

FARM CREDIT SERVICES OF COLUSA-GLENN, ACA
2011 ANNUAL REPORT
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**MESSAGE FROM THE CHAIRMAN OF THE BOARD
AND THE CHIEF EXECUTIVE OFFICER**

Farm Credit Services of Colusa-Glenn, ACA, had another successful year. Financial performance was positive and yearly average loan volume for 2011 was .3% higher than 2010. Credit quality was maintained at a high level.

Overall, 2011 was a good year for our members. However, 2011 rice prices have softened since harvest and rice buyers have reported current export tenders are lower than projected. If this trend continues it will have a negative effect on our rice borrowers. Rice yields in 2011 were average or better. Almond growers also had a good year with both yields and prices being average or better. The early fall rains, unfortunately, for the second consecutive year did affect some of our members.

Although long-term rates were volatile, the variable cost of obtaining funds to lend declined during 2011 enabling us to maintain the interest rates charged to our members at a competitive level. The average interest rate charged to Association members during 2011 was 4.84% for commercial loans and 4.65% for mortgage loans. We intend to exert every effort to continue providing quality service and competitive interest rates to our members.

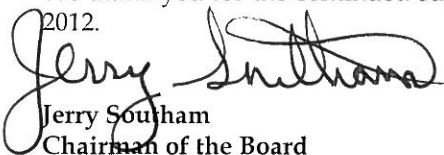
Association net income for 2011 was \$8,947,569, which is \$5,100,431 more than the net income of 2010. The major components for the increase in net income were the recapitalization of \$3,573,060 of AgBank stock due to the merger of AgBank/CoBank and patronage distributions from AgBank totaling \$1,498,795, received and declared in the year 2011. Net interest income increased \$277,896 for 2011 compared to 2010.

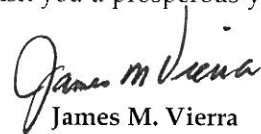
One indicator of the Association's commitment to local agriculture is its emphasis on serving young, beginning and small farmers. Each year the Association's Board of Directors creates programs and sets goals to enhance opportunities for this group. The Association is a "Preferred Lender" with the local Farm Service Agency office, allowing express service access to loan guarantees and other FSA products geared toward young, beginning and small farmers. The Association also actively supports agricultural organizations and expositions and high school agriculture scholarship programs.

This report reviews the performance and financial condition of the Farm Credit Services of Colusa-Glenn, ACA. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations 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 the Farm Credit Services of Colusa-Glenn, ACA.

We thank you for the continued support of your Association and wish you a prosperous year in 2012.


Jerry Southam
Chairman of the Board
FCS of Colusa-Glenn, ACA


James M. Vierra
President and
Chief Executive Officer

March 6, 2012

REPORT OF MANAGEMENT

The consolidated financial statements of Farm Credit Services of Colusa-Glenn, ACA (the Association) are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. In the opinion of management, the accompanying consolidated financial statements fairly present the financial condition and results of operations of the Association, in conformity with accounting principles generally accepted in the United States of America and appropriate in the circumstances. Other financial information included in this Annual Report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, the Association's internal auditors and review staff perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements, as appropriate. The financial statements are audited by PricewaterhouseCoopers LLP, independent auditors, who also consider internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. Their report is located on page 24. The Association is also examined by the Farm Credit Administration, the Farm Credit System regulatory agency.


The Association's Board of Directors, composed of directors who are not employees, have overall responsibility for the Association's systems of internal controls and financial reporting. Five members of the Board of Directors serve as the Association's Audit Committee. The Board periodically receives reports from management, the internal auditors, and the independent auditors to review the manner in which these groups of individuals are performing their responsibilities and to carry out the Board's oversight role with respect to auditing, internal controls, and financial reporting matters. These auditors and independent auditors also have access to the Board of Directors and their individual members at any time.

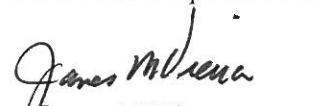
The undersigned certify the Farm Credit Services of Colusa-Glenn, ACA, 2011 Annual Report has been reviewed, prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge.

The shareholder's investment in the Association is materially affected by the financial condition and the results of operations of AgBank and/or CoBank. To obtain a copy of the AgBank District's Annual Report to Shareholders or Quarterly Report, or CoBank's Annual Report free of charge, please contact CoBank at www.cobank.com.


Jerry Southam
Chairman of the Board

FCS of Colusa-Glenn, ACA


Mark Heidrick
Chief Financial Officer


James M. Vierra
President and
Chief Executive Officer

March 6, 2012

AUDIT COMMITTEE REPORT

The Audit Committee (Committee) of the Farm Credit Services of Colusa-Glenn, ACA, (the Association) is composed of five members of the Association's Board of Directors. In 2011, four Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. In addition, the Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditor for 2011. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Policy.

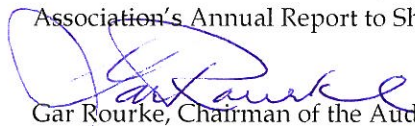
The fees paid for professional services rendered for the Association by its independent auditor, PwC, during 2011 were \$56,953 for audit services and \$6,200 for tax services.

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 audited financial statements for the year ended December 31, 2011 (the Audited Financial Statements) with management. The Committee also reviews with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance), and both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

The Committee discussed with PwC its independence from the Association. The Committee also reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence. The Committee has discussed with management and PwC such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Audited Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2011.



Gar Rourke, Chairman of the Audit Committee

Doug Parker, Audit Committee Member
Brett Perry, Audit Committee Member
Gus Henning, Audit Committee Member
Chris Bonacorsi, Audit Committee Member

March 6, 2012

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Farm Credit Services of Colusa-Glenn, ACA (Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Boards of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2011. In making the assessment, management used the framework in *Internal Control – Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2011, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2011.



James M. Vierra
President and Chief Executive Officer



Mark Heidrick
Chief Financial Officer

March 6, 2012

FARM CREDIT SERVICES OF COLUSA-GLENN, ACA
FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(Dollars in Thousands)

	December 31,				
	2011	2010	2009	2008	2007
Balance Sheets Data					
Loans	\$295,441	\$278,058	\$275,868	\$236,440	\$234,111
Less: allowance for loan losses	(1,547)	(1,181)	(1,277)	(1,594)	(1,324)
Net loans	293,894	276,877	274,591	234,846	232,787
Investment in U.S. AgBank, FCB	10,277	6,704	6,704	6,704	6,704
Accrued interest receivable	2,954	3,313	2,984	3,339	4,420
Other property owned	0	0	0	0	615
Other assets	1,743	1,258	346	476	367
Total assets	\$308,868	\$288,152	\$284,625	\$245,365	\$244,893
Obligations with maturities of one year or less	\$239,212	\$227,443	\$227,739	\$192,972	\$187,513
Obligations with maturities longer than one year	0	0	0	0	0
Total liabilities	239,212	227,443	227,739	192,972	187,513
Capital stock and participation certificates	753	753	777	762	9,761
Unallocated retained earnings	68,903	59,956	56,109	51,631	47,619
Total members' equity	69,656	60,709	56,886	52,393	57,380
Total liabilities and members' equity	\$308,868	\$288,152	\$284,625	\$245,365	\$244,893

	Year Ended December 31,				
	2011	2010	2009	2008	2007
Statement of Income Data					
Net interest income	\$8,272	\$7,995	\$7,749	\$6,851	\$6,689
Patronage distribution from U.S. AgBank, FCB	5,072	153	48	597	880
Reversal of (provision for) loan losses	(361)	(1,801)	197	(270)	45
Noninterest expense, net	(2,736)	(2,497)	(2,822)	(2,614)	(2,568)
Provision for income taxes	(1,299)	(3)	(694)	(553)	(650)
Net income	\$8,948	\$3,847	\$4,478	\$4,011	\$4,396

Key Financial Ratios

For the Year

Return on average assets	3.00%	1.34%	1.69%	1.64%	1.81%
Return on average members' equity	13.73%	6.54%	8.20%	7.31%	8.01%
Net interest income as a percentage of average earning assets	2.90%	2.89%	3.04%	2.93%	2.88%
Net charge-offs (recoveries) as a percentage of average net loans	0.00%	0.69%	0.05%	0.00%	0.00%

At Year End

Members' equity as a percentage of total assets	22.55%	21.07%	19.99%	21.35%	23.43%
Debt as a ratio to members' equity	3.43:1	3.75:1	4.00:1	3.68:1	3.27:1
Allowance for loan losses as a percentage of loans	0.52%	0.42%	0.46%	0.67%	0.57%
Permanent capital ratio	18.81%	18.15%	17.68%	17.94%	19.95%
Total surplus ratio	18.58%	17.90%	17.43%	17.66%	16.34%
Core surplus ratio	17.81%	17.18%	16.31%	16.56%	15.32%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion summarizes the financial position and results of operations of the Farm Credit Services of Colusa-Glenn, ACA, for the year ended December 31, 2011. Comparisons to 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 operation. 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 the audit committee. The Management's Discussion and Analysis includes the following sections:

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

Our annual and quarterly reports to shareholders are available on our website, www.californiafarmcredit.com or may be obtained free of charge by calling 530-458-4978. Annual reports are available on our website within 75 days after year end and quarterly reports are available on our website within 40 days after the calendar quarter end.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

We are one of approximately 85 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, 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 portfolios 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. The 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. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we can 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, U.S. AgBank, FCB (AgBank), was a cooperative of which we are a member. At December 31, 2011, AgBank, its related associations, and AgVantis, Inc. (AgVantis, a technology service corporation) were referred to as the District.

In December 2010, the boards of directors of AgBank, our funding bank, and CoBank, ACB (CoBank) approved a Letter of Intent to pursue a merger. In March 2011, following unanimous votes by the boards of both banks, a merger application was submitted to the Farm Credit Administration (FCA), the Farm Credit System regulator. On June 22, 2011, the FCA granted preliminary approval of the merger, subject to certain conditions. On September 8, 2011, AgBank and CoBank announced that their voting shareholders approved the proposed plan of merger between the two banks. Final approval from the FCA was received in December 2011. The merger was effective on January 1, 2012. Beginning January 1, 2012, we receive our funding from the merged bank. In the following disclosure, our funding bank both prior to and after the merger will be referred to as "the Bank". The merged bank will do business under the CoBank name and be headquartered just outside Denver, Colorado, but will maintain a presence and operations in Wichita and Sacramento. Robert B. Engel, CoBank's president and chief executive officer, is the chief executive of the merged bank. CoBank had total assets of \$63.29 billion and capital of \$4.90 billion at December 31, 2011.

We, along with the borrower's investment in our Association are materially affected by the Bank's financial condition and results of operations. The AgBank and 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 (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.

We purchase web-site hosting services from AgVantis, which is a technology service corporation.

FORWARD-LOOKING INFORMATION

This 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-related, 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,
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements are reported in conformity with 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 following is a summary of certain critical policies.

Allowance for Loan Losses

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

ECONOMIC OVERVIEW

For many years, agriculture experienced a sustained period of favorable economic conditions due to strong commodity prices, rising land values, and, to a lesser extent, government support and multi-peril insurance programs. Because of this overall prosperity, our financial results have been positively impacted. Production agriculture, however, is a cyclical business that is heavily influenced by commodity prices. In 2009 and 2010 certain agricultural sectors across the United States experienced significant stress, which did negatively impact lender's credit quality measures. Fortunately, our agricultural area and commodities had favorable prices and yields.

During 2011, economic conditions in our region were generally good. The final price for the 2011 rice crop is expected to be equal to or slightly lower than that of 2010. Rice yields for 2011 were average or better. Increased production costs, particularly for petroleum-related inputs, are continuing to present challenges. Almond growers benefited from both average or better yields and prices. For most other crops, yields and prices have been average or better. The federal farm program provided a measure of stability for those commodities covered.

Water supplies were adequate in 2011. However, water expectations for 2012 appear to be less than those of 2011. This expectation could improve or deteriorate depending on rain amounts over the next several months.

Variable interest rates remained stable during 2011. Fixed rates were higher early in 2011, but ultimately ended up lower than any time in recent history.

LOAN PORTFOLIO

Total loan volume was \$295,440,922 at December 31, 2011, an increase of \$17,382,353, or 6.25% from total loan volume at December 31, 2010 of \$278,058,569 which was an increase of \$2,190,517, or .79% from total loan volume at December 31, 2009 of \$275,868,052. The principal components of the increase were the growth in mortgage loans and production and farm related business loans. The types of loans outstanding at December 31 are reflected in the following table.

	<u>2011</u>		<u>2010</u>		<u>2009</u>	
	Volume	Percent of Total	Volume	Percent of Total	Volume	Percent of Total
Production agriculture:						
Real estate mortgage	\$166,415,435	56.3%	\$154,120,680	55.4%	\$152,932,344	55.4%
Production and intermediate- term	103,722,103	35.1%	102,914,050	37.0%	100,451,786	36.4%
Agribusiness:						
Processing & marketing	16,213,568	5.5%	15,930,048	5.7%	18,434,314	6.7%
Farm related business	9,089,816	3.1%	5,093,791	1.9%	4,049,608	1.5%
Total	\$295,440,922	100.0%	\$278,058,569	100.0%	\$275,868,052	100.0%

In 2011, real estate mortgage volume increased 8.0% compared with 2010 loan volume, primarily due to loans for land purchases. These loans are used to finance the long-term needs of agricultural producers and have maturities ranging from five years to 40 years. Rural residential mortgage loans may also be made to non-farm rural homeowners. By law, real estate mortgage loans must be secured by first liens and may be made only in amounts up to 85 percent of the original appraised value of the property or up to 97 percent of appraised value if guaranteed by certain state, federal, or other governmental agencies. Refer to Note 3 of the Notes to the Financial Statements for more detail.

The production and intermediate-term loans increased in volume 0.8% compared with 2010 loan volume primarily due to new loans made and member draws on loans at year-end for income tax mitigation. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans are most often written for a period of time that matches the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are typically used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years with most loans not exceeding 10 years.

Loan 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 participations purchased and sold, geographic locations served and commodities financed, as illustrated in the following three tables.

We purchase participation interests in loans 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 entities to reduce risk and comply with lending limits we have established. The volume of participations purchased and sold as of December 31 follows.

	2011	2010	2009
Participations purchased	\$11,918,541	\$13,075,543	\$21,123,334
Participations sold	\$12,581,381	\$9,662,666	\$9,561,641

The participations purchased are production and long-term farm mortgage loans.

The geographic distribution of loans at December 31 is shown below. Participations purchased are not in the Association's territory and are included in the other category.

	2011	2010	2009
Colusa County	66.0%	65.7%	72.5%
Glenn County	9.7%	10.4%	11.0%
Sutter County	6.1%	5.0%	6.3%
Other	18.2%	18.9%	10.2%
Total	100.0%	100.0%	100.0%

Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. The following table shows the primary agricultural commodities produced by our borrowers based on Standard Industrial Codes (SIC) as of December 31.

	December 31,					
	2011		2010		2009	
Commodity	Amount	%	Amount	%	Amount	%
Rice	\$119,443,147	40%	\$111,020,502	40%	\$ 96,046,355	35%
Orchard Crops	56,100,299	19%	57,167,152	21%	60,085,169	22%
Row Crops	21,515,730	7%	19,619,655	7%	19,103,932	7%
Landlords	30,337,521	10%	28,297,756	10%	33,047,008	12%
Processing/ Marketing	16,213,568	6%	15,930,047	6%	18,434,314	6%
Other	51,829,657	18%	46,023,457	16%	49,151,274	18%
Total	<u>\$295,440,922</u>	<u>100%</u>	<u>\$278,058,569</u>	<u>100%</u>	<u>\$275,868,052</u>	<u>100%</u>

Our loan portfolio contains a concentration of rice producers. Repayment ability of our borrowers is closely related to the production and the 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 the industry economics. Diversification is achieved from loans to part-time farmers which typically derive most of their earnings from nonagricultural sources, and are less subject to agricultural cycles. These borrowers would be more affected by the strength of the general economy. While management is committed to maintaining sound credit quality, future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities impacted and the magnitude and duration of the adverse agricultural conditions. Additionally, approximately 22% of our loan volume is attributed to ten borrowers. 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.

Loans originated for less than \$250 thousand accounted for 19% of loan volume and 80% of the number of loans as of December 31, 2011. Credit risk on small loans, in many instances, is also reduced by non-farm income sources. The table below details the loan principal by dollar size.

	December 31, 2011		December 31, 2010	
	Amount outstanding	Number of loans	Amount outstanding	Number of loans
\$1 - \$250,000	\$ 55,023,133	1220	\$ 56,807,148	1252
\$250,001 - \$500,000	58,905,974	164	52,988,457	150
\$500,001 - \$1,000,000	58,195,476	82	60,935,215	85
\$1,000,001 - \$5,000,000	123,316,339	65	102,261,744	55
>\$5,000,000			5,066,005	1
Total	\$295,440,922	1531	\$278,058,569	1543

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers and to manage our 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 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 at December 31, 2011.

	Less than 1 year	1 - 3 years	3 - 5 years	Over 5 years	Total
Commitments to extend credit and letters of credit	\$51,358,173	\$40,384,017	\$22,293,817	\$7,841,522	\$121,877,529

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

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 plus other property owned. Comparative information by loan type regarding high risk assets in the portfolio, including accrued interest, follows.

	2011	2010	2009
Nonaccrual loans:			
Production agriculture:			
Real estate mortgage loans	\$1,199,180	\$1,313,628	\$148,912
Production and intermediate-term loans	144,681	189,942	60,727
Agribusiness	13,373	26,894	31,207
Total nonaccrual loans	\$1,357,234	\$1,530,464	\$240,846
Total high risk assets	\$1,357,234	\$1,530,464	\$240,846
Nonaccrual loans to total loans	0.44%	0.55%	0.09%
High risk assets to total loans	0.44%	0.55%	0.09%
High risk assets to total members' equity	1.95%	2.52%	0.42%

No loans were classified as restructured or 90 days past due still accruing interest for the years presented.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of principal and/or interest. Nonaccrual volume decreased \$173,230 or 11.32% to \$1,357,234 compared with December 31, 2010 due to payments made during 2011.

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

	2011	2010	2009
Nonaccrual loans current as to principal and interest	\$1,312,049	\$1,503,570	\$ 149,912
Past Due	<u>45,185</u>	<u>26,894</u>	<u>90,934</u>
Total Nonaccrual loans	<u>\$1,357,234</u>	<u>\$1,530,464</u>	<u>\$ 240,846</u>

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 Farm Credit System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table shows loans and related accrued interest for the credit quality under the UCS at December 31.

	2011	2010	2009
Acceptable	95.86%	98.47%	95.85%
OAEM	1.64%	0.94%	3.98%
Substandard	2.50%	0.59%	0.15%
Doubtful	0.00%	0.00%	0.02%
Loss	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%

Loans classified as “Acceptable” or “OAEM” as a percentage of total loans and accrued interest receivable were 97.50% at December 31, 2011 and 99.41% at December 31, 2010. At December 31, 2011, there were two loans, with principal balances totaling \$45,185, which were 60 days or more past due.

Allowance for Loan Losses

The allowance for loan losses increased \$366,010 from December 31, 2010, to \$1,547,149 at December 31, 2011. The increase was determined based on assessments of probable losses in our loan portfolio taking into account the refinement of allowance for loan loss methodologies per FCA guidance. The increase was due to an overall increase in loan volume of \$17,382,353 and a recovery of \$4,498 in 2011.

	2011	2010	2009
Balance at beginning of the year	<u>\$1,181,139</u>	<u>\$1,276,708</u>	<u>\$1,593,789</u>
Charge-offs:			
Production agriculture:			
Production and intermediate-term	-	(1,897,278)	(120,464)
Recoveries	4,498	865	0
Net charge-offs	\$ 4,498	\$(1,896,413)	\$ (120,464)
Provision for/ (Reversal of) for loan losses	361,512	1,800,844	(196,617)
Balance at December 31	\$ 1,547,149	\$ 1,181,139	\$1,276,708
Net charge-offs to average net loans	0.00%	0.68%	0.04%

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

	2011	2010	2009
Production agriculture:			
Real estate mortgage	\$ 517,072	\$ 238,342	\$ 285,126
Production and intermediate-term	996,975	847,662	951,446
Agribusiness	33,102	95,135	40,136
Total	\$1,547,149	\$1,181,139	\$1,276,708

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

	2011	2010	2009
Allowance as a percentage of:			
Loans	0.52%	0.42%	0.46%
Total impaired loans	113.99%	77.17%	530.09%
Nonaccrual loans	113.99%	77.17%	530.09%
High risk assets	113.99%	77.17%	530.09%

The financial positions of our borrowers have generally strengthened during the past decade as net cash income in agriculture has been at a favorable level due to direct federal government payments and favorable commodity prices and yields. With borrowers' strengthened financial positions and the continued emphasis on sound underwriting standards, the credit quality of our loan portfolio has remained strong.

Young, Beginning and Small Farmers and Ranchers Program

As a 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.

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

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

Our YBS Mission Statement is "To fulfill the Farm Credit Services of Colusa-Glenn, ACA's, mission statement of being the leading lender in its territory, now and in the future, the Farm Credit Services of Colusa-Glenn, ACA, will make available financing and related financing programs to all eligible young, beginning and small farmer/operators, plus develop loan and loan related programs/services specifically targeting the young, beginning and small sector in its chartered territory."

The following table outlines the 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 2007 USDA agricultural census, which is the most current data available. Due to FCA regulatory definitions, a loan may be included in multiple categories as each loan is included in each category in which the definition was met.

	USDA	2011	2010	2009
Young	7.0%	19.12%	19.85%	20.26%
Beginning	27.0%	24.67%	25.67%	28.10%
Small	50.4%	29.06%	31.58%	34.72%

We establish annual marketing goals to increase our market share of loans to YBS farmers and ranchers. Qualitative goals include efforts to accomplish the following:

- Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;
- Take full advantage of opportunities for coordinating credit and services offered with other system institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and,
- Implement effective outreach programs to attract YBS farmers and ranchers.

We are pursuing our YBS qualitative goals, as set forth above and in our Business Plan, with special emphasis on working with the Farm Service Administration to provide financing to young, beginning and small farmers.

Quarterly reports are provided to our Board of Directors detailing the number, volume and credit quality of our YBS customers. We have developed quantitative targets to monitor our progress. These targets are shown in the following tables:

YBS Goals as a Percentage of Outstanding Loans by Number and Volume as of December 31,

	<u>2012</u>		<u>2013</u>		<u>2014</u>		<u>2015</u>	
	Number	Volume	Number	Volume	Number	Volume	Number	Volume
Young	20%	16%	20%	17%	20%	18%	20%	19%
Beginning	26%	18%	26%	19%	26%	20%	26%	20%
Small	29%	10%	29%	11%	29%	12%	29%	13%

YBS Goals of a Percentage of New Loans by Number and Volume for the year.

	<u>2012</u>		<u>2013</u>		<u>2014</u>		<u>2015</u>	
	Number	Volume	Number	Volume	Number	Volume	Number	Volume
Young	20%	14%	20%	15%	21%	16%	21%	16%
Beginning	24%	17%	24%	17%	25%	17%	25%	17%
Small	18%	5%	18%	5%	19%	6%	19%	6%

The following goals were not met in 2011. The goal for loans to young farmers was 20%, by number, but the actual result for 2011 was 19.12%. The goal for loans to young farmers was 16%, by volume, but the actual result for 2011 was 15.57%. The goal for loans to beginning farmers was 26%, by number, but the actual result for 2011 was 24.67%. The goal for loans to beginning farmers was 18%, by volume, but the actual result for 2011 was 17.47%. The goal for loans to small farmers was 32%, by number, but the actual result for 2011 was 29.06%. The goal for loans to small farmers was 14%, by volume, but the actual result for 2011 was 11.88%. The goal for new young farmers, by number, was 20%, but the actual result for 2011 was 19.11%. The goal for new young farmers, by volume, was 18%, but the actual result for 2011 was 12.33%. The goal for new beginning farmers, by number, was 23%, but the actual result for 2011 was 22.76%. The goal for new beginning farmers, by volume, was 18%, but the actual result for 2011 was 14.50%. The goal for new small farmers, by number, was 28%, but the actual result for 2011 was 19.51%. The goal for new small farmers, by volume, was 6%, but the actual result for 2011 was 4.25%.

All goals for the year 2012 are expected to be achieved.

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 loan guarantee programs.

CREDIT RISK MANAGEMENT

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

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

- character – borrower integrity and credit history;
- capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income;
- collateral – to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- capital – ability of the operation to survive unanticipated risks; and,
- conditions – including 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 25% of our permanent capital. Through lending delegations, the Bank restricts individual loan size limits to one borrower to 15% of our permanent capital; exceptions must be reported to the Bank. Within these parameters, we set our own lending limits to manage loan concentration. Loans which may exceed the 25% limitation are required to be participated with other system institutions in order to ensure that the net volume retained is below 25% of permanent capital.

We have established internal lending delegations to 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 members. Larger and more complex loans or loans perceived to have higher risk are typically approved by our loan committee with the most experienced and knowledgeable credit staff serving as members. One method for managing concentration is through the use of participation programs with other System and non-System institutions. Buying and selling loan volume, within and outside the System, can help reduce concentrations and manage growth and capital positions while allowing for a sharing of credit expertise. Concentrations and credit risk are also managed through the utilization of government guarantee programs. We have further diversified concentrations in agricultural production by developing part-time farmer and agribusiness portfolios. Part-time farmers often derive a significant portion of earnings from nonagricultural sources, thus helping diversify repayment risk to sources other than agricultural production income.

The majority of our lending is first mortgage real estate lending, 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 primarily 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 which 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 borrower assuming 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. The PD's and LGD's are utilized in loan and portfolio management processes and are partially utilized for the allowance for loan losses estimate. This model also serves as the basis for economic capital modeling.

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

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

RESULTS OF OPERATIONS

Earnings Summary

In 2011, we recorded net income of \$8.9 million compared with \$3.8 million in 2010, and \$4.5 million in 2009. The increase in net income in 2011 was primarily due to a \$4.7 million increase noninterest income related to the recapitalization of \$3.6 million in stock related to the AgBank/CoBank merger, an increase in AgBank patronage of \$1.3 million, partially offset by decreases in other noninterest income. In addition, there was a decrease in interest expense and a decrease in provision for loan losses offset by an increase in the provision for income taxes. The decrease in net income in 2010 from 2009 was primarily due to a charge-off of \$1.9 million taken on one nonaccrual loan.

The following table presents the changes in the significant components of net income.

	2011 vs. 2010	2010 vs. 2009
Net income, prior year	\$ 3,847,138	\$ 4,477,639
Changes from prior year:		
(Decreased)/Increased interest income	(275,300)	592,168
Decreased/(Increased) interest expense	553,196	(346,838)
Increased net interest income	277,896	245,330
Decreased/(Increased) provision for loan losses	1,439,332	(1,997,461)
Increased noninterest income	4,719,598	273,649
(Increased)/Decreased noninterest expense	(40,696)	157,287
(Increased)/Decreased provision for income taxes	(1,295,699)	690,694
Total Increase/(Decrease) in net income	5,100,431	(630,501)
Net income, current year	\$ 8,947,569	\$ 3,847,138

The return on average assets increased to 3.00% from 1.34% in 2010, and return on average members' equity increased to 13.73% from 6.54% in 2010.

Net Interest Income

Net interest income for 2011 was \$8,272,479 compared with \$7,994,583 for 2010 and \$7,749,253 for 2009. The table below provides an analysis of the individual components of the change in net interest income during 2011 and 2010.

	2011 vs. 2010	2010 vs. 2009
Net interest income, prior year	\$ 7,994,583	\$ 7,749,253
Increase / (Decrease) in net interest income from changes in:		
Interest rates earned and paid	562,066	(355,926)
Volume of accruing assets/interest bearing liabilities	(284,170)	600,486
Interest income on nonaccrual loans	0	770
Increase in net interest income	277,896	245,330
Net interest income, current year	\$ 8,272,479	\$ 7,994,583

The following table illustrates the relationship among the average interest rates on loans and debt cost, interest rate spread and net interest margin.

	For the Year Ended December 31		
	2011	2010	2009
Net interest margin	3.16%	3.04%	3.20%
Interest rate on:			
Average loan volume	4.71%	4.86%	4.98%
Average debt	1.94%	2.16%	2.18%
Interest rate spread	2.77%	2.70%	2.80%

During 2011, the 12 basis points increase in the net interest margin (net interest income as a percentage of average earnings assets) resulted from the increased interest rate spread. The 7 basis points increase in the interest rate spread resulted from a 22 basis points decrease in the interest rate on average debt and a 15 basis points decrease in the interest rate on average loan volume. The 2010 decrease in the net interest margin was due to a decreased interest rate spread resulting from a decreased interest rate on average loan volume, partially offset by a decrease on interest rates on average debt.

Provision for Loan Losses/ (Loan Loss Reversals)

We monitor our loan portfolio on a regular basis to determine if any increase, through provision for loan losses, or decrease, through a loan loss reversal, in our allowance for loan losses is warranted based on our assessment of the probable losses in our loan portfolio. We recorded a net provision for loan loss of \$361,512 for the year-ended December 31, 2011 compared with a provision for loan loss of \$1,800,844 in 2010 and a loan losses reversal of \$196,617 in 2009. The provision for loan losses for 2011 can be attributed to the change in the LGD methodology and a downgrade of one large loan complex. The increase in the provision for loan losses for 2010 can be attributed to a charge-off of \$1,897,278. The loan loss reversal for 2009 is attributed to a decrease in overall substandard loan volume, partially offset by an increase in the adjustment level of risk rating for 3.5% to 4.5% and a charge-off of \$120,464.

Noninterest Income

During 2011, we recorded noninterest income of \$5,138,162, compared with \$418,564 in 2010 and \$142,415 in 2009. Patronage distributions from AgBank are our primary source of noninterest income. In March 2011, we received patronage from AgBank as a result of its 2010 earnings. AgBank also declared

patronage in December 2011, prior to its merger with CoBank, on its 2011 earnings. This resulted in AgBank patronage income of \$1,498,795 in 2011 as compared with \$153,463 in 2010 and \$48,155 in 2009. AgBank patronage is paid in cash. Further, as part of the merger agreement and reorganization, AgBank initiated a recapitalization distribution to its member associations which resulted in noninterest income of \$3,573,060.

During 2010, we received from Farm Credit System Insurance Company (FCSIC) a distribution of \$219,092 representing our allocated portion of the excess amount in the System's insurance fund above the 2% secure base amount. As a result, our noninterest income increased compared with 2009. No such distribution was made in 2011.

Noninterest Expense

Noninterest expense for the year ended December 31, 2011, increased \$40,696, or 1.47%, to \$2,802,626 compared with 2010. Significant components of noninterest expense are compared in the following table.

	2011	2010	2009	Percent of Change	
				2011/2010	2010/2009
Salaries & employee benefits	\$1,755,452	\$1,771,876	\$1,772,121	(.93)%	(.01)%
Occupancy & equipment	106,008	92,433	86,514	14.69%	6.84%
Supervisory & examination costs	120,074	107,150	99,899	12.06%	7.26%
Purchased Services	239,338	247,041	211,150	(3.12)%	17.00%
Other	464,682	435,159	408,018	6.78%	6.65%
Total operating expense	2,685,554	2,653,659	2,577,702	1.20%	2.95%
Farm Credit Insurance Fund					
Premium	117,072	108,271	339,015	8.13%	(313.12)%
Total noninterest expense	\$2,802,626	\$2,761,930	\$2,916,717	1.47%	(5.60)%

For the year ended December 31, 2011, total operating expense increased \$31,895, or 1.20%, compared to the year ended December 31, 2010, primarily due to increases in Occupancy & Equipment, Supervisory & Examination costs and other non-interest expense. Insurance Fund premium increased \$8,801 to \$117,072 due to an increase in the premium rate. Premium rates increased to 6 basis points during 2011 compared with 5 basis points in 2010 and 20 basis points during 2009.

LIQUIDITY RISK MANAGEMENT

Liquidity is necessary to meet our financial obligations in an orderly manner. Liquidity is needed to pay our note with the Bank, 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 the Bank, cash on hand and 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 the Bank. Our note payable to the Bank is collateralized by a pledge to the Bank 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), which was extended through May 31, 2013 with the merger of AgBank and CoBank on January 1, 2012. The annual average principal balance of the note payable to AgBank was \$184,805,268 in 2011, \$188,647,541 in 2010 and \$167,915,597 in 2009.

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

Interest Rate Risk

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

Funds Management

We offer variable and fixed rate loans to borrowers. Our Board of Directors determines the interest rate charged based on the following factors: 1) the interest rate charged by the Bank; 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 investment 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 earned and retained. Members' equity at December 31, 2011 totaled \$69,656,481 compared with \$60,708,762 at December 31, 2010, and \$56,885,994 at December 31, 2009. Capital includes stock purchased by our borrowers and retained earnings accumulated through net income. Our capital position is reflected in the following ratio comparisons.

	2011	2010	2009
Debt to members' equity	3.43:1	3.75:1	4.00:1
Members' equity as a percent of loans	23.58%	21.83%	20.62%
Members' equity as a percent of assets	22.55%	21.07%	19.99%

Debt to members' equity decreased, and members' equity as a percent of loans and of total assets increased from 2010 to 2011 primarily due to the increase in equity due to net income earned.

There are no trends, commitments, contingencies or events that are reasonably likely to have a material adverse effect upon the adequacy of available risk funds.

Retained Earnings

Our retained earnings increased \$8,947,569 to \$68,903,206 at December 31, 2011 from \$59,955,637 at December 31, 2010. The increase was a result of net income of \$8,947,569.

Stock

Our total stock and participation certificates increased \$150 to \$753,275 at December 31, 2011 from \$753,125 at December 31, 2010, which was a decrease of \$24,370 from \$777,495 at December 31, 2009. The increase was due to \$53,075 of stock issuances, offset by \$52,925 of retirements. We require a stock investment for each borrower loan. On July 1, 2008, the Board of Directors reduced the stock requirement for borrowers to the lesser of one thousand dollars or 2.00 percent of each borrower's loan volume. Joint PCA and FLCA borrowers must satisfy the borrower stock requirement at both the PCA and FLCA levels, based upon the respective combined loan volume at each subsidiary Association.

Accumulated Other Comprehensive Income and Losses (OCI)

The Association reports other comprehensive income/(loss) in its Consolidated Statement of Changes in Members' Equity.

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:

- 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.

	2011	2010	2009	Regulatory Minimum
Permanent capital ratio	18.81%	18.15%	17.68%	7.00%
Total surplus ratio	18.58%	17.90%	17.43%	7.00%
Core surplus ratio	17.81%	17.18%	16.31%	3.50%

As of December 31, 2011, we exceeded the regulatory minimum and are expected to do so throughout 2012. 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, 2011, we met our core surplus ratio goal, but we did not meet our permanent capital ratio and total surplus goals. The goal for permanent capital was 18.99% and our actual result was 18.81%. For total surplus, our goal was 18.66% and our actual result was 18.58%. For core surplus, our goal was 17.81% and our actual result was 17.81%. The total permanent capital ratio and surplus ratio goals established for December 31, 2012, correspond to loan volume projections.

REGULATORY MATTERS

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

LITIGATION

As of December 31, 2011, there were no actions pending against the Association in which claims for monetary damages are asserted.

GOVERNANCE

Board Oversight

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. The Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, compensates and evaluates the chief executive officer;
- approves the strategic plan, capital plan, financial plan and 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 service 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, in some situations, 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. The Audit Committee is composed of five members of the Board of Directors. During 2011, four meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the financial statements; and,

- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls and auditing matters.

Executive Loan Committee

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

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 have implemented 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 Operating 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 financial statements, and
- information disclosure through our website.

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.



Report of Independent Auditors

To the Board of Directors and Shareholders of Farm Credit Services of Colusa-Glenn, ACA and Subsidiaries:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in members' equity, and cash flows present fairly, in all material respects, the financial position of Farm Credit Services of Colusa-Glenn, ACA and its subsidiaries (the Association) at December 31, 2011, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Minneapolis, Minnesota
March 6, 2012

FARM CREDIT SERVICES OF COLUSA-GLENN, ACA
CONSOLIDATED STATEMENT OF CONDITION

	December 31,		
	2011	2010	2009
ASSETS			
Loans	\$295,440,922	\$278,058,569	\$275,868,052
Allowance for loan losses	(1,547,149)	(1,181,139)	(1,276,708)
Net loans	293,893,773	276,877,430	274,591,344
Cash	555,285	7,350	22,336
Accrued interest receivable	2,953,565	3,312,607	2,984,008
Investment in U.S. AgBank, FCB	10,277,025	6,703,965	6,703,965
Premises and equipment	471,914	486,542	197,685
Other assets	715,945	764,490	175,971
Total assets	\$308,867,507	\$288,152,384	\$284,675,309
LIABILITIES			
Note payable to U.S. AgBank, FCB	\$223,213,262	\$214,684,491	\$212,273,819
Advance conditional payments	14,618,836	11,967,483	14,558,674
Accrued interest payable	335,861	358,707	358,520
Deferred tax liability	630,577	52,337	50,684
Other liabilities	412,490	380,604	547,618
Total liabilities	239,211,026	227,443,622	227,789,315
Commitments and contingent liabilities (see Note 13)			
MEMBERS' EQUITY			
Capital stock and participation certificates	753,275	753,125	777,495
Unallocated retained earnings	68,903,206	59,955,637	56,108,499
Total members' equity	69,656,481	60,708,762	56,885,994
Total liabilities and members' equity	\$308,867,507	\$288,152,384	\$284,675,309

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

FARM CREDIT SERVICES OF COLUSA-GLENN, ACA
CONSOLIDATED STATEMENT OF INCOME

	For the Year Ended December 31,		
	2011	2010	2009
INTEREST INCOME			
Loans	\$12,345,235	\$12,620,535	\$12,028,367
INTEREST EXPENSE			
Note payable to U.S. AgBank, FCB	3,881,122	4,383,543	3,976,268
Advance conditional payments	191,634	242,409	302,846
Total interest expense	4,072,756	4,625,952	4,279,114
Net interest income	8,272,479	7,994,583	7,749,253
Provision for (Reversal of) loan losses	361,512	1,800,844	(196,617)
Net interest income after provision for loan losses	7,910,967	6,193,739	7,945,870
NONINTEREST INCOME			
Patronage distribution from U.S. AgBank, FCB	1,498,795	153,463	48,155
Fees for financially related services	46,667	17,702	47,687
Recapitalization distribution due to AgBank merger	3,573,060	0	0
FCSIC Refund	0	219,092	0
Other noninterest income	19,640	28,307	46,573
Total noninterest income	5,138,162	418,564	142,415
NONINTEREST EXPENSE			
Salaries and employee benefits	1,755,452	1,771,876	1,772,121
Occupancy and equipment	106,008	92,433	86,514
Purchased services	239,338	247,041	211,150
Insurance fund premium	117,072	108,271	339,015
Supervisory and examination expense	120,074	107,150	99,899
Other noninterest expense	464,682	435,159	408,018
Total noninterest expense	2,802,626	2,761,930	2,916,717
Income before income taxes	10,246,503	3,850,373	5,171,568
Provision for income taxes	1,298,934	3,235	693,929
Net income	\$8,947,569	\$3,847,138	\$4,477,639

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

FARM CREDIT SERVICES OF COLUSA-GLENN, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2008	\$762,340	\$51,630,860	\$0	\$52,393,200
Comprehensive income				
Net income		4,477,639		4,477,639
Stock issued	84,310			84,310
Stock retired	(69,155)			(69,155)
Balance at December 31, 2009	777,495	56,108,499	0	56,885,994
Comprehensive income				
Net income		3,847,138		3,847,138
Stock issued	50,850			50,850
Stock retired	(75,220)			(75,220)
Balance at December 31, 2010	753,125	59,955,637	0	60,708,762
Comprehensive income				
Net income		8,947,569		8,947,569
Stock issued	53,075			53,075
Stock retired	(52,925)			(52,925)
Balance at December 31, 2011	<u>\$753,275</u>	<u>\$68,903,206</u>	<u>\$0</u>	<u>\$69,656,481</u>

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

FARM CREDIT SERVICES OF COLUSA-GLENN, ACA
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Year Ended December 31,		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$8,947,569	\$3,847,138	\$4,477,639
Adjustments to reconcile net income to net cash provided by/(used in) operating activities			
Depreciation	52,581	43,719	45,316
Provision for (Reversal of) loan losses	361,512	1,800,844	(196,617)
Recapitalization distribution due to AgBank merger	(3,573,060)		
Change in assets and liabilities			
Increase in deferred tax liability	578,240	1,653	111,074
(Increase)/Decrease in accrued interest receivable	359,042	(328,599)	354,690
(Increase)/Decrease in other assets	48,545	(588,519)	44,447
Increase/(Decrease) in accrued interest payable	(22,846)	187	(30,239)
(Decrease)/Increase in other liabilities	31,886	(167,013)	69,070
Net cash provided by operating activities	<u>6,783,469</u>	<u>4,609,410</u>	<u>4,875,380</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	(17,382,353)	(4,087,795)	(39,548,924)
Purchases of premises and equipment	(37,953)	(332,576)	(54,978)
Recoveries of loans charged off	4,498	865	0
Net cash used in investing activities	<u>(17,415,808)</u>	<u>(4,419,506)</u>	<u>(39,603,902)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on (repayment of) note payable to U.S. AgBank, FCB	8,528,771	2,410,671	33,678,037
Increase in advance conditional payments	2,651,353	(2,591,191)	1,049,881
Capital stock and participation certificates issued	53,075	50,850	84,310
Capital stock and participation certificates retired	(52,925)	(75,220)	(69,155)
Net cash provided by/(used in) financing activities	<u>11,180,274</u>	<u>(204,890)</u>	<u>34,743,073</u>
Net increase/(decrease) in cash	547,935	(14,986)	14,551
Cash at beginning of year	<u>7,350</u>	<u>22,336</u>	<u>7,785</u>
Cash at end of year	<u><u>555,285</u></u>	<u><u>7,350</u></u>	<u><u>22,336</u></u>
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	\$4,095,602	\$4,625,765	\$4,309,353
Income taxes	\$100,000	\$575,000	\$530,000
Recapitalization Income	\$3,573,060		
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Net charge-offs /(Recoveries)	(\$4,498)	\$1,896,413	\$120,464

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

**FARM CREDIT SERVICES OF COLUSA-GLENN, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 - ORGANIZATION AND OPERATIONS

- A. Organization: Farm Credit Services of Colusa-Glenn, ACA and subsidiaries, Farm Credit Services of Colusa-Glenn, PCA (Production Credit Association), and Farm Credit Services of Colusa-Glenn, FLCA (Federal Land Credit Association), (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 (the System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). At December 31, 2011, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and approximately 85 Associations. With the merger of CoBank, ACB (CoBank) and U.S. AgBank, FCB (AgBank) effective January 1, 2012, the nation is currently served by three FCBs and the one ACB.

In December 2010, the boards of directors of AgBank, the Association's funding bank, and CoBank, ACB approved a Letter of Intent to pursue a merger. In March 2011, following unanimous votes by the boards of both banks, a merger application was submitted to the Farm Credit Administration (FCA), the Farm Credit System regulator. On June 22, 2011 the FCA granted preliminary approval of the merger, subject to certain conditions. On September 8, 2011, AgBank and CoBank announced that their voting shareholders approved the proposed plan of merger between the two banks. Final approval from the FCA was received in December 2011. The merger was effective on January 1, 2012. Beginning January 1, 2012, the Association receives funding from the merged bank, CoBank.

The merged bank will do business under the CoBank name and be headquartered just outside Denver, Colorado, but will maintain a presence and operations in Wichita and Sacramento. Robert P. Engel, CoBank's president and chief executive officer is the chief executive of the merged bank. CoBank had total assets of \$63.29 billion and capital of \$4.90 billion at December 31, 2011.

At December 31, 2011, U.S. AgBank, FCB (AgBank), its related associations (one of which is Farm Credit Services of Colusa-Glenn, ACA) and AgVantis, Inc. (AgVantis) were collectively referred to as the District. Prior to the merger, AgBank provided the majority of funding to associations within the District and was 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 AgBank prior to its merger. On December 31, 2011, the AgBank District consisted of AgBank, 24 Agricultural Credit Association (ACA) parent companies, which each have two wholly owned subsidiaries, (a FLCA and a PCA), two FLCAs and AgVantis. On January 1, 2012 the merged CoBank District consist of CoBank, 27 ACA's and two FLCAs and AgVantis. In addition to the bank merger, two AgBank District associations merged effective January 1, 2012. In the following disclosure, the funding bank both prior to and after the merger will be referred to as "the Bank".

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 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 has been 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 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 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 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 serves as an intermediary in offering credit life insurance.

The Association's financial condition may be impacted by factors affecting AgBank and/or CoBank. Certain District expenses are allocated to the Associations. Disclosure of certain accounting policies related to these costs is included in the U.S. AgBank District Annual Report to Shareholders (District's Annual Report). The District's Annual Report is available free of charge on CoBank's website, www.cobank.com; or upon request. Upon request, Association shareholders will be provided with a copy of the U.S. AgBank District Annual Report, which includes the combined financial statements of AgBank and its related Associations, and AgVantis. The U.S. AgBank District Annual Report discusses the material aspects of the District's financial condition, changes in financial condition, and results of operations. In addition, the District's Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation. Association shareholders also have available CoBank's annual report on CoBank's website.

The lending and financial services offered by AgBank are described in Note 1 of AgBank's Annual Report.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Recently Issued Accounting Pronouncements.

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Compensation - Retirement Benefits - Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan and a postretirement benefits plan other than pension, which should help financial statement users better understand the financial health of significant plans that the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012 for non-public entities. The amendments would be applied retrospectively for all prior periods presented. The adoption of this guidance will not impact financial results but will result in some additional disclosures.

In June 2011, the FASB issued guidance entitled, "Comprehensive Income - Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income. In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The significant amendments include clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy and expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of this guidance will not impact the Association's financial condition or results of operations, but may result in additional disclosure requirements.

In January 2011, the FASB issued guidance entitled, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings.” This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” The effective date of the new disclosures about troubled debt restructurings (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

In April 2011, the FASB issued its guidance entitled, “A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring,” which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this Standard will not have an impact on the Association’s financial condition or results of operations, but may result in additional disclosures.

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

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

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

When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to

accrual status when all contractual principal and interest is current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The Association uses a two-dimensional loan rating model based on an 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 security 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 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, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality. 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.

- B. Cash: Cash, as included in the financial statements, represents cash on hand and on deposit at financial institutions.
- C. Investment in AgBank: The Association's investment in AgBank was in the form of Class A Stock. The minimum required investment in AgBank was 5.00 percent of average direct loan volume, net of excess investment. The required investment was adjusted on a quarterly basis to reflect changes in direct loan volume. The required investment may have consisted of AgBank surplus attributed to the Association, patronage based stock and purchased stock.

Investment in CoBank: Effective January 1, 2012, 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.

- 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. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are charged to operating expense and improvements above certain thresholds are capitalized.
- E. Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the Consolidated Statement of Condition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains/(losses) on other property owned in the Consolidated Statement of Income.
- F. Other Assets and Other Liabilities: Other assets are comprised primarily of accounts receivable and prepaid expenses. Significant components of other liabilities primarily include accounts payable and employee benefits.
- G. 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 advanced conditional payments are netted against the borrower's related loan balance. Unrestricted advanced conditional payments are included in other interest bearing liabilities. Restricted advanced 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. The Association generally pays interest on advance conditional payments.
- H. Employee Benefit Plans: Substantially all employees of the Association participate in the Eleventh District Defined Benefit Retirement Plan (Defined Benefit Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (Defined Contribution Plan). The Defined Benefit Plan is a noncontributory 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. Detailed financial information for the Defined Benefit Plan may be found in the U.S. AgBank District Annual Report. The Defined Benefit Plan was closed to employees hired after December 31, 1997.

The Defined Contribution Plan has two components. Employees who do not participate in the Defined Benefit Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined

percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employees hired on or after January 1, 1998 are eligible to participate only in the Defined Contribution Plan. 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 Foundation 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.

- I. Patronage Distribution from AgBank: Patronage distributions were made by AgBank annually. The Association recorded patronage distributions from AgBank upon receipt of the distribution. The 2011 patronage from AgBank was accrued in 2011, but will be received in 2012.

Patronage Distribution from CoBank: Effective January 1, 2012, patronage distributions from CoBank will be accrued by the Association, rather than recorded when paid.

- J. Income Taxes: As previously described, the ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term real estate 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 wholly-owned PCA subsidiary, is subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state or local laws.

The Association 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 off 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 may be 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 the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings.

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

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

Additionally, deferred income taxes have not been provided on AgBank's post-1992 unallocated earnings. On December 31, 2011, AgBank, in anticipation of its January 1, 2011 merger with CoBank,

recapitalized and distributed stock to its Association members. Deferred taxes have been recorded by the Association on that distribution.

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

- K. Other Comprehensive Income/Loss: The Association reports other comprehensive income/loss in its Consolidated Statement of Changes in Members' Equity.
- L. 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:

	<u>December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Real estate mortgage	\$166,415,435	\$154,120,680	\$152,932,344
Production and intermediate-term	103,722,103	102,914,050	100,451,786
Agribusiness:			
Processing and marketing	16,213,568	15,930,048	18,434,314
Farm related business	<u>9,089,816</u>	<u>5,093,791</u>	<u>4,049,608</u>
Total loans	<u>\$295,440,922</u>	<u>\$278,058,569</u>	<u>\$275,868,052</u>

The Association purchases or sells participation interests 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, 2011:

	<u>Other Farm Credit</u>		<u>Non-Farm Credit</u>		<u>Total</u>	
	<u>Institutions</u>		<u>Institutions</u>			
	<u>Purchased</u>	<u>Sold</u>	<u>Purchased</u>	<u>Sold</u>	<u>Purchased</u>	<u>Sold</u>
Real estate mortgage	\$ 9,512,205	\$8,763,390	\$	\$ 283,497	\$ 9,512,205	\$9,046,887
Production and intermediate-term	2,475,997			2,677,159	2,475,997	2,677,159
Agribusiness		194,495	593,179		593,179	194,495
Total	<u>\$11,988,202</u>	<u>\$8,957,885</u>	<u>\$ 593,179</u>	<u>\$2,960,656</u>	<u>\$12,581,381</u>	<u>\$11,918,541</u>

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

Commodity	December 31,					
	<u>2011</u>		<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Rice	\$119,444,147	40%	\$111,020,502	40%	\$ 96,046,355	35%
Orchard Crops	56,100,299	19%	57,167,152	21%	60,085,169	22%
Row Crops	21,515,730	7%	19,619,655	7%	19,103,932	7%
Landlords	30,337,521	10%	28,297,756	10%	33,047,008	12%
Processing/ Marketing	16,213,568	6%	15,930,047	6%	18,434,314	6%
Other	<u>51,829,657</u>	<u>18%</u>	<u>46,023,457</u>	<u>16%</u>	<u>49,151,274</u>	<u>18%</u>
Total	<u>\$295,440,922</u>	<u>100%</u>	<u>\$278,058,569</u>	<u>100%</u>	<u>\$275,868,052</u>	<u>100%</u>

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

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate mortgage loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate mortgage 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.

One credit quality indicator utilized by the Bank and Associations 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.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Real estate mortgage			
Acceptable	95.31%	99.09%	96.09%
OAEM	.54	.07	3.82
Substandard	4.15	.84	.09
Total	100.00%	100.00%	100.00%
Production and intermediate-term			
Acceptable	95.95%	98.90%	95.91%
OAEM	3.63	.80	3.79
Substandard	.42	.30	.24
Doubtful			.06
Total	100.00%	100.00%	100.00%
Agribusiness			
Acceptable	99.15%	91.80%	94.03%
OAEM	.80	8.07	5.83
Substandard	.05	.13	.14
Total	100.00%	100.00%	100.00%
Total Loans			
Acceptable	95.86%	98.47%	95.85%
OAEM	1.64	.94	3.98
Substandard	2.50	.59	.15
Doubtful			.02
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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.

	<u>December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Non-accrual loans:			
Current as to principal and interest	\$1,312,049	\$1,503,570	\$ 149,912
Past due	<u>45,185</u>	<u>26,894</u>	<u>90,934</u>
Total impaired loans	<u>\$1,357,234</u>	<u>\$1,530,464</u>	<u>\$ 240,846</u>

There were no loans classified as accruing restructured, or accruing 90 days or more past due for the years presented.

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

	December 31		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Nonaccrual loans			
Real estate mortgage	\$1,199,180	\$1,313,628	\$148,912
Production and intermediate-term	144,681	189,942	60,727
Agribusiness	13,373	26,894	31,207
Total nonaccrual loans	<u>1,357,234</u>	<u>1,530,464</u>	<u>240,846</u>
Total high risk assets	<u>\$1,357,234</u>	<u>\$1,530,464</u>	<u>\$240,846</u>

There were no impaired loans with a related allowance for credit losses.

Additional impaired loan information is as follows:

	<u>Recorded Investment at 12/31/11</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Impaired Loans</u>	<u>Interest Income Recognized</u>
Total impaired loans:					
Real estate mortgage	\$1,199,180	\$1,385,843	\$ 0	\$1,287,147	\$ 0
Production and intermediate-term	144,681	2,200,511	0	160,880	0
Agribusiness					
Farm-related business	13,373	53,601	0	13,293	0
Total	<u>\$1,357,234</u>	<u>\$3,639,955</u>	<u>\$ 0</u>	<u>\$1,461,320</u>	<u>\$ 0</u>

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

	For the Year Ended December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Interest income recognized on nonaccrual loans	\$ 0	\$ 0	\$ 770
Interest income on impaired accrual loans	<u>0</u>	<u>192</u>	<u>0</u>
Interest income recognized on impaired loans	<u>\$ 0</u>	<u>\$ 192</u>	<u>\$ 770</u>

The following table presents interest income on nonaccrual loans which would have been recognized under the original terms of the loans:

	For the Year Ended December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Interest income which would have been recognized under the original loan terms	\$ 312,074	\$ 181,672	\$ 31,208
Less: interest income recognized	<u>0</u>	<u>0</u>	<u>770</u>
Forgone interest income	<u>\$ 312,074</u>	<u>\$ 182,672</u>	<u>\$ 30,438</u>

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 2011.

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	\$31,812	\$ 0	\$31,812	\$168,436,483	\$168,468,295	\$ 0
Production and intermediate-term				104,530,394	104,530,394	
Agribusiness	13,373		13,373	24,789,246	24,802,619	
Total	\$45,185	\$ 0	\$45,185	\$297,756,123	\$297,801,308	\$ 0

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

	Balance at December 31, 2010	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2011
Real estate mortgage	\$ 238,342	\$ 0	\$ 0	\$ 278,730	\$ 517,072
Production and intermediate-term	847,662		4,498	144,815	996,975
Agribusiness	95,135			(62,033)	33,102
Total	\$ 1,181,139	\$ 0	\$4,498	\$ 361,512	\$1,547,149

	Allowance for Credit Losses Ending Balance at December 31, 2011		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2011	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ 0	\$ 517,072	\$ 1,199,180	\$165,216,255
Production and intermediate-term		996,975	144,681	103,577,422
Agribusiness		33,102	13,373	25,290,011
Total	\$ 0	\$ 1,547,149	\$ 1,357,234	\$294,083,688

NOTE 4 - INVESTMENT IN AGBANK

Prior to the AgBank/CoBank merger, the Association was required to maintain an investment in AgBank equal to 5.00 percent of average direct loan volume, net of excess investment. The Association's investment in AgBank may have consisted of AgBank surplus attributed to the Association, patronage based stock and purchased stock. The Association's stock investment in AgBank was in the form of Class A Stock. The investment in AgBank was adjusted on a quarterly basis to reflect changes in direct loan volume, attributed surplus and stock investment balances. If needed to meet capital adequacy requirements, AgBank required the Association to purchase at-risk stock subject to a limit of one percent of the Association's average Direct Loan Volume in a twelve-month period.

For the merged bank, effective January 1, 2012, the Association is required to maintain an investment in CoBank equal to 4.00 percent of the prior year's average direct loan volume. The investment is composed of patronage based stock and purchased stock.

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 12,600	\$ 12,600	\$ 12,600
Buildings and improvements	773,525	747,465	456,340
Furniture and equipment	243,801	242,297	251,892
Automobiles	<u>174,663</u>	<u>174,663</u>	<u>163,813</u>
Premises and equipment at cost	1,204,589	1,117,025	884,645
Less: accumulated depreciation	(<u>732,675</u>)	(<u>690,483</u>)	(<u>686,960</u>)
Total	<u>\$ 471, 914</u>	<u>\$ 486, 542</u>	<u>\$ 197,685</u>

NOTE 6 - NOTE PAYABLE TO AGBANK

The Association's indebtedness to the Bank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA) which provides for a \$235 million line of credit. The GFA and promissory note are subject to periodic renewals in the normal course of business. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2011. Substantially all borrower loans are match-funded with the Bank. Payments and disbursements are made on the note payable to the Bank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by the Bank based on the terms and conditions of the borrowing. The weighted average interest rate was 1.82 percent for the year ended December 31, 2011. With the merger of AgBank and CoBank on January 1, 2012, the GFA was extended and will expire on May 13, 2013. Upon expiration of the line of credit, undisbursed amounts available under the line of credit expire. So long as the Association is not in material default under the GFA, the Bank will continue to make advances (that do not exceed the amount payable under the promissory note) for undisbursed outstanding commitments on borrower loans which are not in default. The note payable to the Bank will continue until it has been fully discharged.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank gives approval to borrow elsewhere. The Bank, 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, 2011, the Association's notes payable were within the specified limitations.

NOTE 7 - MEMBERS' EQUITY

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

A. 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.

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 July 1, 2008, the Board of Directors reduced the stock requirement for borrowers to the lesser of one thousand dollars or 2.00 percent of each borrower's loan volume. Joint PCA and FLCA borrowers must satisfy the borrower stock requirement at both the PCA and FLCA levels, based upon the respective combined loan volumes at each subsidiary Association.

B. Regulatory Capitalization Requirements and Restrictions

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, 2011, the Association's permanent capital ratio was 18.81 percent, total surplus ratio was 18.58 percent and the core surplus ratio was 17.81 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, 2011, the Association has 143,245 shares of class C common stock and 7,410 participation certificates outstanding, all at a par value of \$5.00 per share.

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 those 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.

D. Dividends

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

NOTE 8 - PATRONAGE DISTRIBUTION FROM AGBANK

Patronage distributed from AgBank was in cash for the last three years. Patronage paid or declared by AgBank to the Association was \$1,498,795 in 2011, \$153,463 in 2010 and \$48,155 in 2009.

NOTE 9 - INCOME TAXES

The provision for income taxes follows:

	<u>Year Ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current:			
Federal	\$ 719,094	\$ (18)	\$ 581,244
State	1,600	1,600	1,611
Deferred:			
Federal	<u>578,240</u>	<u>1,653</u>	<u>111,074</u>
Total provision for income taxes	<u>\$ 1,298,934</u>	<u>\$ 3,235</u>	<u>\$ 693,929</u>

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:

	<u>Year Ended December 31,</u>					
	<u>2011</u>		<u>2010</u>		<u>2009</u>	
Federal tax at statutory rate	\$3,483,811	34%	\$1,309,126	34%	\$1,758,333	34%
State tax, net	1,600	0%	1,600	0%	1,611	0%
Effect of non-taxable FLCA subsidiary	(2,188,096)	(21%)	(1,300,172)	(21%)	(1,068,920)	(21%)
Other	<u>1,619</u>	<u>0%</u>	<u>(7,319)</u>	<u>0%</u>	<u>2,905</u>	<u>0%</u>
Provision for income taxes	<u>\$1,298,934</u>	<u>13%</u>	<u>\$ 3,235</u>	<u>13%</u>	<u>\$ 693,929</u>	<u>13%</u>

Deferred tax assets and liabilities are comprised of the following at:

	<u>December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Gross deferred tax asset</u>			
Allowance for loan losses	\$347,629	\$313,296	\$328,812
Annual leave	40,221	33,622	31,530
Postretirement benefits other than pensions	19,930	18,853	17,542
Other	<u>16,415</u>	<u>9,864</u>	<u>0</u>
Gross deferred tax asset	424,195	375,635	377,884
<u>Gross deferred tax liability</u>			
AgBank patronage allocations	(1,054,772)	(427,972)	(427,972)
Other	<u>0</u>	<u>0</u>	<u>(596)</u>
Net deferred tax (liability)/asset	<u>\$(630,577)</u>	<u>\$(52,337)</u>	<u>\$(50,684)</u>

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

The Association has no uncertain tax positions to be recognized as of December 31, 2011, 2010, or 2009.

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 2008 and forward.

NOTE 10 - EMPLOYEE BENEFIT PLANS

The employees of the Association may participate in the District's defined benefit pension plan (Pension Plan). The Pension Plan is noncontributory and covers a significant number of employees. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. As a participant in the District's defined benefit plan, the Association funded \$67,691 for 2011, \$91,876 for 2010, and \$150,300 for 2009, through its note payable to AgBank. Pension Plan expenses included in salaries and employee benefits expense were \$26,106 for 2011, \$129,908 for 2010, and \$200,794 for 2009. Additional financial information for the Pension Plan may be found in the District's Annual Report.

Postretirement benefits other than pensions are also provided through the Farm Credit Foundations Retiree Medical Plan to 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 (primarily health care benefits) included in salaries and employee benefits were \$6,613 for 2011, \$7,404 for 2010 and \$5,888 for 2009. Additional financial information for this plan may be found in the AgBank District's Annual Report.

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan (Contribution Plan). The Contribution Plan has two components. Employees who do not participate in the 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 these plans were \$93,292 in 2011, \$88,177 in 2010 and \$87,575, in 2009.

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 (related party loans). Such related party 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 or employment.

Related party loan information at December 31 is shown below (dollars in thousands).

	<u>2011</u>	<u>2010</u>	<u>2009</u>
New loans	\$16,533	\$15,447	\$28,801
Repayments	\$19,658	\$16,116	\$26,879
Ending balance	\$19,822	\$22,947	\$23,616

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2011 involved more than a normal risk of collectibility.

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.

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 and commercial letters of 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. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2011, \$121,877,529 of commitments to extend credit and \$1,050,000 of commercial letters of 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 and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. If not drawn upon, the commercial letters of credit outstanding at December 31, 2011, will expire on December 6, 2013 (\$1,000,000) and April 6, 2015 (\$50,000).

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

NOTE 14 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31. Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair value of the Association's financial instruments follows.

	December 31,					
	<u>2011</u>		<u>2010</u>		<u>2009</u>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans, net	\$293,893,773	\$293,325,919	\$276,877,430	\$279,374,939	\$274,591,344	\$274,456,750
Cash	\$ 555,285	\$ 555,285	\$ 7,350	\$ 7,350	\$ 22,336	\$ 22,336
Financial liabilities:						
Note payable to AgBank	\$223,213,262	\$223,122,517	\$214,684,491	\$224,244,816	\$212,273,819	\$216,901,664
Advance conditional payments	\$ 14,618,836	\$ 14,618,836	\$ 11,967,483	\$ 11,967,483	\$ 14,588,674	\$ 14,558,674
Commitments to extend credit	\$121,877,529	\$121,877,529	\$119,570,379	\$119,570,379	\$128,474,780	\$128,474,780
Standby letters of credit	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate the value follows.

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

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

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

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

- D. Advance conditional payments: The carrying value is a reasonable estimate of fair value as these funds are held in cash.
- E. Commitments to Extend Credit and Standby Letters of Credit: The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

NOTE 15 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2011, 2010 and 2009, follow.

	<u>2011</u>				
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	Total
Net interest income	\$1,847,659	\$1,936,769	\$2,231,515	\$2,256,536	\$8,272,479
(Provision for) / reversal loan losses	(429,300)	86,964	67,604	(86,780)	(361,512)
(Noninterest expense)/ Noninterest income, net	105,789	(796,152)	(894,663)	2,621,628	1,036,602
Net income	\$1,524,148	\$ 1,227,581	\$1,404,456	\$4,791,384	\$8,947,569

	<u>2010</u>				
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	Total
Net interest income	\$1,969,741	\$1,832,448	\$2,113,404	\$2,078,990	\$7,994,583
(Provision for) / reversal loan losses	(76,215)	(1,873,625)	140,636	8,360	(1,800,844)
(Noninterest expense)/ Noninterest income, net	(491,118)	(101,584)	861,636	(892,263)	2,346,601
Net income	\$1,402,408	(\$ 142,761)	\$1,392,404	\$1,195,087	\$3,847,138

	<u>2009</u>				
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	Total
Net interest income	\$1,713,902	\$1,845,320	\$2,066,762	\$2,123,259	\$7,749,253
(Provision for) / reversal loan losses	11,624	182,118	303,805	(300,930)	196,617
(Noninterest expense)/ Noninterest income, net	(810,091)	(870,682)	(945,309)	(842,149)	3,468,231
Net income	\$ 915,445	\$ 1,156,756	\$1,425,258	\$ 980,180	\$4,477,639

NOTE 16 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 6, 2012, which is the date the financial statements were issued and no material subsequent events were identified.

FARM CREDIT SERVICES OF COLUSA-GLENN, ACA

DISCLOSURE INFORMATION (Unaudited)

DESCRIPTION OF BUSINESS

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

DESCRIPTION OF PROPERTY

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

<u>Location</u>	<u>Description</u>
310 Sixth Street Colusa, California	Owned Office Building
605 Jay Street Colusa, California	Owned Office Building
201-B North Tehama Street Willows, California	Jointly owned Office Building (50%) with Northern California Farm Credit, ACA

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

At December 31, 2011, there were no actions pending against the Association in which claims for monetary damages are asserted.

There are no enforcement actions pending against the Association.

DESCRIPTION OF CAPITAL STRUCTURE

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

DESCRIPTION OF LIABILITIES

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

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

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2011 required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Consolidated Financial Data" included on page 5 of this annual report to shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears on pages 6 through 23 of this annual report to shareholders and is required to be disclosed in this section, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS, INCLUDING COMPENSATION

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:

Jerry Southam, Director and Chairman of the Board

Term of Office expires in 2014

Mr. Southam has been involved in farming for the past five years. Presently he serves on the Board of Directors of Jerry and Carole Farms, Inc., a family owned farming operation, Southam Walnut Dryer, a commercial walnut drying facility, and a Director for the Provident Irrigation District and Levee District #2, Glenn County. Mr. Southam was paid \$8,250.00 for serving 11 days at Board meetings and 40 days in other official activities on behalf of the Board.

Michael F. Doherty, Director and Vice Chairman of the Board

Term of Office expires in 2014

Mr. Doherty has been engaged in farming for the past five years. He currently serves as Director of the Arbuckle Revitalization Committee, Arbuckle-College City Fire Protection District and Colusa County Farm Supply, and on the Executive Board of Cortina Hulling & Shelling, LLC. Mr. Doherty served 10 days at Board meetings and 41 days in other official activities on behalf of the Board, for which he was compensated \$7,800.00

Herbert Holzapfel, Director

Term of Office expires in 2013

Mr. Holzapfel has been involved in farming for the past five years. Presently, he serves on the Board of Directors of the Farm Credit Council Services and Chairman of the Farmers Rice Cooperative Board of Directors. Mr. Holzapfel was paid \$4,650.00 for serving 12 days at Board meetings and 13 days in other official activities on the Board's behalf.

George Costa, Director

Term of Office expires in 2012

Mr. Costa has been engaged in farming for the past five years. He currently serves on the Board of Directors for Ridgetop Rice Dryer. He is also a Trustee of the Maxwell School Board. Mr. Costa served 10 days at Board meetings and 35 days in other official activities on behalf of the Board, for which he was compensated \$6,750.00.

Greg Weber, Director

Term of Office expires in 2013

Mr. Weber has been engaged in farming for the past five years. He currently serves on the Board of Directors and is CEO of Messick's Ace Hardware, Inc. Mr. Weber served 11 days at Board meetings and 11 days in other official activities on behalf of the Board, for which he was compensated \$4,350.00.

Doug Parker, Director

Term of Office expires in 2013

Mr. Parker has been involved in farming for the past five years. Presently, he serves on no other Board of Directors. Mr. Parker served 11 days at Board meetings and 12 days in other official activities on behalf of the Board, for which he was compensated \$4,800.00.

Brett Perry, Director

Term of Office expires in 2014

Mr. Perry has been involved in farming for the past five years. Presently, he serves on the Board of Directors of DePue Warehouse, Inc., Central Valley Rice Growers and is a past President of the Maxwell School Board. He is also a member of the Farm Service Agency County Committee. Mr. Perry served 6 days at Board meetings and 5 days in other official activities on behalf of the Board, for which he was compensated \$2,700.00.

August Henning, Director

Term of Office expires in 2012

Mr. Henning has been involved in farming for the past five years. Presently, he serves on no other Board of Directors. Mr. Henning served 10 days at Board meetings and 7 days in other official activities on behalf of the Board, for which he was compensation \$3,900.00.

Gar Rourke, Director

Term of Office expires in 2012

Mr. Rourke has been involved in financial counseling and life insurance sales for the past five years. Mr. Rourke is currently the City Treasurer for the City of Colusa. Mr. Rourke served 12 days at Board meetings and 8 days in other official activities for which he was compensated \$4,800.00.

Chris Bonacorsi, CPA, Director

Term of Office expires in 2012

Mr. Bonacorsi has been involved in public accounting for the past five years. Mr. Bonacorsi serves on no other Board of Directors. Mr. Bonacorsi served 12 days at Board meetings and 5 days in other official activities for which he was compensated \$3,900.00.

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. Reimbursement for travel, subsistence and related expenses for all directors as a group amounted to \$4,701.11 in 2011, \$4,589.00 in 2010, and \$6,358.14 in 2009. The total compensation and reimbursement for travel paid directors for 2011, as described above, amounted to \$70,780.65.

FCA regulations also require the following disclosure of the business experience for the last five years for each senior officer, as well as the aggregate amount of compensation paid to Senior Officers as a group:

James M. Vierra

Mr. Vierra has served as President/Chief Executive Officer of the Association since February 2001. He has been employed by the Association since March, 1982.

Dick Cowin

Mr. Cowin serves in the capacity of Vice President/Chief Operations Officer and has been employed by the Association since January, 1984.

Kenneth P. Woods

Mr. Woods served as Chief Financial Officer/Treasurer and had been employed by the Association since February, 1990. Mr. Woods retired on September 30, 2011. Mark Heidrick became the Chief Financial Officer on October 1, 2011.

Vincent Wurm

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

Mark Heidrick

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

Rebecca Myers

Mrs. Myers has served as Internal Audit Officer since October 1, 2011 and began her employment with the Association in November 2000.

A summary compensation table for Senior Officers follows:

CEO	Year	Annual			Other	Total
		Salary	Bonus (1)	Deferred/ Perquisites (2)		
James M. Vierra	2011	\$ 144,864	\$ 761	\$ 8,692	\$ 0	\$ 154,317
James M. Vierra	2010	\$ 140,640	\$ 761	\$ 8,438	\$ 2,069	\$ 151,908
James M. Vierra	2009	\$ 136,560	\$ 761	\$ 8,194	\$ 0	\$ 145,515
Aggregate No. of Senior Officers	Year	Annual			Other	Total
		Salary	Bonus (1)	Deferred/ Perquisites (2)		
Five	2011	\$ 457,905	\$ 3,277	\$ 47,309	\$ 1,879	\$ 510,370
Five	2010	\$ 473,376	\$ 4,201	\$ 48,415	\$ 2,610	\$ 528,602
Five	2009	\$ 485,880	\$ 4,084	\$ 48,318	\$ 2,195	\$ 540,477

(1) The Association has no cash or non-cash incentive or bonus compensation plans tied to performance by senior officers. Any bonus that is awarded is determined by the Board of Directors.

(2) Deferred Compensation - Each senior officer is a participant in the Eleventh Farm Credit District deferred compensation plan as described in Note 10 to the consolidated financial statements.

Disclosure of compensation paid during the last fiscal year to any senior officer, or to any other employee included in the aggregate, whose compensation exceeds \$50,000 is available to shareholders upon request.

TRAVEL, SUBSISTENCE AND OTHER RELATED EXPENSES

The travel, subsistence, and other related expenses of the Association Board of Directors and Senior Officers are covered by the Association's policies under which members of these two groups will be reimbursed for reasonable costs of essential travel, subsistence, and other related expenses. A copy of this policy is available 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 collectibility during 2011.

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 6, 2012 and "Management's Discussion and Analysis of Financial Condition and Results of Operations," appearing on pages 6 through 23 of this 2011 annual report to shareholders, are incorporated herein by reference.

U.S. AGBANK 2011 ANNUAL REPORT

The stockholder's investment in the Association is materially affected by the financial condition and the results of operation of AgBank and/or CoBank. Upon request, Association shareholders will be provided with a copy of the U.S. AgBank District Annual Report, which includes the combined financial statements of AgBank and its related Associations, and AgVantis. The U.S. AgBank District Annual Report discusses the material aspects of the District's financial condition, changes in financial condition, and results of operations. In addition, the District's Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation. Association shareholders also have available CoBank's annual report on CoBank's website.

RELATIONSHIP WITH THE BANK

The Association's statutory obligation to borrow from the Bank is discussed in Note 6.

The Bank's ability to access the capital of the Association is discussed in Note 4.

The Bank'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 of Financial Condition and Results of Operations."

BOARD OF DIRECTORS

Jerry Southam, Chairman.....	Colusa
Michael F. Doherty, Vice Chairman.....	Williams-Arbuckle-Grimes
Greg Weber	Colusa
George Costa.....	Maxwell-Delevan-Princeton
Brett Perry.....	Maxwell-Delevan-Princeton
Doug Parker	Williams-Arbuckle-Grimes
Herbert Holzapfel.....	Willows-Bayliss-Artois
August Henning	Willows-Bayliss-Artois
Gar Rourke	At-Large
Chris Bonacorsi	At-Large

ADMINISTRATIVE STAFF

James M. Vierra.....	Association President/CEO
Richard W. Cowin	Vice President/COO/Secretary
Rebecca Myers	Internal Audit Officer
Mark Heidrick.....	Chief Financial Officer
Barbara Walker	Operations Support Specialist
Karen Cabral	Corporate Secretary
William Rohde	Appraiser

COLUSA STAFF

Vincent S. Wurm.....	Chief Credit Officer
Steve Neader	Assistant Regional Vice President
Katie Clipper	Loan Officer
Jennifer Bowen.....	Loan Officer
Jonathan VanTol	Loan Officer
Nita Lang.....	Sr. Loan Documentation Specialist
Tara Thompson.....	Loan Documentation Specialist
Sue Wells	Accounting Specialist
Linda Olson	Accounting Assistant
Rua Newgard	Branch Secretary

WILLOWS STAFF

William A. Berg	Branch Manager
Sandra Martin	Operations Assistant

2012 NOMINATING COMMITTEE

Regular Members

Area

Joe Kalfsbeek.....	Colusa
Matt Southam.....	Maxwell-Delevan-Princeton
Don Traynham.....	Williams-Arbuckle-Grimes
Roy Holzapfel	Willows-Bayliss-Artois

Alternate Members

Area

.....	Colusa
Logan Dennis	Maxwell-Delevan-Princeton
Knute Myers.....	Williams-Arbuckle-Grimes
John Swaner	Willows-Bayliss-Artois