousand in 2015 and $863 thousand in 2014. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. Patronage earned from CoBank was $1.0 million in 2016, $893 thousand in 2015 and $797 thousand in 2014.

We received a patronage distribution from AgVantis, based on our services purchased from AgVantis during 2016. We received a Notice of Allocation with our total patronage of $110 thousand, which includes cash patronage of $22 thousand compared with cash patronage of $4 thousand for 2015 and $9 thousand for 2014. The balance of the allocation is recorded in other assets. Additionally, we received a cash patronage of $7 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services. This compares with $4 thousand recorded in 2015 and $3 thousand in 2014. 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 $2 thousand during 2016, which is distributed to us quarterly by CoBank. Noninterest income also includes financially related services income and other noninterest income. Other noninterest income increased primarily due to the gain on sale of our Colusa branch office. On June 30, 2016, we sold our Colusa branch office and related land parcels for a gain of $303 thousand. The amount paid to us by the purchaser includes a cash payment as well as land which we plan to use for construction of our new Colusa branch office. In conjunction with the sale, we entered into a contract to continue to use the property sold for an occupancy fee of $2 thousand per month.

Noninterest Expense

Noninterest expense for 2016 increased $161 thousand, or 4.6%, to $3.7 million compared with 2015 and $20 thousand, or 0.5% compared with 2014. Noninterest expense for each of the three years ended December 31 is summarized as follows.

(dollars in thousands)	**2016**	2015	2014	**Percent of Change 2016/2015**	Percent of Change 2015/2014
Salaries & employee benefits	**$ 2,208**	$ 2,276	$ 2,271	**(2.99%)**	0.22%
Occupancy & equipment	**140**	133	128	**5.26%**	3.91%
Purchased services	**410**	409	335	**0.24%**	22.09%
Supervisory & examination costs	**140**	119	119	**17.65%**	–
Data processing services	**675**	504	408	**33.93%**	23.53%
Other	**(231)**	(135)	214	**(71.11%)**	(163.08%)
Total operating expense	**3,342**	3,306	3,475	**1.09%**	(4.86%)
Farm Credit Insurance Fund premium	**345**	220	192	**56.82%**	14.58%
Total noninterest expense	**$ 3,687**	$ 3,526	$ 3,667	**4.57%**	(3.85%)

For the year ended December 31, 2016, total operating expense increased $36 thousand, or 1.1%, compared with the year ended December 31, 2015. Salaries and benefits decreased from 2015 to 2016 due to employee terminations and retirements offset by new hires. Salaries and employee benefits were flat from 2014 to 2015. Occupancy and equipment expenses increased from 2015 to 2016 due to rents paid for our Colusa Branch. Occupancy and equipment increased from 2014 to 2015 due to purchases of small equipment and rising costs associated with aging facilities. Purchased services were flat from 2015 to 2016 due to increased contracted information systems support, additional staff recruiting costs, and increased internal audit fees offset by a decrease in appraisal and external audit fees. Purchased services increased from 2014 to 2015 primarily due to an increase in appraisal service costs associated with the increase in our mortgage portfolio. Supervisory and examination costs increased from 2015 to 2016 due to an increase in the rate charged. Supervisory and examination costs remain relatively unchanged from 2014 to 2015. Data processing services costs increased from 2015 to 2016 due to an increase in the rate charged coupled with increased loan volume. Data processing costs increased from 2014 to 2015 due to the Association changing data processing services from Fidelity Bancline to AgVantis in 2014.

With respect to the decrease in other noninterest expense from 2014 to 2015, we prospectively began capitalizing loan origination costs on operating and intermediate-term loans effective June 1, 2014. 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. The result of capitalizing origination costs for operating and intermediate-term loans has caused a decrease in other noninterest expense offset by amortization of these costs within yield from the year ended December 31, 2014, to the year ended December 31, 2015.

Insurance Fund premium increased $125 thousand to $345 thousand due to an increase in the premium rate and an increase in volume. Premium rates were 16 basis points for the first six months of 2016 and 18 basis points for the second six months of 2016 compared with 13 basis points in 2015 and 12 basis points in 2014.

Provision for income taxes

We recorded $90 thousand in provision for income taxes during 2016, compared with $252 thousand in 2015 and $371 thousand in 2014. The provision for income taxes decreased due to the implementation of a patronage program and decreased taxable 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 $217.4 million in 2016, $191.5 million in 2015 and $175.3 million in 2014.

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.

We are required to meet defined underwriting standards in credit and financial performance as part of the GFA with CoBank. During the second quarter of 2015, we were in violation of our General Financing Agreement with CoBank in regards to exceeding our legal lending limit and related reporting requirements. This violation was cured as of June 30, 2015.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and its asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed excess loanable funds with CoBank at a fixed rate for a specified term as a part of CoBank's Association Equity Positioning Program (AEPP). This enables us to reduce our overall cost of funds with CoBank without significantly increasing our overall interest rate risk position.

Funds Management

We offer variable, fixed, adjustable prime-based and LIBOR-based 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, 2016 totaled $97.4 million, compared with $91.9 million at December 31, 2015 and $86.6 million at December 31, 2014. The increase of $5.4 million in shareholders' equity reflects net income, partially offset by patronage refunds and net stock retirements. Our capital position is reflected in the following ratio comparisons.

	2016	2015	2014
Debt to shareholders' equity	**2.95:1**	2.90:1	3.05:1
Shareholders' equity as a percent of net loans	**26.73%**	26.92%	26.39%
Shareholders' equity as a percent of total assets	**25.31%**	25.64%	24.69%

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2015 primarily due to increased loan volume and related Note Payable to CoBank, ACB disproportionate to the increase in shareholders' equity. Additionally, patronage distributions of $840 thousand contributed to the disproportionate growth of shareholders' equity in 2016.

Retained Earnings

Our retained earnings increased $5.5 million to $96.8 million at December 31, 2016 from $91.4 million at December 31, 2015 and increased $10.8 million from $86.0 million at December 31, 2014. The increase in 2016 was a result of net income of $6.3 million, partially offset by $840 thousand of patronage distributions declared.

Patronage Program

In 2016, we implemented a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, the Bylaws address increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. During 2016, we declared patronage distributions of $840 thousand to be paid in March 2017.

Unaudited

Stock

Our total stock and participation certificates decreased $8 thousand to $563 thousand at December 31, 2016, from $571 thousand at December 31, 2015 and decreased from $607 thousand at December 31, 2014. The decrease in 2016 was due to $93 thousand of stock retirements, partially offset by $85 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 $63 thousand, $117 thousand and $118 thousand was retired during 2016, 2015 and 2014, respectively 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	**2016**	2015	2014
Permanent capital ratio	7.00%	**21.33%**	21.89%	21.51%
Total surplus ratio	7.00%	**21.19%**	21.74%	21.34%
Core surplus ratio	3.50%	**20.59%**	20.94%	20.72%

Capital ratios decreased in 2016 from 2015 resulting from increased total assets disproportionate to the increase in shareholders' equity. As of December 31, 2016, we exceeded the regulatory minimum capital ratios and are expected to do so throughout 2017. 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, 2016, we have not met our goals due to greater than anticipated loan growth. Management has developed a Capital Adequacy Plan to adjust, set, and monitor capital goals.

REGULATORY MATTERS

As of December 31, 2016, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

On March 10, 2016, the FCA adopted final rules (the New Capital Regulations) relating to regulatory capital requirements for System banks, including CoBank, and Associations. The New Capital Regulations take effect January 1, 2017. The stated objectives of the New Capital Regulations are as follows:

- To modernize capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill the System's mission as a government-sponsored enterprise;
- To ensure that the System's capital requirements are comparable to the Basel III framework and that 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 Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

The New Capital Regulations, among other things, replace existing core surplus and total surplus requirements with common equity tier 1 (CET1), tier 1 and total capital (tier 1 plus tier 2) risk-based capital ratio requirements. The New Capital Regulations also add a tier 1 leverage ratio for all System institutions, which replaces the existing net

Unaudited

collateral ratio for System banks. In addition, the New Capital Regulations establish a capital conservation buffer and a leverage buffer; enhance the sensitivity of risk weighting; and, for System banks only, require additional public disclosures. The revisions to the risk weighting include alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

The New Capital Regulations set the following minimum risk-based requirements:

- A CET1 capital ratio of 4.5 percent;
- A tier 1 capital ratio (CET1 capital plus additional tier 1 capital) of 6 percent; and
- A total capital ratio (tier 1 plus tier 2) of 8 percent.

The New Capital Regulations also set a minimum tier 1 leverage ratio (tier 1 capital divided by total assets) of 4 percent, of which at least 1.5 percent must consist of unallocated retained earnings (URE) and URE equivalents, which are nonqualified allocated equities with certain characteristics of URE. The New Capital Regulations establish a capital cushion (capital conservation buffer) of 2.5 percent above the risk-based CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations establish a leveraged capital cushion (leverage buffer) of 1 percent above the tier 1 leverage ratio requirement. If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The New Capital Regulations establish a three-year phase-in of the capital conservation buffer beginning January 1, 2017. There will be no phase-in of the leverage buffer.

We were in compliance with the New Capital Regulations on January 1, 2017.

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 10 members of the Board of Directors. During 2016, 11 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.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of three members of 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/Reserve for Unfunded Commitments

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

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

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

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.

Unaudited

Report of Independent Auditors

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, 2016, 2015, and 2014, 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.

Auditors' 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 Association'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 as of December 31, 2016, 2015, and 2014 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, 2017

PricewaterhouseCoopers LLP, 1100 Walnut, Suite 1300, Kansas City, MO 64106
T: (816) 472 7921, F: (816) 218 1890, *www.pwc.com/us*

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2016	2015	2014
ASSETS			
Loans	**$ 366,610**	$ 343,398	$ 329,446
Less allowance for loan losses	**2,237**	1,839	1,279
Net loans	**364,373**	341,559	328,167
Cash	**3,702**	1,815	7,484
Accrued interest receivable	**4,187**	3,220	2,942
Investment in CoBank, ACB	**10,301**	10,292	10,291
Premises and equipment, net	**523**	499	544
Other assets	**1,632**	1,247	1,365
Total assets	**$ 384,718**	$ 358,632	$ 350,793
LIABILITIES			
Note payable to CoBank, ACB	**$ 257,430**	$ 231,550	$ 230,678
Advance conditional payments	**25,117**	26,987	26,948
Accrued interest payable	**327**	235	741
Patronage distributions payable	**840**	-	-
Accrued benefits liability	**97**	93	133
Deferred tax liability	**257**	390	759
Unfunded disbursements	**375**	815	1,703
Reserve for unfunded commitments	**95**	57	-
Other liabilities	**2,798**	6,567	3,228
Total liabilities	**287,336**	266,694	264,190
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Capital stock and participation certificates	**563**	571	607
Unallocated retained earnings	**96,819**	91,367	85,996
Total shareholders' equity	**97,382**	91,938	86,603
Total liabilities and shareholders' equity	**$ 384,718**	$ 358,632	$ 350,793

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		
	2016	2015	2014
INTEREST INCOME			
Loans	**$ 12,708**	$ 11,529	$ 11,457
Total interest income	**12,708**	11,529	11,457
INTEREST EXPENSE			
Note payable to CoBank, ACB	**3,129**	2,619	3,056
Other	**192**	214	206
Total interest expense	**3,321**	2,833	3,262
Net interest income	**9,387**	8,696	8,195
Provision for credit losses	**816**	541	77
Net interest income after provision for credit losses	**8,571**	8,155	8,118
NONINTEREST INCOME			
Financially related services income	**13**	16	19
Patronage distribution from Farm Credit institutions	**1,154**	916	847
Mineral income	**2**	3	7
Gain on sale of Colusa property	**303**	-	-
Other noninterest income	**26**	59	(10)
Total noninterest income	**1,498**	994	863
NONINTEREST EXPENSE			
Salaries and employee benefits	**2,208**	2,276	2,271
Occupancy and equipment	**140**	133	128
Purchased services	**410**	409	335
Farm Credit Insurance Fund premium	**345**	220	192
Supervisory and examination costs	**140**	119	119
Data processing services	**675**	504	408
Other noninterest expense	**(231)**	(135)	214
Total noninterest expense	**3,687**	3,526	3,667
Income before income taxes	**6,382**	5,623	5,314
Provision for income taxes	**90**	252	371
Net income/Comprehensive income	**$ 6,292**	$ 5,371	$ 4,943

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, 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
Comprehensive income		5,371	5,371
Stock and participation certificates issued	100		100
Stock and participation certificates retired	(136)		(136)
Balance at December 31, 2015	571	91,367	91,938
Comprehensive income		6,292	6,292
Stock and participation certificates issued	85		85
Stock and participation certificates retired	(93)		(93)
Patronage Distributions: Cash		(840)	(840)
Balance at December 31, 2016	**$ 563**	**$ 96,819**	**$ 97,382**

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		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 6,292**	$ 5,371	$ 4,943
cash provided by/(used in) operating activities:			
Depreciation	**55**	75	71
Provision for credit losses	**816**	541	77
Patronage stock from CoBank	**(15)**	(9)	(2)
Allocated patronage from AgVantis	**(88)**	(15)	(38)
Gains on sales of premises and equipment	**(309)**	(1)	(14)
Change in assets and liabilities:			
Increase in accrued interest receivable	**(967)**	(278)	(598)
(Increase)/Decrease in other assets	**(282)**	142	(249)
(Decrease)/Increase in unfunded disbursements	**(440)**	(888)	70
Increase/(Decrease) in accrued interest payable	**92**	(506)	447
Increase/(Decrease) in accrued benefits liability	**4**	(40)	52
(Decrease)/Increase in deferred tax liability	**(133)**	(369)	101
(Decrease)/Increase in other liabilities	**(3,769)**	3,339	2,869
Total adjustments	**(5,036)**	1,991	2,786
Net cash provided by operating activities	**1,256**	7,362	7,729
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	**(23,592)**	(13,876)	(22,112)
Increase in investment in CoBank	**(9)**	(1)	(4)
Expenditures for premises and equipment, net	**(44)**	(33)	(62)
Sales of premises and equipment	**274**	4	16
Net cash used in investing activities	**(23,371)**	(13,906)	(22,162)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank	**25,880**	872	15,220
(Decrease)/Increase in advance conditional payments	**(1,870)**	39	6,834
Capital stock retired	**(93)**	(136)	(206)
Capital stock issued	**85**	100	69
Net cash provided by financing activities	**24,002**	875	21,917
Net increase/(decrease) in cash	**1,887**	(5,669)	7,484
Cash at beginning of year	**1,815**	7,484	-
Cash at end of year	**$ 3,702**	$ 1,815	$ 7,484
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 3,229**	$ 3,339	$ 2,815
Income taxes	**$ 204**	$ 357	$ 486
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Patronage stock from CoBank	**$ 15**	$ 9	$ 2
Allocated patronage from AgVantis	**$ 88**	$ 15	$ 38
Net charge-offs/(recoveries)	**$ 380**	$ (76)	$ 244
Patronage distributions payable	**$ 840**	$ -	$ -
Land acquired from building sale	**$ 407**	$ -	$ -

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, (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). The System is comprised of three Farm Credit Banks, one Agricultural Credit Bank and 73 associations.

CoBank, ACB (funding bank or the "Bank") its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. The CoBank District consists of CoBank, 22 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. The Bank 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 the Bank.

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 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). 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' financial statements have been reclassified to conform to the current years' 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 accounting pronouncements follow.

In August 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled "Presentation of Financial Statements – Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016 and early application is permitted. The Association adopted this guidance in the fourth quarter of 2016 and management made its initial assessment as of December 31, 2016.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association will evaluate the impact of adoption on its financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In May 2014, the 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. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect if any, on our financial condition or 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 collectability of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is current, the borrower has demonstrated payment performance, 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.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual term of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

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 and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.

C. Investment in CoBank: The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 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 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 the building 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 and Salary Deferral Plan. All defined contribution costs are expensed in the same period that participants earn employer contributions.

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

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.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage distributions. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

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

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings.

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, 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 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		
	2016	2015	2014
Real estate mortgage	**$ 214,251**	$ 197,045	$ 184,948
Production and intermediate-term	**103,952**	109,293	108,306
Agribusiness:			
Loans to cooperatives	**1,500**	–	–
Processing and marketing	**34,177**	25,321	24,238
Farm related business	**9,269**	11,739	11,954
Rural infrastructure:			
Energy	**3,461**	–	–
Total loans	**$ 366,610**	$ 343,398	$ 329,446

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, 2016:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 15,033	$ 12,933	$ –	$ 110	$ 15,033	$ 13,043
Production and intermediate-term	2,698	6,780	–	–	2,698	6,780
Agribusiness	16,135	1,765	–	–	16,135	1,765
Rural infrastructure	3,461	–	–	–	3,461	–
Total	$ 37,327	$ 21,478	$ –	$ 110	$ 37,327	$ 21,588

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

Credit enhancements with federal government agencies of $4,537 at year-end 2016, $4,944 at year-end 2015 and $6,006 at year-end 2014 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.

	2016	2015	2014
Real estate mortgage			
Acceptable	**99.42%**	99.38%	98.00%
OAEM	**0.33%**	0.34%	0.57%
Substandard	**0.25%**	0.28%	1.43%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**99.04%**	98.44%	99.19%
OAEM	**0.71%**	0.82%	0.53%
Substandard	**0.16%**	0.23%	0.28%
Loss	**0.09%**	0.51%	–
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**95.45%**	93.62%	95.11%
OAEM	**4.55%**	6.38%	4.89%
Total	**100.00%**	100.00%	100.00%
Rural infrastructure			
Acceptable	**100.00%**	–	–
Total	**100.00%**	–	–
Total Loans			
Acceptable	**98.83%**	98.47%	98.07%
OAEM	**0.95%**	1.14%	1.03%
Substandard	**0.19%**	0.23%	0.90%
Loss	**0.03%**	0.16%	–
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		
	2016	2015	2014
Nonaccrual loans:			
Current as to principal and interest	**$ 78**	$ 659	$ 147
Past due	**76**	–	–
Total nonaccrual loans	**154**	659	147
Impaired accrual loans:			
90 days or more past due	**–**	–	486
Total accruing restructured loans	**–**	–	486
Total impaired loans	**$ 154**	$ 659	$ 633

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

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

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

	December 31		
(dollars in thousands)	**2016**	2015	2014
Nonaccrual loans			
Real estate mortgage	**$ –**	$ –	$ 24
Production and intermediate-term	**154**	659	123
Total nonaccrual loans	**154**	659	147
Accruing loans 90 days past due			
Production and intermediate-term	**–**	–	486
Total high risk assets	**$ 154**	$ 659	$ 633

The Association had no other property owned at year-end 2016, 2015 and 2014.

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/16	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with related allowance for credit losses:					
Production and intermediate-term	$ 56	$ 58	$ 6	$ 287	$ –
Total	$ 56	$ 58	$ 6	$ 287	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ –	$ –		$ 33	$ 1
Production and intermediate-term	98	1,784		118	–
Total	$ 98	$ 1,784		$ 151	$ 1
Total impaired loans:					
Real estate mortgage	$ –	$ –	$ –	$ 33	$ 1
Production and intermediate-term	154	1,842	6	405	–
Total	$ 154	$ 1,842	$ 6	$ 438	$ 1

	Recorded Investment at 12/31/15	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with related allowance for credit losses:					
Production and intermediate-term	$ 563	$ 563	$ 324	$ 48	$ –
Total	$ 563	$ 563	$ 324	$ 48	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ –	$ –		$ 11	$ –
Production and intermediate-term	96	1,445		135	–
Agribusiness	–	–		–	7
Total	$ 96	$ 1,445		$ 146	$ 7
Total impaired loans:					
Real estate mortgage	$ –	$ –	$ –	$ 11	$ –
Production and intermediate-term	659	2,008	324	183	–
Agribusiness	–	–	–	–	7
Total	$ 659	$ 2,008	$ 324	$ 194	$ 7

	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	$ –
Total	$ –	$ –	$ –	$ 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	–	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	–	7	–	–	12
Total	$ 633	$ 2,320	$ –	$ 703	$ 103

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

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		
	2016	2015	2014
Interest income recognized on:			
Nonaccrual loans	**$ –**	$ 7	$ 95
Accrual loans 90 days or more past due	**1**	–	4
Interest income recognized on impaired loans	**$ 1**	$ 7	$ 99

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		
	2016	2015	2014
Interest income which would have been recognized under the original loan terms	**$ 99**	$ 95	$ 106
Less: interest income recognized	**–**	7	95
Foregone interest income	**$ 99**	$ 88	$ 11

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

December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 598	$ –	$ 598	$ 217,093	$ 217,691	$ –
Production and intermediate-term	392	77	469	104,042	104,511	–
Agribusiness	–	–	–	45,133	45,133	–
Rural infrastructure	–	–	–	3,462	3,462	–
Total	$ 990	$ 77	$ 1,067	$ 369,730	$ 370,797	$ –

December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ –	$ –	$ –	$ 199,548	$ 199,548	$ –
Production and intermediate-term	–	–	–	109,879	109,879	–
Agribusiness	–	–	–	37,191	37,191	–
Total	$ –	$ –	$ –	$ 346,618	$ 346,618	$ –

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	Recorded Investment in Loans Outstanding	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

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, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2016
Real estate mortgage	$ 460	$ –	$ –	$ (8)	$ 452
Production and intermediate-term	1,233	380	–	791	1,644
Agribusiness	146	–	–	(47)	99
Rural infrastructure	–	–	–	42	42
Total	$ 1,839	$ 380	$ –	$ 778	$ 2,237

	Balance at December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2015
Real estate mortgage	$ 416	$ –	$ –	$ 44	$ 460
Production and intermediate-term	764	–	76	393	1,233
Agribusiness	99	–	–	47	146
Total	$ 1,279	$ –	$ 76	$ 484	$ 1,839

	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

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

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

	Year Ended December 31, 2016	Year Ended December 31, 2015
Balance at beginning of period	**$ 57**	$ –
Provision for unfunded commitments	**38**	57
Total	**$ 95**	$ 57

Additional information on the allowance for loan losses follows:

	Allowance for Credit Losses Ending Balance at December 31, 2016		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2016	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 452	$ –	$ 217,691
Production and intermediate-term	6	1,638	154	104,357
Agribusiness	–	99	–	45,133
Rural infrastructure	–	42	–	3,462
Total	$ 6	$ 2,231	$ 154	$ 370,643

	Allowance for Credit Losses Ending Balance at December 31, 2015		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2015	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 460	$ –	$ 199,548
Production and intermediate-term	323	910	659	109,220
Agribusiness	–	146	–	37,191
Total	$ 323	$ 1,516	$ 659	$ 345,959

	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

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2016, 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 2016 requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the Association's prior ten-year average balance of such participations sold to CoBank. Under the current CoBank capital plan applicable to such participations sold, patronage from CoBank related to these participations sold is paid 75 percent cash and 25 percent Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

CoBank may require the holders of its equities to subscribe 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 0.34 percent of the outstanding common stock of CoBank at December 31, 2016.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
	2016	2015	2014
Land	**$ 410**	$ 12	$ 13
Buildings and improvements	**140**	897	897
Furniture and equipment	**352**	391	414
	902	1,300	1,324
Less: accumulated depreciation	**379**	801	780
Total	**$ 523**	$ 499	$ 544

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). 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, 2016. 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 1.44 percent for the year ended December 31, 2016, compared with 1.37 percent at December 31, 2015, and 1.74 percent at December 31, 2014.

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

	2016	2015	2014
Average committed funds	**$ 121,550**	$ 120,621	$ 66,293
Average rates	**0.57%**	0.28%	0.11%

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, 2016, the Association's notes 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, 2016, the Association's permanent capital ratio was 21.33 percent, total surplus ratio was 21.19 percent and core surplus ratio was 20.59 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, 2016, 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	105,598	Yes	No
F-Participation certificates	7,026	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 2016 are summarized in the following table:

Shares in whole numbers	Capital
Balance outstanding at January 1, 2016	114,173
Issuances	17,086
Retirements	(18,635)
Balance outstanding at December 31, 2016	112,624

D. Patronage and/or Dividends

In 2016, we implemented a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, the Bylaws address increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. For 2016, the Association allocated 13.21 percent of its patronage-sourced income to its patrons.

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

	2016	2015	2014
CoBank	**$ 1,037**	$ 893	$ 797
AgVantis	**110**	19	47
Farm Credit Foundations	**7**	4	3
Total	**$ 1,154**	$ 916	$ 847

Patronage distributed from CoBank was in cash and stock. The amount earned in 2016 was accrued and will be paid by CoBank in March 2017. The amount earned and accrued in 2015 and 2014 was paid by CoBank in March of the following year.

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.

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		
	2016	2015	2014
Current:			
Federal	**$ 221**	$ 619	$ 269
State	**2**	2	2
Deferred:			
Federal	**(133)**	(369)	100
Provision for income taxes	**$ 90**	$ 252	$ 371

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		
	2016	2015	2014
Federal tax at statutory rate	**$ 2,170**	$ 1,912	$ 1,807
State tax, net	**1**	1	1
Effect of non-taxable FLCA subsidiary	**(2,003)**	(1,661)	(1,506)
Patronage refunds to borrowers	**(78)**	–	–
Other	**–**	–	69
Provision for income taxes	**$ 90**	$ 252	$ 371

Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2016	2015	2014
Deferred income tax assets:			
Allowance for loan losses	**$ 589**	$ 465	$ 279
Interest on nonaccrual loans	**236**	207	–
Gross deferred tax assets	**825**	672	279
Deferred income tax liabilities:			
FCB stock patronage	**(1,000)**	(1,000)	–
Bank patronage allocations	**(82)**	(62)	(1,038)
Gross deferred tax liability	**(1,082)**	(1,062)	(1,038)
Net deferred tax liability	**$ (257)**	$ (390)	$ (759)

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income retained. The expected future tax rates are based upon enacted tax laws.

The Association has no uncertain tax positions as of December 31, 2016, 2015 or 2014. The Association recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2013 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 $85.6 million at December 31, 2016. 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 $257.9 million at December 31, 2016, $244.5 million at December 31, 2015 and $247.2 million at December 31, 2014. The fair value of the plan assets was $172.2 million at December 31, 2016, $154.5 million at December 31, 2015 and $162.0 million at December 31, 2014. 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 $5.9 million in 2016, $4.8 million in 2015 and $2.5 million in 2014. The Association's allocated share of plan expenses included in salaries and employee benefits was $42 in 2016, $87 in 2015 and $27 in 2014. Participating employers contributed $17.5 million in 2016, $7.5 million in 2015 and $5.1 million in 2014 to the plan. The Association's allocated share of these pension contributions was $165 in 2016, $136 in 2015, and $95 in 2014. 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 2017 is $16.0 million. The Association's allocated share of these pension contributions is expected to be $128. 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 $8 in 2016, $14 in 2015 and $11 in 2014. These expenses are equal to the Association's cash contributions for each year. The Association made cash contributions of $4 in 2016, $4 in 2015 and $6 in 2014.

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 $122 in 2016, and $126 in 2015 and 2014.

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.

	2016	2015	2014
New loans	**$ 44,987**	$ 25,991	$ 31,763
Repayments	**$ 36,000**	$ 21,150	$ 16,586
Ending balance	**$ 63,907**	$ 54,920	$ 50,079

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2016, 2015 and 2014 involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid $665 in 2016, $490 in 2015 and $242 in 2014 to AgVantis for technology services. The Association paid $102 in 2016, $78 in 2015 and $36 in 2014 to CoBank for internal credit and operations review services. The Association did not purchase internal operations review services from CoBank in 2014. One Association officer, elected by AgVantis' owners, serves as an AgVantis' director. The Association paid $92 in 2016, $80 in 2015, and $86 in 2014 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, 2016, $143.8 million of commitments to extend credit were outstanding.

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

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2016, $188 of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2017 to 2019. The maximum potential amount of future payments the Association is required to make under the guarantees is $188.

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.

The Association has loans measured at fair value on a non-recurring basis of $149 at December 31, 2016, $239 at December 31, 2015 and none at December 31, 2014. Total losses recorded are $386 at December 31, 2016, $323 at December 31, 2015 and gains of $323 at December 31, 2014.

The Association has no liabilities measured at fair value on a non-recurring basis for any of the periods presented.

Valuation Techniques

As more fully discussed in Note 2, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, 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

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

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2016, 2015 and 2014, follow.

	2016				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 2,068**	**$ 2,312**	**$ 2,489**	**$ 2,518**	**$ 9,387**
Provision for credit losses	**81**	**326**	**409**	**–**	**816**
Noninterest expense, net	**575**	**283**	**698**	**723**	**2,279**
Net income	**$ 1,412**	**$ 1,703**	**$ 1,382**	**$ 1,795**	**$ 6,292**

	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,018	$ 2,058	$ 2,302	$ 2,318	$ 8,696
Provision for credit losses/(Credit loss reversal)	146	90	(34)	339	541
Noninterest expense, net	733	635	688	728	2,784
Net income	$ 1,139	$ 1,333	$ 1,648	$ 1,251	$ 5,371

	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

NOTE 16 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 16, 2017 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	Leased Office Building
605 Jay Street Colusa, California	Leased Office Building
Parcel Number 017-130-071-000 Located at the Northeast Corner of Sunrise Boulevard and Davison Court Colusa, California	New Office Building Site
201-B North Tehama Street Willows, California	Jointly Owned Office Building*

* Willows, California (50%) with Golden State 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.

Unaudited

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2016, 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: Audit, Compensation
Board or Officer Experience: Colusa County Farm Supply (Director); Colusa County Fair Board (Director); Arbuckle-College City Fire Protection District (Director); Colusa County Fair Foundation (Director); Arbuckle Revitalization Committee (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: 2015 - 2018
Committees: Audit, Compensation
Board or Officer Experience: Ridgetop Rice Dryer (Director); California Heritage Mill (Director); CICC Economic Development (Director); Maxwell Cemetery District (Director).

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

John Amaro, Director
Term of Office: 2015 - 2018
Committees: Audit
Board or Officer Experience: Willows Rural Fire Protection District (Director); Glenn Colusa Irrigation District (Director); Farmers Rice Cooperative (Director).

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

Chris Bonacorsi, CPA, Outside Appointed Director
Term of Office: 2015 - 2018
Committees: Audit (Chairman)
Board or Officer Experience: Employed with K-Coe Isom (Principal).

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

Herbert Holzapfel, Director
Term of Office: 2016 - 2019
Committees: Audit
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.

Unaudited

Doug Parker, Director
Term of Office: 2016 - 2019
Committees: Audit
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); California Heritage Mills (Director); Sacramento Valley Museum Board (Director).

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

Jerry Southam, Director
Term of Office: 2014 - 2017
Committees: Audit
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 (Vice Chairman)
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.

Woody Yerxa, Director
Term of Office: 2015 - 2018
Committees: Audit, Compensation
Board or Officer Experience: President of the Colusa Flying Club.

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
Mr. Faris serves as President and CEO for the Association. Mr. Faris has served as President and CEO since April 1, 2014. Mr. Faris served as CCO on an interim basis from January 1, 2016, through December 31, 2016, until relinquishing the CCO position to Mr. Reimers on January 1, 2017. After graduating from California State University in Chico, he began his career at Tri Counties Bank in Northern California. Mr. Faris spent fourteen years in California working for the Association as well as commercial banks including Bank of the West and Rabobank. He returned to the Association in March of 2013.

Rebecca Myers
Mrs. Myers has served as Executive Vice President for the Association since August 18, 2014, and began her employment with the Association in November 2000. In addition to her tenure at the Association, Mrs. Myers has experience working for Umpqua Bank as well as for a large, local farming operation. Mrs. Myers is a graduate of California Polytechnic State University, San Luis Obispo.

Unaudited

Timothy Elrod
Mr. Elrod serves as COO and CFO for the Association. Mr. Elrod has served as Chief Operating Officer since November 1, 2014, and as Chief Financial Officer since May 27, 2016. Mr. Elrod began his employment with the Association in May of 2014. Prior to joining the Association, Mr. Elrod spent five years as Controller for Riverwest Processing, Inc., an almond processor and marketer. Mr. Elrod is a graduate of St. Mary's College of California.

Lucas Reimers
Mr. Reimers joined the Association as CCO on January 1, 2017. Mr. Reimers has extensive experience in commercial banking as well as in the Farm Credit System. Mr. Reimers was formerly with Wells Fargo Bank Middle Market Banking. Mr. Reimers obtained his undergraduate degree from St. Mary's College of California and his master's degree from California State University, Chico.

Amy Ceballos, CPA
Mrs. Ceballos had served as Controller for the Association since September 6, 2016. Mrs. Ceballos is a CPA and spent seven years with K-Coe Isom, a regional accounting firm, prior to joining the Association. Mrs. Ceballos is a graduate of California State University, Chico.

Mark Heidrick
Mr. Heidrick served as CFO until he terminated in May 2016.

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 2016, as outlined above was $48,000. The Audit Committee meetings are typically held in conjunction with regular board meetings, so no additional compensation was paid to the directors for those meetings. There was one Compensation Committee which was held in conjunction with a regular board meeting, so no additional compensation was paid to the directors for that meeting.

Additional information for each director is provided below:

Name	Number of Days Served at		Board Meetings and Other Official Duties Compensation	Compensation Committee	Audit Committee	Total Compensation Paid During 2016
	Board Meetings	Other Official Activities				
Michael Doherty	11	7	$ 5,850	$ –	$ –	$ 5,850
George Costa	8	6	3,750	–	–	3,750
John Amaro	9	2	4,050	–	–	4,050
Chris Bonacorsi	10	3	4,950	–	–	4,950
Herbert R. Holzapfel	10	2	3,600	–	–	3,600
Doug Parker	10	4	5,850	–	–	5,850
Brett Perry	10	4	5,100	–	–	5,100
Jerry Southam	10	2	4,500	–	–	4,500
Jeff Sutton	10	3	4,200	–	–	4,200
Woody Yerxa	9	7	6,150	–	–	6,150
Total Compensation			$ 48,000	$ –	$ –	$ 48,000

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 $18,200 in 2016, $17,702 in 2015 and $8,236 in 2014. The total compensation and reimbursement for travel paid to directors for 2016, as described above, amounted to $66,200.

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.

Unaudited

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 2016.

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, 2017 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 7. 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.

Unaudited

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.

Unaudited

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BOARD OF DIRECTORS

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

ADMINISTRATIVE STAFF

Name	Position
Robert Faris	President & Chief Executive Officer
Rebecca Myers	Executive Vice President
Tim Elrod	Chief Operating Officer & Chief Financial Officer
Lucas Reimers	Chief Credit Officer
Amy Ceballos	Controller
Karen Cabral	Administrative Executive
Jackie Martynski	Risk Specialist

2017 NOMINATING COMMITTEE

Regular Members	Area
Bill Wallace, Jr.	Colusa
Jeff Moresco	Maxwell-Delevan-Princeton
Matt LaGrande	Williams-Arbuckle-Grimes
Curtis Amaro	Willows-Bayliss-Artois

Alternate Members	Area
Mike Steidlmayer	Colusa
Jason Lee	Maxwell-Delevan-Princeton
Tim Doherty	Williams-Arbuckle-Grimes
Bill Weller	Willows-Bayliss-Artois

COLUSA STAFF

Name	Position
Jennifer Bowen	Branch Manager
Vincent Wurm	Vice President of Lending
Bradley Danner	Loan Officer
Colton Harris	Credit Analyst
Nita Lang	Senior Loan Documentation Specialist
Brian Mecham	Loan Officer
Erica Miles	Loan Officer
William Rohde	Collateral Evaluation Manager
Tara Thompson	Loan Documentation Specialist
Sue Wells	Accounting Specialist
Geni Zwald	Accounting Specialist

WILLOWS STAFF

Name	Position
Stacy Pearson	Branch Manager
Brittany Watts	Loan Officer
Natalie Massa	Credit Analyst
Sandra Martin	Operations Specialist

Colusa-Glenn Farm Credit

Farm Credit 100 Established 1916

Farm Credit Services of Colusa-Glenn, ACA

310 6th 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, California 95988
Phone: 530-934-7086
Fax: 530-934-2349

Website: www.fcscolusaglenn.com

COLUSA-GLENN FARM CREDIT®