2015

ANNUAL REPORT

GOLDEN STATE FARM CREDIT, ACA

GOLDEN STATE
FARM CREDIT, ACA

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PRESIDENT'S MESSAGE

On behalf of your Golden State Farm Credit Management team and Board of Directors, we are pleased to present our 2015 Annual Report for your Golden State Farm Credit Association.

This annual report contains details of our 2015 financial performance. Your Association experienced strong results in 2015 and is well positioned to grow and meet the financial needs of California agriculture growers and producers for the future. Golden State understands the cycles of agriculture and shares your passion for agriculture. As a lender dedicated entirely to agriculture, we understand the volatile economic and weather cycles that can impact markets and yields. We make it our duty to provide an Association that is a dependable source of constructive credit and financial services contributing to the long term success of our members and rural communities.

The Association exhibited strong positive operating results again in 2015;

- Net Income: $22,300,047
- Permanent Capital: $228,767,209
- Asset Quality : 99.91% Acceptable and OAEM
- Return on Average Assets: 1.82%

These positive results allowed Golden State Farm Credit to return **$11,800,000** of patronage to its members in 2015.

As 2016 begins, the moisture for California agriculture seems brighter, combined with an uncertain environment for many commodity prices, political changes and other issues affecting agriculture. Golden State is poised to stand with our growers and producers as we tackle this new and challenging environment. Our capital remains strong, which positions the Association to stay the course for our customers and to continue to be a stable source of credit for your operations.

This annual report contains the details of our 2015 financial performance. You will note that the Association experienced strong financial performance and we have the capacity to serve you and meet the financing needs of the future. We continue to evolve our products and services to address the emerging ideas and demands of agriculture's next generation. The Association has an experienced and committed staff as well as an excellent board of directors. They are dedicated to providing you with a superior customer experience. It is a privilege to serve you and we look forward to a successful 2016 as the Farm Credit System celebrates a 100 year legacy of supporting rural communities and agriculture.

J. Fletcher Monroe

J. Fletcher Monroe
President & CEO
March 15, 2016

FARM CREDIT
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ESTABLISHED 1916

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2015	2014	2013	2012	2011
Statement of Condition Data					
Loans	**$ 1,216,296**	$1,152,326	$ 465,879	$ 434,180	$ 431,925
Less allowance for loan losses	**3,321**	2,524	2,502	2,502	2,502
Net loans	**1,212,975**	1,149,802	463,377	431,678	429,423
Investment in CoBank, ACB	**39,592**	39,489	18,032	18,029	11
Investment in U.S. AgBank, FCB	**NA**	NA	NA	NA	17,983
Other property owned	**-**	57	-	-	-
Other assets	**34,308**	29,260	11,927	14,504	10,430
Total assets	**$ 1,286,875**	$1,218,608	$ 493,336	$ 464,211	$ 457,847
Obligations with maturities of one year or less	**$ 1,025,763**	$ 968,059	$ 395,589	$ 370,126	$ 368,265
Reserve for unfunded commitments	**64**	-	-	-	-
Total liabilities	**1,025,827**	968,059	395,589	370,126	368,265
Capital stock and participation certificates	**1,582**	1,612	983	995	975
Additional paid-in capital	**141,442**	141,442	-	-	-
Unallocated retained earnings	**118,333**	107,833	96,764	93,090	88,607
Accumulated other comprehensive (loss)/income	**(309)**	(338)	-	-	-
Total shareholders' equity	**261,048**	250,549	97,747	94,085	89,582
Total liabilities and shareholders' equity	**$ 1,286,875**	$1,218,608	$ 493,336	$ 464,211	$ 457,847

	For the Year Ended December 31				
	2015	2014	2013	2012	2011
Statement of Income Data					
Net interest income	**$ 31,681**	$ 29,702	$ 12,703	$ 11,972	$ 12,896
Patronage distribution from Farm Credit institutions	**4,577**	4,625	1,633	1,630	2,554
Tax-free recapitalization distribution due to AgBank merger	**-**	-	-	-	9,880
Provision for credit losses	**863**	61	-	-	100
Noninterest expense, net	**13,093**	11,998	6,559	5,043	5,136
Provision for/(Benefit from) income taxes	**2**	(301)	3	76	153
Net income	**$ 22,300**	$ 22,569	$ 7,774	$ 8,483	$ 19,941
Comprehensive income	**$ 22,329**	$ 22,231	$ 7,774	$ 8,483	$ 19,941
Key Financial Ratios					
For the Year					
Return on average assets	**1.82%**	1.88%	1.68%	1.96%	4.73%
Return on average shareholders' equity	**8.57%**	9.07%	8.02%	9.12%	25.67%
Net interest income as a percentage of average earning assets	**2.72%**	2.61%	2.91%	2.93%	3.16%
Net charge-offs/(recoveries) as a percentage of average net loans	**<0.01%**	<0.01%	-	<(0.01%)	0.02%
At Year End					
Shareholders' equity as a percentage of total assets	**20.29%**	20.56%	19.81%	20.27%	19.57%
Debt as a ratio to shareholders' equity	**3.93:1**	3.86:1	4.05:1	3.93:1	4.11:1
Allowance for loan losses as a percentage of loans	**0.27%**	0.22%	0.54%	0.58%	0.58%
Permanent capital ratio	**18.04%**	18.13%	17.17%	17.56%	16.52%
Total surplus ratio	**17.91%**	18.00%	16.97%	17.35%	16.31%
Core surplus ratio	**17.65%**	17.70%	15.95%	16.29%	15.24%
Net Income Distribution					
Cash patronage distribution paid	**$ 11,600**	$ 11,400	$ 4,100	$ 4,000	$ 3,100
Cash patronage declared	**$ 11,800**	$ 11,500	$ 4,100	$ 4,000	$ 3,500

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Golden State Farm Credit, ACA for the year ended December 31, 2015. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. You should read these comments along with the accompanying consolidated financial statements, footnotes and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

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

On January 1, 2014, the Federal Land Bank Association of Kingsburg, FLCA (Kingsburg) was merged into Northern California Farm Credit, FLCA, a wholly owned subsidiary of Northern California Farm Credit, ACA (Northern California). The merged association is conducting business under the name Golden State Farm Credit, ACA (Golden State) and is headquartered in Kingsburg, California. Fletcher Monroe was appointed as the Chief Executive Officer of Golden State effective February 9, 2015. Golden State encompasses the territories previously served by the separate associations. The primary reason to merge was based on a determination that the combined organization would be financially and operationally stronger than either association on a stand-alone basis.

Beginning in 2014, our balance sheet, income statement, average balances and related percentages include the effects of the merger with Kingsburg. Prior year results have not been restated to reflect the impact of the merger. Upon the closing of the merger, loans increased by $692.0 million, assets increased by $732.4 million, liabilities increased by $590.2 million and shareholder's equity increased by $142.2 million. These amounts include adjustments to fair value, as required by accounting standards for business combinations.

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.gsfarmcredit.com, or upon request. We are located at 1580 Ellis Street, Kingsburg, California 93631, or may be contacted by calling (559) 897-5814.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

We are one of 74 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

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

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

We, along with the borrower's investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 1580 Ellis Street, Kingsburg, California 93631, or by calling (559) 897-5814. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. Our Services Agreement with AgVantis expired on December 31, 2015. Upon expiration, a new services agreement was effective which expires on December 31, 2018. We are a shareholder in AgVantis, along with all other AgVantis customers. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

ECONOMIC OVERVIEW

The agricultural region covered by Golden State Farm Credit continued to experience favorable economic conditions with the exception of several commodities which saw reduced prices in 2015. The dairy and walnut industries were the two primary commodities which experienced reduced prices. Even with reduced prices, most in the area continued to show slight profits. Overall, the commodity groups showed good prices and profitability despite the ongoing effects and concerns of the drought. Land prices continued to rise and are seen as stable at the present time.

The drought continues to be the largest consideration when looking at the future profitability of the farmers and ranchers in the area. There continues to be land idled due to the lack of adequate water supply but most farmers have been able to obtain supplemental water as needed through purchases and/or development of new wells. To this point, the precipitation for 2016 is at or above normal and water districts are optimistic about full deliveries or close to those levels for the coming crop year.

LOAN PORTFOLIO

Total loans outstanding were $1.22 billion at December 31, 2015, an increase of $64.0 million, or 5.6%, from loans at December 31, 2014 of $1.15 billion, and an increase of $750.4 million, or 161.1%, from loans at December 31, 2013 of $465.9 million. The increase in loans over the past year was due to increased market penetration, customer demand, and an increase in participations purchased. The types of loans outstanding at December 31 are reflected in the following table.

	2015		2014		2013	
(dollars in thousands)	Volume	Percent	Volume	Percent	Volume	Percent
Real estate mortgage loans	$ 1,061,681	87.3%	$ 1,019,201	88.4%	$ 312,519	67.0%
Production and intermediate-term loans	72,100	5.9%	58,874	5.1%	79,141	17.0%
Agribusiness loans to:						
Cooperatives	–	–	–	–	1	–
Processing and marketing	25,961	2.1%	16,424	1.4%	7,430	1.6%
Farm related business	21,346	1.8%	24,378	2.1%	35,806	7.7%
Rural residential real estate loans	269	–	296	0.1%	314	0.1%
Lease receivables	34,939	2.9%	33,153	2.9%	30,668	6.6%
Total	$ 1,216,296	100.0%	$ 1,152,326	100.0%	$ 465,879	100.0%

Real estate mortgage loans outstanding increased to $1.06 billion, compared with $1.02 billion at year-end 2014, primarily due to increased market penetration and customer demand. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans increased 22.5% to $72.1 million compared with 2014 loans of $58.9 million, primarily due to increased demand within our territory and new markets which opened up in the Kingsburg-Hanford area due to the 2014 merger. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years.

Portfolio Diversification

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by loan participations purchased and sold**.**

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

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

(dollars in thousands)	2015	2014	2013
Participations purchased	$ 29,555	$ 16,141	$ 37,677
Participations sold	$105,818	$100,613	$ 30,394

We have no loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in the loans sold. The increase in participations purchased is the result of management's decision to better balance the ratio of purchased loans to sold loans which has resulted in an increase in purchased loans of approximately $13.1 million.

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

	2015	2014	2013
Fresno	27.20%	25.27%	NA
Kings	18.64%	18.63%	NA
Tulare	14.62%	13.60%	NA
Butte	10.37%	10.06%	26.16%
Tehama	10.37%	9.90%	23.64%
Glenn	9.66%	8.31%	21.30%
Shasta	2.30%	2.50%	5.88%
Trinity	0.02%	0.02%	0.05%
Other	6.82%	11.71%	22.97%
Total	100.00%	100.00%	100.00%

The changes from 2013 to 2014 are related to the merger, with Fresno, Kings and Tulare counties being the area where the loans acquired in the merger are located.

We are a party to an Agreement Providing Territorial Concurrence (Agreement) with Farm Credit West, ACA. This Agreement eliminates territorial restrictions and allows either party to make loans through its dealer network in the other's territory for a fee.

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

SIC Category	December 31 2015	2014	2013
Dairy	16.93%	17.36%	7.02%
Other orchards	15.21%	17.08%	7.78%
Walnuts	11.94%	11.73%	20.00%
Grapes	11.40%	12.29%	NA
Almonds	11.14%	9.04%	13.53%
Irrigated field crops	11.08%	11.34%	6.43%
Livestock	8.61%	8.09%	16.61%
Rice	4.69%	4.94%	11.50%
Related business	1.85%	2.22%	4.27%
Other	7.15%	5.91%	12.86%
Total	100.00%	100.00%	100.00%

Our loan portfolio contains a concentration of dairy, other orchards, grapes, walnuts, irrigated field crops and almonds. These six commodities represent nearly 78% of our total loan volume, but are spread out to a large number of borrowers. There is also a good deal of diversification between multiple crops for many of our borrowers. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy. Of our outstanding loan volume at December 31, 2015, approximately 19% consists of borrowers with income not solely from agricultural sources, a decrease from 21% for 2014.

The principal balance outstanding at December 31, 2015 for loans $250 thousand or less accounted for 15.6% of loan volume and 59.5% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loan principal by dollar size at December 31.

	2015		2014		2013	
(dollars in thousands)	Amount outstanding	Number of loans	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	$ 190,180	1,518	$ 204,449	2,662	$ 107,951	1,873
$251 - $500	179,080	510	168,420	476	92,179	261
$501 - $1,000	198,447	277	184,578	259	80,208	115
$1,001 - $5,000	494,623	225	442,261	205	161,302	86
$5,001 - $25,000	153,966	23	152,618	21	24,239	4
Total	$1,216,296	2,553	$1,152,326	3,623	$ 465,879	2,339

Approximately 13% of our loans outstanding are attributable to 23 borrowers. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

The credit risk of some long-term real estate loans has been reduced by entering into agreements that provide long-term standby commitments by Federal Agricultural Mortgage Corporation (Farmer Mac) to purchase the loans in the event of default. The amount of loans subject to these Farmer Mac credit enhancements was $100.1 million at December 31, 2015, $111.2 million at December 31, 2014 and $13.8 million at December 31, 2013. Included in other operating expenses were fees paid for these Farmer Mac commitments totaling $360 thousand in 2015, $372 thousand in 2014 and $50 thousand in 2013. Under the Farmer Mac long-term standby commitment to purchase agreements, we continue to hold the loans in our portfolio, and we pay commitment fees to Farmer Mac for the right to put a loan designated in these agreements to Farmer Mac at par in the event the loan becomes significantly delinquent (typically four months past due). If the borrower cures the default, we must repurchase the loan and the commitment remains in place. Farmer Mac long-term standby commitments to purchase agreements are further described in Note 3. Other than the contractual obligations arising from these business transactions with Farmer Mac, Farmer Mac is not liable for any debt or obligation of ours and we are not liable for any debt or obligation of Farmer Mac. For more information on Farmer Mac, refer to their website at www.farmermac.com.

Credit guarantees with government agencies of $2.2 million at year-end 2015, $2.0 million at year-end 2014 and $2.6 million at year-end 2013 were outstanding.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2015.

(dollars in thousands)	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Over 5 years**	**Total**
Commitments	$ 36,978	$ 55,560	$ 11,787	$222,037	$ 326,362

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

High Risk Assets

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

(dollars in thousands)	2015	2014	2013
Nonaccrual loans:			
Real estate mortgage	$ 283	$ 224	$ 412
Lease receivables	1	4	5
Total nonaccrual loans	284	228	417
Other property owned	–	57	–
Total high risk assets	$ 284	$ 285	$ 417
Nonaccrual loans to total loans	0.02%	0.02%	0.09%
High risk assets to total loans	0.02%	0.02%	0.09%
High risk assets to total shareholders' equity	0.11%	0.11%	0.43%

We had no loans classified as restructured or 90 days past due still accruing interest for the years presented.

Total high risk assets decreased $1 thousand, or 0.4%, to $284 thousand at December 31, 2015 compared with year-end 2014. The reduction in high risk assets was due to the sale of other property owned, offset by an increase in nonaccrual loans.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume increased $56 thousand compared with December 31, 2014 due to additional transfer of loans to nonaccrual status. Nonaccrual loans decreased $133 thousand compared with December 31, 2013.

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

(dollars in thousands)	2015	2014	2013
Nonaccrual loans current as to principal and interest	$ 284	$ 228	$ 417

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

Other property owned is real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure or other means. We had no other property owned at December 31, 2015, compared with $57 thousand at December 31, 2014 and none at December 31, 2013. The acquired property was sold during 2015 at a loss of $13 thousand.

High risk asset volume is anticipated to remain steady or increase slightly in connection with the effect of the drought.

Credit Quality

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

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are not considered collectible.

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

	2015	2014	2013
Acceptable	99.79%	99.54%	99.36%
OAEM	0.12%	0.11%	0.24%
Substandard	0.09%	0.35%	0.40%
Total	100.00%	100.00%	100.00%

During 2015, overall credit quality improved. Loans classified as Acceptable and OAEM were 99.91% at December 31, 2015, 99.65% at December 31, 2014 and 99.60% at December 31, 2013. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased to 0.02% at December 31, 2015, compared with no loan delinquencies at December 31, 2014 and 2013.

Allowance for Loan Losses

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

(dollars in thousands)	2015	2014	2013
Balance at beginning of year	$ 2,524	$ 2,502	$ 2,502
Charge-offs:			
Lease Receivables	2	39	–
Net charge-offs	2	39	–
Provision for loan losses	799	61	–
Balance at December 31	$ 3,321	$ 2,524	$ 2,502
Net charge-offs as a percentage of average net loans	<0.01%	<0.01%	–

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

(dollars in thousands)	2015	2014	2013
Real estate mortgage	$ 773	$ 422	$ 1,671
Production and intermediate-term	1,464	1,310	427
Agribusiness	311	156	278
Rural residential real estate	2	3	4
Lease receivables	771	633	122
Total	$ 3,321	$ 2,524	$ 2,502

The allowance for loan losses increased $797 thousand from December 31, 2014, to $3.3 million at December 31, 2015. The increase in allowance for loan losses was primarily due to increased risk exposure due to the impact of the continuing drought on permanent plantings and lower commodity prices for tree nuts and dairy. Net charge-offs of $2 thousand were recorded during 2015. Overall, charge-off activity remains very low relative to the size of our loan portfolio. During 2014, our allowance for loan losses increased $22 thousand from 2013 primarily due to the provision for loan losses totaling $61 thousand that was recorded due to acquiring leased hay equipment for non-payment of rents. Net charge-offs of $39 thousand were recorded during 2014 on the hay equipment acquired. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2015	2014	2013
Allowance as a percentage of:			
Loans	0.27%	0.22%	0.54%
Impaired loans	1,169.37%	1,107.02%	600.00%

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

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

	2015
Balance at beginning of year	$ –
Provision for unfunded commitments	64
Balance at December 31	$ 64

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit and related services to young, beginning and small (YBS) farmers and ranchers. Our mission statement for this program is: To establish and encourage a sound and constructive program to provide for the special credit needs for Young, Beginning, and Small (YBS) farmers, ranchers and harvesters of aquatic products in accordance with the Farm Credit Act. This policy is intended to provide for both the mortgage and commercial credit, and other Association related service needs of a group of borrowers who may not be eligible for financing under the Association's existing policies. Following are FCA regulatory definitions for YBS farmers and ranchers.

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

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

		December 31		
	USDA	2015	2014	2013
Young	10%	14%	15%	14%
Beginning	29%	24%	25%	19%
Small	78%	32%	30%	34%

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

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

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

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

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

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

	Volume (change)		Number of loans (change)	
	Goal	Actual	Goal	Actual
Young	5%	4%	3%	-1%
Beginning	3%	6%	1%	-2%
Small	5%	2%	3%	1%

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 underwriting standards, loan guarantee programs, fee waiver programs, or other credit enhancement programs. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers.

CREDIT RISK MANAGEMENT

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

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

- character – borrower integrity and credit history;
- capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income;
- collateral – to protect the lender in the event of default and also serve as a secondary source of loan repayment;

- capital – ability of the operation to survive unanticipated risks; and,
- conditions – intended use of the loan funds, terms, restrictions, etc.

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

By regulation, we cannot have loan commitments to one borrower for more than 15% of our permanent capital. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established for individual loan size, commodity type, special lending programs and geographic concentrations. We have adopted an individual lending limit maximum of 12% of permanent capital for our highest quality borrowers.

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

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

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

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

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

RESULTS OF OPERATIONS

Earnings Summary

In 2015, we recorded net income of $22.3 million, compared with $22.6 million in 2014, and $7.8 million in 2013. The decrease in 2015 was primarily due to increased noninterest expense, increased provision for credit losses and provision for income taxes, offset by increased net interest income. The increase in 2014 was primarily due to increased net interest income and patronage from CoBank, as a result of increased earning assets acquired on the merger with Kingsburg, partially offset by increases in noninterest expense. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	2015 vs. 2014	2014 vs. 2013
Net income, prior year	$ 22,569	$ 7,774
Increase/(Decrease) from changes in:		
Interest income	868	24,674
Interest expense	1,111	(7,675)
Net interest income	1,979	16,999
Provision for credit losses	(802)	(61)
Noninterest income	36	3,027
Noninterest expense	(1,179)	(5,474)
Provision for/Benefit from income taxes	(303)	304
Total (decrease)/increase in net income	(269)	14,795
Net income, current year	$ 22,300	$ 22,569

Return on average assets decreased to 1.82% from 1.88% in 2014, and return on average shareholders' equity decreased to 8.57% from 9.07% in 2014, primarily as a result of decreased net income.

Net Interest Income

Net interest income for 2015 was $31.7 million compared with $29.7 million for 2014 and $12.7 million for 2013. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in 2015 was primarily due to higher loan volume and lower cost of debt, and the increase in 2014 is primarily due to higher loan volume as a result of the merger with Kingsburg. The following table provides an analysis of the individual components of the change in net interest income during 2015 and 2014.

(dollars in thousands)	2015 vs. 2014	2014 vs. 2013
Net interest income, prior year	$ 29,702	$ 12,703
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	(155)	(1,190)
Interest rates paid	1,338	(114)
Volume of interest-bearing assets and liabilities	771	18,308
Interest income on nonaccrual loans	25	(5)
Increase in net interest income	1,979	16,999
Net interest income, current year	$ 31,681	$ 29,702

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

	For the Year Ended December 31		
	2015	2014	2013
Net interest margin	2.72%	2.61%	2.91%
Interest rate on:			
Average loan volume	3.67%	3.68%	3.96%
Average debt	1.16%	1.30%	1.27%
Interest rate spread	2.51%	2.38%	2.69%

The increase in interest rate spread resulted from a 1 basis point decrease in interest rates on average loan volume and a 14 basis point decrease in interest rates on average debt. The increase in net interest margin in addition to the change in spread was impacted by higher earnings on our own capital.

Provision for Credit Losses

We monitor our loan portfolio and unfunded commitments on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for loan losses or reserve for unfunded commitment is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio and unfunded commitments. We recorded net provision for credit losses of $863 thousand in 2015, compared with net provision for credit losses of $61 thousand in 2014 and no provision for credit losses in 2013. The provision for loan losses of $799 thousand recorded during 2015 was primarily due to increased risk exposure due to the impact of the continuing drought on permanent plantings and lower commodity prices for tree nuts and dairy. The provision for loan losses recorded during 2014 was primarily due to acquiring leased hay equipment for non-payment of rents. There was no provision for loan losses recorded in 2013 primarily due to our assessments of probable losses.

Noninterest Income

During 2015, we recorded noninterest income of $5.0 million, compared with $4.9 million in 2014 and $1.9 million in 2013. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. Patronage earned from CoBank was $4.5 million in 2015, $4.4 million in 2014 and $1.5 million in 2013.

We received a patronage distribution from AgVantis, based on our services purchased from AgVantis during 2015. We received a Notice of Allocation with our total patronage of $39 thousand, which includes cash patronage of $8 thousand compared with cash patronage of $32 thousand for 2014 and $22 thousand for 2013. The balance of the allocation is recorded in other assets. Additionally, we received a cash patronage of $10 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services. This compares with $4 thousand recorded in 2014 and $6 thousand in 2013. Patronage from these two entities and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received mineral income of $12 thousand during 2015, which is distributed to us quarterly by CoBank. Noninterest income also includes loan fees, financially related services income and other noninterest income.

Noninterest Expense

Noninterest expense for 2015 increased $1.2 million, or 9.6%, to $13.5 million compared with 2014 and $6.7 million, or 97.5% compared with 2013. Noninterest expense for each of the three years ended December 31 is summarized as follows:

				Percent of Change	
(dollars in thousands)	2015	2014	2013	2015/2014	2014/2013
Salaries & employee benefits	$ 7,802	$ 7,505	$ 4,547	3.96%	65.05%
Occupancy & equipment	500	459	180	8.93%	155.00%
Purchased services from AgVantis	1,029	845	513	21.78%	64.72%
Merger implementation costs	–	5	150	(100.00%)	(96.67%)
Supervisory & examination costs	347	367	165	(5.45%)	122.42%
Other	2,658	2,093	963	26.99%	117.34%
Total operating expense	12,336	11,274	6,518	9.42%	72.97%
Losses on other property owned, net	13	–	–	100.00%	–
Farm Credit Insurance Fund premium	1,129	1,025	307	10.15%	233.88%
Total noninterest expense	$13,478	$12,299	$ 6,825	9.59%	80.21%

For the year ended December 31, 2015, total operating expense increased $1.1 million, or 9.4%, compared with the year ended December 31, 2014, primarily due to increased salaries and benefits, purchased services, travel, donations, and other expenses. For the year ended December 31, 2014, total operating expenses increased $4.8 million, or 72.97%, compared with the year ended December 31, 2013, primarily due to increased employees, facilities, purchased services, travel and advertising mainly as a result of the merger with Kingsburg. Insurance Fund premium increased $104 thousand to $1.1 million due to an increase in the premium rate and volume. Premium rates were 13 basis points during 2015 compared with 12 basis points in 2014 and 10 basis points in 2013.

Provision for income taxes/Benefit from income taxes

We recorded $2 thousand in provision for income taxes during 2015, compared with benefit from income taxes of $301 thousand in 2014 and provision for income taxes of $3 thousand in 2013. The increase was primarily due to the elimination of the deferred tax liability in 2014. Tax expense was also impacted by our patronage refund program. We operate as a Subchapter T cooperative for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 10 for additional details.

LIQUIDITY

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

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank which matures on May 31, 2018. The annual average principal balance of the note payable to CoBank was $925.0 million in 2015, $904.4 million in 2014 and $335.2 million in 2013.

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

Interest Rate Risk

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

Funds Management

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

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2015 totaled $261.0 million, compared with $250.5 million at December 31, 2014 and $97.7 million at December 31, 2013. The increase of $10.5 million in shareholders' equity reflects net income and an increase in accumulated other comprehensive income, partially offset by patronage refunds paid and net stock retirements. Our capital position is reflected in the following ratio comparisons.

	2015	2014	2013
Debt to shareholders' equity	3.93:1	3.86:1	4.05:1
Shareholders' equity as a percent of net loans	21.52%	21.79%	21.09%
Shareholders' equity as a percent of total assets	20.29%	20.56%	19.81%

Retained Earnings

Our retained earnings increased $10.5 million to $118.3 million at December 31, 2015 from $107.8 million at December 31, 2014 and increased $21.6 million from $96.8 million at December 31, 2013. The increase was a result of net income of $22.3 million, partially offset by $11.8 million of patronage distributions declared.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, the Bylaws address increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of $11.6 million in 2015, $11.4 million in 2014 and $4.1 million in 2013. During 2015, we declared patronage distributions of $11.8 million; $5.3 million was paid in September 2015 and $6.5 million will be paid in March 2016.

Stock

Our total stock and participation certificates decreased $30 thousand to $1.6 million at December 31, 2015, from $1.6 million at December 31, 2014 and increased from $983 thousand at December 31, 2013. The decrease was due to $356 thousand of stock retirements, partially offset by $326 thousand of stock issuances. We require a stock investment for each borrower. We have a Borrower Level Stock Program which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s).

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss totaled $309 thousand at December 31, 2015, a decrease of $29 thousand compared with year-end 2014 and an increase of $309 thousand compared with year-end 2013. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Accounting guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive loss.

Capital Plan and Regulatory Requirements

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

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

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

	Regulatory Minimum	2015	2014	2013
Permanent capital ratio	7.00%	18.04%	18.13%	17.17%
Total surplus ratio	7.00%	17.91%	18.00%	16.97%
Core surplus ratio	3.50%	17.65%	17.70%	15.95%

As of December 31, 2015, we exceeded the regulatory minimum capital ratios and are expected to do so throughout 2016. 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, 2015, we have exceeded our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

REGULATORY MATTERS

As of December 31, 2015, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

On May 8, 2014, the FCA Board approved a proposed rule to modify the regulatory capital requirements for System banks, including CoBank, and Associations. The stated objectives of the proposed rule are as follows:

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

As currently drafted, the proposed rule would, among other things, eliminate the core surplus and total surplus requirements and introduce common equity tier 1, tier 1 and total capital (tier 1 + tier 2) risk-based capital ratio requirements. The proposal would add a minimum tier 1 leverage ratio for all System institutions, which would replace the existing net collateral ratio for system banks. In addition, the proposal would establish a capital conservation buffer, modify and expand risk weightings and, for System banks only, require additional public disclosures. The revisions to the risk weightings of exposures would include alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

The initial public comment period for the proposed capital rule ended on February 16, 2015. The FCA reopened the comment period from June 26, 2015 to July 10, 2015. While uncertainty exists as to the final form of the proposed rule, based on our preliminary assessment, we do not believe the new rule will impose any significant constraints on our business strategies or growth prospects.

GOVERNANCE

Board of Directors

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

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

Director Independence

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

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

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of five members of the Board of Directors. During 2015, eleven meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

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

Compensation Committee

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

Other Governance

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

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

FORWARD-LOOKING INFORMATION

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and/or the Farm Credit System; and,
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses/Reserve for Unfunded Commitment

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

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

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

CUSTOMER PRIVACY

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

GOLDEN STATE
FARM CREDIT, ACA

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REPORT OF MANAGEMENT

The consolidated financial statements of Golden State Farm Credit, ACA (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2015 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. A third party internal auditor is used to monitor compliance, perform audits of the accounting records, review accounting systems and internal controls, and recommends improvements as appropriate. The consolidated financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

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

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

Mike Fry
Chairman of the Board

J. Fletcher Monroe
President and Chief Executive Officer

Tim Gray
Controller

Larry Grager
Chief Financial Officer

March 15, 2016

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GOLDEN STATE
FARM CREDIT, ACA

Main Office
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Golden State Farm Credit, 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 Board 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, 2015. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2015, 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, 2015.

J. Fletcher Monroe

J. Fletcher Monroe
President and Chief Executive Officer

Larry Grager

Larry Grager
Chief Financial Officer

Tim Gray

Tim Gray
Controller

March 15, 2016

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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes five members from the Board of Directors of Golden State Farm Credit, ACA (Association). In 2015, eleven Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2015.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2015 were $61,200 for audit 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 the Association's audited financial statements for the year ended December 31, 2015 (the "Financial Statements") with management. The Committee also receives from PwC the matters required to be discussed by Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2015 and for filing with the Farm Credit Administration.

Sandra L Mansfield

Sandra Mansfield, Chairman of the Audit Committee

Audit Committee Members
Jim Holt, Vice Chairman
James Oliver
Mike Chambers
Bob Reimer

March 15, 2016

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Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2015	2014	2013
ASSETS			
Loans	**$ 1,216,296**	$1,152,326	$ 465,879
Less allowance for loan losses	**3,321**	2,524	2,502
Net loans	**1,212,975**	1,149,802	463,377
Cash	**18,555**	13,854	5,493
Accrued interest receivable	**6,274**	6,144	2,714
Investment in CoBank, ACB	**39,592**	39,489	18,032
Premises and equipment, net	**3,182**	3,103	1,305
Other property owned	**-**	57	-
Prepaid benefit expense	**863**	727	400
Other assets	**5,434**	5,432	2,015
Total assets	**$ 1,286,875**	$1,218,608	$ 493,336
LIABILITIES			
Note payable to CoBank, ACB	**$ 991,675**	$ 923,934	$ 372,939
Advance conditional payments	**20,696**	24,215	14,728
Accrued interest payable	**1,084**	4,517	2,472
Patronage distributions payable	**6,500**	6,300	2,200
Accrued benefits liability	**723**	740	170
Deferred tax liability	**-**	-	303
Reserve for unfunded commitments	**64**	-	-
Other liabilities	**5,085**	8,353	2,777
Total liabilities	**1,025,827**	968,059	395,589
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Capital stock and participation certificates	**1,582**	1,612	983
Additional paid-in capital	**141,442**	141,442	-
Unallocated retained earnings	**118,333**	107,833	96,764
Accumulated other comprehensive (loss)/income	**(309)**	(338)	-
Total shareholders' equity	**261,048**	250,549	97,747
Total liabilities and shareholders' equity	**$ 1,286,875**	$1,218,608	$ 493,336

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2015	2014	2013
INTEREST INCOME			
Loans	**$ 42,830**	$ 41,962	$ 17,288
Total interest income	**42,830**	41,962	17,288
INTEREST EXPENSE			
Note payable to CoBank, ACB	**11,004**	12,112	4,474
Other	**145**	148	111
Total interest expense	**11,149**	12,260	4,585
Net interest income	**31,681**	29,702	12,703
Provision for credit losses	**863**	61	-
Net interest income after provision for credit losses	**30,818**	29,641	12,703
NONINTEREST INCOME			
Financially related services income	**161**	109	65
Loan fees	**130**	96	155
Patronage distribution from Farm Credit institutions	**4,577**	4,625	1,633
Mineral income	**12**	30	5
Other noninterest income	**82**	66	41
Total noninterest income	**4,962**	4,926	1,899
NONINTEREST EXPENSE			
Salaries and employee benefits	**7,802**	7,505	4,547
Occupancy and equipment	**500**	459	180
Purchased services from AgVantis, Inc.	**1,029**	845	513
Losses on other property owned, net	**13**	-	-
Farm Credit Insurance Fund premium	**1,129**	1,025	307
Merger-implementation costs	**-**	5	150
Supervisory and examination costs	**347**	367	165
Other noninterest expense	**2,658**	2,093	963
Total noninterest expense	**13,478**	12,299	6,825
Income before income taxes	**22,302**	22,268	7,777
Provision for/(Benefit from) income taxes	**2**	(301)	3
Net income	**22,300**	22,569	7,774
COMPREHENSIVE INCOME			
Amortization of retirement costs	**107**	-	-
Actuarial loss on retirement obligation	**(78)**	(338)	-
Total comprehensive income	**$ 22,329**	$ 22,231	$ 7,774

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Capital Stock and Participation Certificates	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2012	$ 995	$ -	$ 93,090	$ -	$ 94,085
Comprehensive income			7,774		7,774
Stock and participation certificates issued	149				149
Stock and participation certificates retired	(161)				(161)
Patronage Distributions: Cash			(4,100)		(4,100)
Balance at December 31, 2013	983	-	96,764	-	97,747
Comprehensive income			22,569	(338)	22,231
Stock and participation certificates issued	332				332
Stock and participation certificates retired	(476)				(476)
Equity issued in connection with merger	773	141,442			142,215
Patronage Distributions: Cash			(11,500)		(11,500)
Balance at December 31, 2014	1,612	141,442	107,833	(338)	250,549
Comprehensive income			22,300	29	22,329
Stock and participation certificates issued	326				326
Stock and participation certificates retired	(356)				(356)
Patronage Distributions: Cash			(11,800)		(11,800)
Balance at December 31, 2015	**$ 1,582**	**$ 141,442**	**$ 118,333**	**$ (309)**	**$ 261,048**

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 22,300**	$ 22,569	$ 7,774
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**351**	315	137
Provision for credit losses	**863**	61	-
Patronage stock from CoBank	**(93)**	(104)	(2)
Allocated patronage from AgVantis	**(31)**	(245)	(89)
Gains on sales of premises and equipment	**(20)**	(18)	(9)
Loss on sales of other property owned	**13**	-	-
Net accretion of yield related to loans and notes payable acquired in merger	**582**	1,647	-
Change in assets and liabilities:			
(Increase)/Decrease in accrued interest receivable	**(130)**	1,247	638
Increase in prepaid benefit expense	**(136)**	(327)	(61)
Decrease/(Increase) in other assets	**122**	94	(103)
(Decrease)/Increase in accrued interest payable	**(3,433)**	(1,760)	143
Increase in accrued benefits liability	**12**	22	8
(Decrease)/Increase in deferred tax liability	**-**	(303)	2
(Decrease)/Increase in other liabilities	**(3,268)**	3,217	(479)
Total adjustments	**(5,168)**	3,846	185
Net cash provided by operating activities	**17,132**	26,415	7,959
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase)/Decrease in loans, net	**(65,757)**	3,416	(31,699)
Net cash acquired in business combination	**-**	9,225	-
Increase in investment in CoBank	**(103)**	(73)	(3)
Expenditures for premises and equipment, net	**(410)**	(225)	(95)
Proceeds from sales of other property owned	**44**	-	-
Net cash (used in)/provided by investing activities	**(66,226)**	12,343	(31,797)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on/(repayment of) note payable to CoBank	**68,944**	(28,340)	29,710
(Decrease)/Increase in advance conditional payments	**(3,519)**	9,487	(3,921)
Capital stock retired	**(356)**	(476)	(161)
Capital stock issued	**326**	332	149
Cash patronage distributions paid	**(11,600)**	(11,400)	(4,100)
Net cash provided by/(used in) financing activities	**53,795**	(30,397)	21,677
Net increase/(decrease) in cash	**4,701**	8,361	(2,161)
Cash at beginning of year	**13,854**	5,493	7,654
Cash at end of year	**$ 18,555**	$ 13,854	$ 5,493
SUPPLEMENTAL CASH INFORMATION:			
Cash paid/(received) during the year for:			
Interest	**$ 14,582**	$ 10,215	$ 4,442
Income taxes	**$ 2**	$ 2	$ 2
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Patronage stock from CoBank	**$ 93**	$ 104	$ 2
Allocated patronage from AgVantis	**$ 31**	$ 245	$ 89
Loans transferred to other property owned	**$ -**	$ 96	$ -
Net charge-offs	**$ 2**	$ 39	$ -
Patronage distributions payable	**$ 6,500**	$ 6,300	$ 2,200
Change in accumulated other comprehensive (loss)/income	**$ 29**	$ (338)	$ -
Impact of merger transaction			
Assets acquired	**$ -**	$ 732,421	$ -
Liabilities assumed	**$ -**	$ 590,206	$ -
Equity issued	**$ -**	$ 142,215	$ -

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)

NOTE 1 – ORGANIZATION AND OPERATIONS

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

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The System is comprised of three Farm Credit Banks, one Agricultural Credit Bank and 74 associations.

CoBank, ACB (funding bank) its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. The CoBank District consists of CoBank, 23 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA), one FLCA and AgVantis.

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

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

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

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

The Association also offers credit life insurance, multi-peril crop and crop hail insurance, advance conditional payment accounts, leasing and provides additional services to borrowers such as fee appraisals.

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting the Association at 1580 Ellis Street, Kingsburg, California 93631, or by calling (559) 897-5814. Upon request, Association shareholders will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of CoBank's and District's financial condition, changes in financial condition, and results of operations.

C. Merger: Effective January 1, 2014, the Federal Land Bank Association of Kingsburg, FLCA (Kingsburg) was merged into Northern California Farm Credit, FLCA, a wholly owned subsidiary of Northern California Farm Credit, ACA (Northern California). The merged Association conducts business under the name Golden State Farm Credit, ACA (Golden State) and is headquartered in Kingsburg, California. The primary reason for the merger was that the Merged Association should be financially and operationally stronger in comparison to operating on a stand-alone basis. The effects of the merger are included in the Association's results of operations, balance sheet, average balances and related metrics beginning in 2014.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of December 31, 2014. The Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Shareholders' Equity and the Consolidated Statement of Cash Flows reflect the results of Northern California prior to January 1, 2014 and the merged Association after January 1, 2014. Information presented in the Notes to the Consolidated Financial Statement for 2014 reflects balances of the merged Association as of December 31, or in the case of transactional activity, of the merged Association for the period of January 1 to December 31, 2014.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, the Associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these reports and other respects, the shares of Kingsburg stock that were converted in the merger and the shares of Golden State stock to which they were converted had identical rights and attributes. For this reason the conversion of Kingsburg stock pursuant to the merger occurred at a one-for-one exchange ratios (i.e., each Kingsburg share was converted into one share of Golden State stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the Northern California stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, Northern California undertook a process to identify and estimate the acquisition-date fair value of Kingsburg's equity interests instead of the acquisition-date fair value of Northern California's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from Kingsburg, were measured based on various estimates using assumptions that Northern California management believes are reasonable utilizing information currently available. Use of different estimate and judgments could yield materially different results.

The merger was accounted for under the acquisition method of accounting, as prescribed by Accounting Standards Codification 805, Business Combinations (ASC 805). Pursuant to these rules Golden State acquired the assets and assumed the liabilities of Kingsburg at their acquisition-date fair value. The fair value of the net identifiable assets acquired ($142.2 million) was substantially equal to the fair value of the equity interest exchanged in the merger. As a result, no goodwill was recorded. In addition, no material amounts of intangible assets were acquired. A net increase of $142.2 million was recorded in shareholder's equity related to the merger.

The following condensed statement of net assets acquired reflects that fair value assigned to Kingsburg's net assets as of the acquisition date. There were not subsequent changes to these fair values.

Condensed Statement Of Net Assets Acquired	January 1, 2014
Assets	
Net loans	$ 692,103
Cash	9,225
Accrued interest receivable	4,677
Other Assets	26,416
Total Assets	$ 732,421
Liabilities	
Notes payable	$ 579,832
Accrued interest payable	3,805
Other liabilities	6,569
Total Liabilities	$ 590,206
Fair Value of Net Assets Acquired	$ 142,215

Fair value adjustments to Kingsburg's assets and liabilities included a $12.7 million increase to loans and a $7.2 million increase to notes payable to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences will be accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis, with the majority being recognized in diminishing amounts in the first five years following the merger. The Association expects to collect the substantial majority of the contractual amounts of the acquired loans, which totaled $681.1 million at January 1, 2014.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements include the accounts of Golden State FLCA and Golden State PCA. All significant inter-company transactions have been eliminated in consolidation. Recently issued accounting pronouncements follow.

On January 5, 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." Changes to the current GAAP model primarily affect accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirement for financial instruments. The accounting for financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. For disclosure purposes, entities that are not public business entities will no longer be required to disclose the fair value of financial instruments carried at amortized cost. Entities that are not public business entities can early adopt the provision permitting the omission of fair value disclosure for financial instruments at amortized cost. For December 31, 2015, the Association has elected to early adopt this disclosure guidance.

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance.

In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect if any, on our financial condition or results of operations.

Below is a summary of our significant accounting policies.

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

   Loans acquired in a business combination are initially recognized at fair value based on current interest rates and taking into account the borrowers' credit quality, and therefore acquired loans have no related allowance for loan losses at acquisition date. Those loans with evidence of credit quality deterioration at purchase are required to be recorded in accordance with the authoritative accounting guidance on "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for loan losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. For variable rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

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

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

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

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

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

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

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

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

The allowance for loan losses includes components for loans individually evaluated for impairment, 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 as previously discussed.

B. Cash: Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.

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

D. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful life for the building ranges from 25 to 30 years and ranges from 5 to 10 years for furniture, equipment and automobiles. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed and improvements above certain thresholds are capitalized.

E. Other 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. 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 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 Comprehensive Income.

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

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 advance conditional payments are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in liabilities. Restricted advance conditional payments are primarily associated with mortgage loans, while non-restricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.

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

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

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

The Association also participates in the Eleventh District nonqualified defined benefit Pension Restoration Plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under this plan are offset by the benefits payable from the pension plan.

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

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

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

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank’s post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank’s post-1992 unallocated earnings.

On December 31, 2011, AgBank, in anticipation of its January 1, 2012 merger with CoBank, recapitalized and distributed stock to its Association members. Deferred taxes have not been recorded by the Association on that distribution as management’s intent, if that stock is ever converted to cash, is to pass through any related earnings to Association borrowers through qualified patronage allocations.

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: Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders’ equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the balance of these transactions. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.

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

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

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

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

The fair value disclosures are presented in Note 15.

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

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
	2015	2014	2013
Real estate mortgage	$1,061,681	$1,019,201	$ 312,519
Production and intermediate-term	72,100	58,874	79,141
Agribusiness:			
Loans to cooperatives	–	–	1
Processing and marketing	25,961	16,424	7,430
Farm-related business	21,346	24,378	35,806
Rural residential real estate	269	296	314
Lease receivables	34,939	33,153	30,668
Total loans	$1,216,296	$1,152,326	$ 465,879

The Association purchases or sells loan participations with other Farm Credit institutions 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, 2015:

	Purchased	Sold
Real estate mortgage	$ 14,213	$ 91,597
Agribusiness	12,872	–
Lease receivables	2,470	14,221
Total	$ 29,555	$ 105,818

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

	December 31					
	2015		2014		2013	
SIC Category	Amount	Percent	Amount	Percent	Amount	Percent
Dairy	$ 205,919	16.93%	$ 200,044	17.36%	$ 32,705	7.02%
Other orchards	184,999	15.21%	196,817	17.08%	36,246	7.78%
Walnuts	145,226	11.94%	135,168	11.73%	93,176	20.00%
Grapes	138,658	11.40%	141,621	12.29%	–	–
Almonds	135,495	11.14%	104,170	9.04%	63,033	13.53%
Irrigated field crops	134,766	11.08%	130,674	11.34%	29,956	6.43%
Livestock	104,723	8.61%	93,223	8.09%	77,382	16.61%
Rice	57,044	4.69%	56,925	4.94%	53,576	11.50%
Related business	22,501	1.85%	25,582	2.22%	19,893	4.27%
Other	86,965	7.15%	68,102	5.91%	59,912	12.86%
Total	$1,216,296	100.00%	$1,152,326	100.00%	$ 465,879	100.00%

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

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

The Association has obtained credit enhancements by entering into Standby Commitment to Purchase Agreements (Agreements) with Federal Agricultural Mortgage Corporation (Farmer Mac), covering loans with principal balance outstanding of $100.1 million, $111.2 million and $13.8 million at December 31, 2015, 2014 and 2013, respectively. Under the Agreements, Farmer Mac agrees to purchase loans from the Association in the event of default (typically four months past due), subject to certain conditions, thereby mitigating the risk of loss from covered loans. In return, the Association pays Farmer Mac commitment fees based on the outstanding balance of loans covered by the Agreements. Such fees, totaling $360 for 2015, $372 in 2014 and $50 in 2013 are reflected in noninterest expense.

In addition to Farmer Mac, credit enhancements with federal government agencies of $2.2 million at year-end 2015, $2.0 million at year-end 2014 and $2.6 million at year-end 2013 were outstanding.

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

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

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

	2015	2014	2013
Real estate mortgage			
Acceptable	99.77%	99.50%	99.08%
OAEM	0.13%	0.12%	0.35%
Substandard	0.10%	0.38%	0.57%
Total	100.00%	100.00%	100.00%
Production and intermediate-term			
Acceptable	99.99%	99.64%	99.96%
OAEM	0.01%	0.03%	0.04%
Substandard	–	0.33%	–
Total	100.00%	100.00%	100.00%
Agribusiness			
Acceptable	100.00%	100.00%	100.00%
Total	100.00%	100.00%	100.00%
Rural residential real estate			
Acceptable	79.54%	80.29%	80.33%
OAEM	20.09%	–	–
Substandard	0.37%	19.71%	19.67%
Total	100.00%	100.00%	100.00%
Lease receivables			
Acceptable	100.00%	100.00%	99.98%
Substandard	–	–	0.02%
Total	100.00%	100.00%	100.00%

(continued)	2015	2014	2013
Total Loans			
Acceptable	99.79%	99.54%	99.36%
OAEM	0.12%	0.11%	0.24%
Substandard	0.09%	0.35%	0.40%
Total	100.00%	100.00%	100.00%

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

	December 31		
	2015	2014	2013
Nonaccrual loans:			
Current as to principal and interest	$ 284	$ 228	$ 417
Total impaired loans	$ 284	$ 228	$ 417

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

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

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

	December 31		
(dollars in thousands)	2015	2014	2013
Nonaccrual loans			
Real estate mortgage	$ 283	$ 224	$ 412
Lease receivables	1	4	5
Total impaired loans	284	228	417
Other property owned	–	57	–
Total high risk assets	$ 284	$ 285	$ 417

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/15	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 283	$ 346		$ 280	$ 25
Production and intermediate term	–	–		59	–
Lease receivables	1	1		9	–
Total	$ 284	$ 347		$ 348	$ 25

	Recorded Investment at 12/31/14	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 224	$ 293		$ 485	$ 1
Production and intermediate-term	–	–		1	–
Lease receivables	4	4		55	–
Total	$ 228	$ 297		$ 541	$ 1

	Recorded Investment at 12/31/13	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 412	$ 450		$ 327	$ 6
Lease receivables	5	5		5	–
Total	$ 417	$ 455		$ 332	$ 6

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

As of December 31, 2015, 2014 and 2013, no impaired loans had a related allowance for credit losses.

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

	Year Ended December 31		
	2015	2014	2013
Interest income recognized on:			
Nonaccrual loans	$ 25	$ –	$ 5
Accrual loans 90 days or more past due	–	1	1
Interest income recognized on impaired loans	$ 25	$ 1	$ 6

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

	For the Year Ended December 31		
	2015	2014	2013
Interest income which would have been recognized under the original loan terms	$ 27	$ 13	$ 27
Less: interest income recognized	25	–	5
Interest income not recognized	$ 2	$ 13	$ 22

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

December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 208	$ –	$ 208	$1,066,848	$ 1,067,056	$ –
Production and intermediate-term	–	–	–	72,682	72,682	–
Agribusiness	–	–	–	47,620	47,620	–
Rural residential real estate	–	–	–	270	270	–
Lease receivables	–	–	–	34,942	34,942	–
Total	$ 208	$ –	$ 208	$1,222,362	$ 1,222,570	$ –

December 31, 2014	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ –	$ –	$ –	$1,024,556	$ 1,024,556	$ –
Production and intermediate-term	–	–	–	59,355	59,355	–
Agribusiness	–	–	–	41,108	41,108	–
Rural residential real estate	–	–	–	298	298	–
Lease receivables	–	–	–	33,153	33,153	–
Total	$ –	$ –	$ –	$1,158,470	$ 1,158,470	$ –

December 31, 2013	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ –	$ –	$ –	$ 314,411	$ 314,411	$ –
Production and intermediate-term	–	–	–	79,691	79,691	–
Agribusiness	–	–	–	43,508	43,508	–
Rural residential real estate	–	–	–	315	315	–
Lease receivables	–	–	–	30,668	30,668	–
Total	$ –	$ –	$ –	$ 468,593	$ 468,593	$ –

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

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The Association recorded no troubled debt restructurings during the years presented.

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

	Balance at December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2015
Real estate mortgage	$ 422	$ –	$ –	$ 351	$ 773
Production and intermediate-term	1,310	–	–	154	1,464
Agribusiness	156	–	–	155	311
Rural residential real estate	3	–	–	(1)	2
Lease receivables	633	2	–	140	771
Total	$ 2,524	$ 2	$ –	$ 799	$ 3,321

	Balance at December 31, 2013	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2014
Real estate mortgage	$ 1,671	$ –	$ –	$ (1,249)	$ 422
Production and intermediate-term	427	–	–	883	1,310
Agribusiness	278	–	–	(122)	156
Rural residential real estate	4	–	–	(1)	3
Lease receivables	122	39	–	550	633
Total	$ 2,502	$ 39	$ –	$ 61	$ 2,524

	Balance at December 31, 2012	Charge-offs	Recoveries	Provision for Loan Losses	Balance at December 31, 2013
Real estate mortgage	$ 1,671	$ –	$ –	$ –	$ 1,671
Production and intermediate-term	427	–	–	–	427
Agribusiness	278	–	–	–	278
Rural residential real estate	4	–	–	–	4
Lease receivables	122	–	–	–	122
Total	$ 2,502	$ –	$ –	$ –	$ 2,502

	Allowance for Credit Losses Ending Balance at December 31, 2015		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2015	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 773	$ 283	$ 1,066,773
Production and intermediate-term	–	1,464	–	72,682
Agribusiness	–	311	–	47,620
Rural residential real estate	–	2	–	270
Lease receivables	–	771	1	34,941
Total	$ –	$ 3,321	$ 284	$ 1,222,286

	Allowance for Credit Losses Ending Balance at December 31, 2014		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2014	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 422	$ 243	$ 1,024,313
Production and intermediate-term	–	1,310	–	59,355
Agribusiness	–	156	–	41,108
Rural residential real estate	–	3	–	298
Lease receivables	–	633	4	33,149
Total	$ –	$ 2,524	$ 247	$ 1,158,223

	Allowance for Credit Losses Ending Balance at December 31, 2013		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2013	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 1,671	$ 412	$ 313,999
Production and intermediate-term	–	427	–	79,691
Agribusiness	–	278	–	43,508
Rural residential real estate	–	4	–	315
Lease receivables	–	122	5	30,663
Total	$ –	$ 2,502	$ 417	$ 468,176

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

	Year Ended December 31, 2015
Balance at beginning of period	$ –
Provision for unfunded commitments	64
Total	$ 64

A summary of the components of the Association's net investment in direct financing leases is as follows.

	2015	2014	2013
Net investment in Direct Financing Leases:			
Minimum Lease Payments to be Received, Net of Participation Interests	$ 33,066	$ 33,125	$ 30,727
Estimated Residual Values of Leased Property (Unguaranteed)	2,916	2,642	2,362
Less: Unearned Finance Income	(2,690)	(2,614)	(2,421)
Net Investment in Direct Financing Leases	$ 33,292	$ 33,153	$ 30,668

At December 31, 2015, gross minimum lease payments and minimum future revenue to be received for direct financing leases are as follows:

Year	Minimum Lease Payments	Minimum Future Revenue
2016	$ 12,267	$ 786
2017	8,976	684
2018	6,168	563
2019	3,575	389
2020	1,629	205
Subsequent Years	451	63

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2015, the Association's investment in CoBank is in the form of Class A stock with a par value of $100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.00 percent of the Association's prior year average direct loan balance. The 2015 requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the Association's prior ten-year average balance of such participations sold to CoBank. Under the current CoBank capital plan applicable to such participations sold, patronage from CoBank related to these participations sold is paid 75 percent cash and 25 percent Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

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

The Association owned approximately 1.37 percent of the outstanding common stock of CoBank at December 31, 2015.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
	2015	2014	2013
Land	$ 508	$ 508	$ 279
Buildings and leasehold improvements	3,074	3,072	1,555
Furniture, equipment and automobiles	1,516	1,173	865
	5,098	4,753	2,699
Less: accumulated depreciation	1,916	1,650	1,394
Total	$ 3,182	$ 3,103	$ 1,305

NOTE 6 – OTHER PROPERTY OWNED

Losses on other property owned, net as reflected on the Consolidated Statement of Comprehensive Income consisted of the following.

	December 31		
	2015	2014	2013
Losses on sale, net	$ 13	$ –	$ –
Losses on other property owned, net	$ 13	$ –	$ –

NOTE 7 – NOTE PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA). The GFA and promissory note are subject to periodic renewals in the normal course of business. The GFA matures on May 31, 2018. Management expects renewal of the GFA at that time. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2015. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing. The weighted average interest rate was 1.19 percent for the year ended December 31, 2015, compared with 1.34 percent at December 31, 2014, and 1.33 percent at December 31, 2013.

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

	2015	2014	2013
Average committed funds	$ 219,917	$ 209,804	$ 87,369
Average rates	0.14%	0.15%	0.37%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2015, the Association's notes payable was within the specified limitations.

NOTE 8 – SHAREHOLDERS' EQUITY

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

A. Capital Stock and Participation Certificates

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

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

B. Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00 percent of average risk-adjusted assets. Failure to meet the requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's consolidated financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. The FCA regulations also require other additional minimum standards for capital be maintained. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of average risk-adjusted assets of 7.00 percent and of core surplus (generally unallocated surplus) as a percentage of average risk-adjusted assets of 3.50 percent. At December 31, 2015, the Association's permanent capital ratio was 18.04 percent, total surplus ratio was 17.91 percent and core surplus ratio was 17.65 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, 2015, the Association had 312,518 shares of common stock and 3,784 shares of participation certificates outstanding, all at a par value of $5 per share/unit.

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

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

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

The changes in the number of shares of capital stock outstanding during 2015 are summarized in the following table.

Shares in whole numbers	Capital
Balance outstanding at January 1, 2015	322,321
Issuances	65,208
Retirements	(71,227)
Balance outstanding at December 31, 2015	316,302

D. Patronage and/or Dividends

The Association's bylaws provide for the payment of patronage distributions. All patronage distributions to a borrower shall be on such proportionate patronage basis as may be approved by the Association's Board of Directors, consistent with the requirement of Subchapter T of the Internal Revenue Code.

At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage refund. For 2015, the Association allocated 52.91 percent of its patronage-sourced net income to its patrons.

That portion of patronage-sourced net income not distributed in cash is also allocated to patrons. In accordance with Internal Revenue Service requirements, each customer is sent a nonqualified written notice of allocation. Allocated, but not distributed patronage refunds, are added to the unallocated retained earnings account. Such allocations may provide a future basis for a distribution of capital. The Board of Directors considers these unallocated retained earnings to be permanently invested in the Association. As such, there is no current plan to revolve or redeem these amounts. No express or implied right to have such capital retired or revolved at any time is granted.

For 2015, the Board approved patronage distributions to borrowers of the ACA of $11.8 million of 2015 income. Of this amount, $5.3 million was disbursed in 2015 and the remaining $6.5 million will be disbursed in 2016.

For 2014, the Board approved patronage distributions to borrowers of the ACA of $11.5 million of 2014 income. Of this amount, $5.2 million was disbursed in 2014 and the remaining $6.3 million was disbursed in 2015.

For 2013, the Board approved patronage distributions to borrowers of the ACA of $4.1 million of 2013 income. Of this amount, $1.9 million was disbursed in 2013 and the remaining $2.2 million was disbursed in 2014.

E. Accumulated Other Comprehensive Income/Loss

The Association reports accumulated other comprehensive income/loss in its Consolidated Statement of Changes in Shareholders' Equity. As more fully described in Note 2, accumulated other comprehensive income/loss results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits. The Association has accumulated other comprehensive loss of $309 in 2015, $338 in 2014 and none in 2013.

The following table presents activity in the accumulated other comprehensive loss, net of tax by component:

	2015	2014
Pension benefit plan:		
Beginning balance	$ (338)	$ –
Other comprehensive (loss)/income before reclassifications	(78)	338
Amounts reclassified from accumulated other comprehensive income	107	–
Net current period other comprehensive income	29	338
Year-end balance	$ (309)	$ 338

The following table represents reclassifications out of accumulated other comprehensive income/(loss).

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss) December 31		Location of Gain/Loss Recognized in Statement of Income
	2015	2014	
Pension and other benefit plans:			
Net actuarial loss	$ 107	$ –	Salaries and employee benefits
Total reclassifications	$ 107	$ –	

NOTE 9 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

	2015	2014	2013
CoBank	$ 4,509	$ 4,446	$ 1,516
AgVantis	39	158	111
Farm Credit Foundations	10	4	6
Other	19	17	–
Total	$ 4,577	$ 4,625	$ 1,633

Patronage distributed from CoBank was in cash and stock. The amount earned in 2015 was accrued and will be paid by CoBank in March 2016. The amount earned and accrued in 2014 and 2013 was paid by CoBank in March of the following year.

Patronage distribution from AgVantis was in the form of a Notice of Allocation; 20 percent was distributed in cash with the balance of the allocation recorded as an investment in AgVantis which is recorded in other assets in the year received.

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

NOTE 10 – INCOME TAXES

The provision for/(benefit from) for income taxes follows.

	For the Year Ended December 31		
	2015	2014	2013
Current:			
State	$ 2	$ 2	$ 1
Deferred:			
Federal	–	(303)	2
Provision for/(Benefit from) income taxes	$ 2	$ (301)	$ 3

The provision for/(benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows.

	Year Ended December 31		
	2015	2014	2013
Federal tax at statutory rate	$ 7,583	$ 7,571	$ 2,644
State tax, net	1	1	1
Effect of non-taxable FLCA subsidiary	(7,748)	(8,026)	(2,364)
Change in valuation allowance	407	248	(28)
Patronage distributions	–	–	(263)
Non-deductible meals and entertainment	3	3	2
Other	(244)	(98)	11
Provision for/(Benefit from) income taxes	$ 2	$ (301)	$ 3

Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2015	2014	2013
Deferred income tax assets:			
Allowance for loan losses	$ 881	$ 708	$ 211
Accrued annual leave	44	41	38
Organization costs	9	12	–
Net operating loss carryforwards (NOL)	–	84	34
NOL classified as provision to return adjustment	324	–	–
Other	–	–	14
Gross deferred tax assets	1,258	845	297
Deferred tax asset valuation allowance	(689)	(282)	(34)
Deferred income tax liabilities:			
Cumulative stock patronage	(437)	(437)	(437)
Patronage refunds from Bank	(132)	(126)	(129)
Gross deferred tax liabilities	(569)	(563)	(566)
Net deferred tax liability	$ –	$ –	$ (303)

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

The Association recorded a valuation allowance of $689 in 2015, $282 in 2014 and $34 in 2013. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. At December 31, 2015, the Association had federal and state net operating loss carryforwards of $324 that expire from 2026 to 2033.

The Association has no uncertain tax positions as of December 31, 2015, 2014 or 2013. 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 2012 and forward.

NOTE 11 – EMPLOYEE BENEFIT PLANS

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

The defined benefit pension plans reflect an unfunded liability totaling $89.2 million for the Ninth Plan and $90.1 million for the Eleventh Plan at December 31, 2015. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels.

The projected benefit obligation and the fair value of the multi-employer plan assets at December 31, follows:

	2015	2014	2013
Projected benefit obligation ($ Millions)			
Ninth Plan	**$ 244.3**	n/a	n/a
Eleventh Plan	**$ 244.5**	$ 247.2	$ 207.8
Fair value of plan assets ($ Millions)			
Ninth Plan	**$ 155.1**	n/a	n/a
Eleventh Plan	**$ 154.5**	$ 162.0	$ 157.0

The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under the plans. The Association recognizes its proportional share of expense and contributes a proportional share of funding.

Costs and contributions for the multi-employer plans at December 31 follow:

	2015	2014	2013
Plan expenses for all participating employers ($ Millions)			
Ninth Plan	**$ 16.1**	n/a	n/a
Eleventh Plan	**$ 4.8**	$ 2.5	$ 3.3
Association's allocated share of plan expenses included in salaries and benefits			
Ninth Plan	**$ 106**	n/a	n/a
Eleventh Plan	**$ 518**	$ 319	$ 282
Plan contributions for all participating employers ($ Millions)			
Ninth Plan	**$ 13.6**	n/a	n/a
Eleventh Plan	**$ 7.5**	$ 5.1	$ 4.0
Association's allocated share of plan contributions			
Ninth Plan	**$ 89**	n/a	n/a
Eleventh Plan	**$ 805**	$ 646	$ 343

While the plans are governmental plans and are not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plans with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2016 is $11.6 million for the Ninth Plan and $11.1 million for the Eleventh Plan. The Association's allocated share of these pension contributions is expected to be $80 for the Ninth Plan and $1.1 million for the Eleventh Plan. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are also provided through the Farm Credit Foundations Retiree Medical and Retiree Life Plans to eligible current and retired employees of the Association. Benefits provided are determined on a graduated scale, based on years of service. The anticipated costs of these benefits are accrued during the period of the employee's active service. Postretirement benefits expense (primarily health care benefits and life insurance) included in salaries and employee benefits were $43 in 2015, $34 in 2014 and $22 in 2013. These expenses are equal to the Association's cash contributions for each year.

Beginning in 2015, the Association participates in two non-qualified defined benefit Pension Restoration Plans that are unfunded. The plans provide retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plans are offset by the benefits payable from the Pension Plans. Pension Restoration Plan expenses included in salaries and employee benefits were $121 in 2015, and none in 2014 or 2013.

The funding status and the amounts recognized in the Consolidated Statement of Condition for the Association's Pension Restoration Plans follow:

	2015	2014
Change in benefit obligation:		
Benefit obligation at the beginning of the period	$ 338	$ –
Interest cost	14	–
Actuarial loss	199	338
Benefits paid	(121)	–
Benefit obligation at the end of the period	$ 430	$ 338
Change in plan assets:		
Company contributions	$ 121	–
Benefits paid	(121)	–
Fair value of plan assets at the end of the period	$ –	$ –
Funded status of the plan	$ (430)	$ (338)
Amounts recognized in the Consolidated Statement of Condition consist of:		
Liabilities	$ 430	$ 338
Net amount recognized	$ 430	$ 338

The following table represents the amounts included in accumulated other comprehensive income/loss for the Pension Restoration Plan at December 31:

	2015	2014
Net actuarial loss	$ 309	$ 338
Total amount recognized in AOCI/loss	$ 309	$ 338

An estimated net actuarial loss of $128 for the Pension Restoration Plan will be amortized into income over the next year.

The projected and accumulated benefit obligation for the Pension Restoration Plan at December 31 was:

	2015	2014
Projected benefit obligation	$ 430	$ 338
Accumulated benefit obligation	$ 357	$ 338

The net periodic pension expense for the Pension Restoration Plans included in the Consolidated Statement of Comprehensive Income is comprised of the following at December 31.

	2015
Components of net periodic benefit cost/(income)	
Service cost	$ –
Interest cost	14
Expected return on plan assets	n/a
Net amortization and deferral	107
Net periodic benefit cost/(income)	$ 121

Changes in benefit obligation recognized in accumulated other comprehensive income are included in the following table.

	2015	2014
Current year net actuarial loss	$ 78	$ 338
Amortization of net actuarial loss	(107)	–
Total recognized in other comprehensive loss	$ 29	$ 338

Weighted average assumptions used to determine benefit obligation at December 31:

	2015	2014
Ninth Plan		
Discount rate	3.60%	n/a
Rate of compensation increase	5.00%	n/a
Eleventh Plan		
Discount rate	3.17%	4.10%
Rate of compensation increase	5.50%	4.50%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	2015	2014
Ninth Plan		
Discount rate	4.10%	n/a
Rate of compensation increase	5.00%	n/a
Eleventh Plan		
Discount rate	4.10%	4.85%
Rate of compensation increase	4.50%	4.50%

The Association expects to contribute $121 to the Pension Restoration Plans in 2016.

Estimated Future Benefit Payments

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

	Pension Restoration Benefits
2016	$ 121
2017	$ 190
2018	$ 70
2019	$ 72
2020	$ –
2021 – 2025	$ –

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan. The Contribution Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employer contributions to the Contribution Plan were $421 in 2015, $370 in 2014 and $225 in 2013.

NOTE 12 – RELATED PARTY TRANSACTIONS

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

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

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

	2015	2014	2013
New loans	$ 4,944	$ 4,619	$ 1,487
Repayments	$ 4,330	$ 2,632	$ 1,294
Ending balance	$ 18,510	$ 12,037	$ 2,802

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

The Association also has business relationships with certain other System entities. The Association paid $1.0 million in 2015, $845 in 2014 and $513 in 2013 to AgVantis for technology services. One Association director, appointed by the AgVantis Board of Directors, serves as an AgVantis director. The Association paid $120 in 2015, $110 in 2014, and $81 in 2013 to Foundations for human resource services.

NOTE 13 – REGULATORY ENFORCEMENT MATTERS

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

NOTE 14 – COMMITMENTS AND CONTINGENCIES

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

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2015, $326,362 of commitments to extend credit were outstanding.

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

NOTE 15 – FAIR VALUE MEASUREMENTS

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

The Association has no assets or liabilities measured at fair value on a recurring basis for the periods presented. During the three years presented, the Association recorded no transfers in or out of Levels 1, 2, or 3. Assets measured at fair value on a non-recurring basis at December 31 for each of the fair value hierarchy values are summarized as follows:

	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	(Losses)/Gains
Assets:					
2015					
Other property owned	$ –	$ –	$ –	$ –	$ –
2014					
Other property owned	$ –	$ –	$ 57	$ 57	$ (39)
2013					
Loans	$ –	$ –	$ 182	$ 182	$ –

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

Valuation Techniques

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

Loans

For impaired loans measured on a non-recurring basis, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established and the net loan is reported at its fair value.

Other Property Owned

Other property owned measured on a non-recurring basis is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. As a result, these fair value measurements fall within Level 3 of the hierarchy. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. Like impaired loans, it is not practicable to provide specific information on inputs for other property owned as each collateral property is unique.

NOTE 16 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2015, 2014 and 2013, follow.

	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 7,649	$ 7,893	$ 8,029	$ 8,110	$ 31,681
Provision for credit losses	40	–	148	675	863
Noninterest expense, net	2,014	1,702	2,094	2,708	8,518
Net income	$ 5,595	$ 6,191	$ 5,787	$ 4,727	$ 22,300

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 7,108	$ 7,192	$ 7,761	$ 7,641	$ 29,702
Provision for loan losses	25	2	9	25	61
Noninterest expense, net	1,641	1,565	1,452	2,414	7,072
Net income	$ 5,442	$ 5,625	$ 6,300	$ 5,202	$ 22,569

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,099	$ 3,071	$ 3,225	$ 3,308	$ 12,703
Noninterest expense, net	1,365	1,052	1,175	1,337	4,929
Net income	$ 1,734	$ 2,019	$ 2,050	$ 1,971	$ 7,774

NOTE 17 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 15, 2016 which is the date the financial statements were issued, and no material subsequent events were identified.

Independent Auditor's Report

To the Board of Directors of
Golden State Farm Credit, ACA

We have audited the accompanying consolidated financial statements of Golden State Farm Credit, ACA, and its subsidiaries (the "Association"), which comprise the consolidated statement of condition as of December 31, 2015, 2014 and 2013, and the related consolidated statements of comprehensive income, of changes in shareholders' equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Golden State Farm Credit, ACA, and its subsidiaries as of December 31, 2015, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 15, 2016

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

DISCLOSURE INFORMATION REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

(Amounts in Whole Dollars, except as noted)

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 conducting the business, seasonal characteristics, and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from “Management’s Discussion and Analysis” (MD&A) included in this annual report to shareholders.

DESCRIPTION OF PROPERTY

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

Locations

Main Office 1580 Ellis Street Kingsburg, California 93631 559-897-5814	**Chico Office** 3435 Silverbell Road Chico, California 95973 530-895-8698	**Hanford Branch** 1001 E. Third Street Hanford, California 93230 559-584-5401
Red Bluff Branch 255 Sale Lane Red Bluff, California 96080 530-527-1941	**Willows Branch** 201-A North Tehama Street Willows, California 95988 530-934-7071	

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

Information required to be disclosed in this section is incorporated herein by reference from Note 13 to the financial statements, “Regulatory Enforcement Matters,” and Note 14 to the financial statements, “Commitments and Contingencies,” included in this annual report to shareholders.

DESCRIPTION OF CAPITAL STRUCTURE

Information required to be disclosed in this section is incorporated herein by reference from Note 8 to the financial statements, “Shareholders’ Equity,” included in this annual report to shareholders.

DESCRIPTION OF LIABILITIES

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 7 to the financial statements, “Note Payable to CoBank,” included in this annual report to shareholders.

The description of advance conditional payments is incorporated herein by reference to Note 2 to the financial statements, “Summary of Significant Accounting Policies,” included in this annual report to shareholders.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 14 included in this annual report to shareholders.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2015, required to be disclosed in this section is incorporated herein by reference from the “Five-Year Summary of Selected Consolidated Financial Data,” included in this annual report to shareholders.

MANAGEMENT’S DISCUSSION AND ANALYSIS

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

Unaudited

DIRECTORS AND SENIOR OFFICERS

The following represents certain information regarding the directors and senior officers of the Association. Effective January 1, 2014, all directors of Federal Land Bank Association of Kingsburg, FLCA and Northern California Farm Credit, ACA became directors of Golden State Farm Credit, ACA and will serve the remainder of their original elected/appointed terms.

DIRECTORS

Michael Fry, Chairman of the Board — *Term of Office: 2013-2016*
Mr. Fry is Vice President of Ag Operations for Olam Spices and Vegetables Ingredients. Mr. Fry also farms tree fruit and walnuts in a partnership with his brother. He has served on the Federal Land Bank Association of Kingsburg, FLCA Board since 2006.

Gregory W. Long, Vice Chairman of the Board — *Term of Office: 2014-2019*
Mr. Long grows almonds and does custom farm management of almonds, walnuts and prunes. He is involved as a member of the Farm Bureau and Red Bluff High School AG Advisory Committee. He has served on the Northern California Farm Credit, ACA Board since 2005.

Stephen Brown, Compensation Committee Chairman — *Term of Office: 2015-2020*
Mr. Brown is a dairyman and farmer. He also serves on the California Dairies, Inc. Board of Directors. Mr. Brown has served on the Federal Land Bank Association of Kingsburg, FLCA Board since 2009.

Michael R. Chambers, Director — *Term of Office: 2014-2018*
Mr. Chambers grows walnuts, prunes, and pears in the Gridley area. He is involved with Butte County Farm Bureau and Sunsweet Growers, Inc. He has served on the Northern California Farm Credit, ACA Board since 1987.

Harry L. "Rick" Cinquini, Director — *Term of Office: 2015-2020*
Mr. Cinquini grows almonds and walnuts and operates an orchard and vineyard development service which consists of planting and the installation of irrigation systems for growers. He is involved with Butte County Farm Bureau and the North State Hulling Co-Op. He has served on the Northern California Farm Credit, ACA Board since 2000.

John de Jong, Director — *Term of Office: 2014-2017*
Mr. de Jong is owner and operator of Dover Dairy Farms, Summerhill Goat Dairy, Standard Feeding Co, and 1/3 of Fair Oaks Dairy Farms. He was elected to the Golden State Farm Credit, ACA Board in 2014.

James M. Holt, Outside Director — *Term of Office: 2015-2018*
Mr. Holt is a certified public accountant and partner with K.Coe Isom, LLP. Mr. Holt was appointed to the Board in 1995.

Sandra Mansfield, Outside Director, Audit Committee Chairwoman — *Term of Office: 2015-2020*
Ms. Mansfield's principal occupation is an accountant. She has been a self-employed consultant in agribusiness finance since 2008. Previously she was the Chief Financial Officer for Sacramento Valley Farm Credit/Farm Credit West. Ms. Mansfield was appointed to the Board of Directors of AgVantis, Inc., our technology services provider, in September 2014. She has served on the Federal Land Bank Association of Kingsburg, FLCA Board since 2012.

George R. Nicolaus, Director — *Term of Office: 2015-2020*
Mr. Nicolaus grows almonds, walnuts and seed crops in Butte County. His family owned business, Nicolaus Nut Company, provides custom farming, planting and harvest operations. He is a general partner in two farming and land development partnerships in the Chico area. Mr. Nicolaus is chairman of the Zimmerman Scholarship Committee, chairman of the North State Hulling Coop and a Butte County Farm Bureau member. He has served on the Northern California Farm Credit, ACA Board since 2006.

James L. Oliver, Director — *Term of Office: 2013-2016*
Mr. Oliver is a retired farmer and is also a director of the Nisei Farmers League. Mr. Oliver has farmed and lived in the area his entire life. He has served on the Federal Land Bank Association of Kingsburg, FLCA Board since 1976.

Robert Reimer, Director — *Term of Office: 2014-2018*
Mr. Reimer farms tree fruit and table grapes. He is also the owner and president of Reimer Transport Inc. and Weldon Trucking, Inc. and 50% owner of Reimer Farms Inc. He serves as a director of the Nisei Farmers League. He has served on the Federal Land Bank Association of Kingsburg, FLCA Board since 2008.

George Swaner, Director — *Term of Office: 2014-2019*
Mr. Swaner grows rice, hay and has a rice drying operation. He also does custom farming and has a cow-calf operation with his son in the Glenn area. He is involved with the Bayliss Fire Department and California Rice Research Board. He has served on the Northern California Farm Credit, ACA Board since 1996.

Unaudited

Glenn E. Hawes, Director *Term of Office: 2013-2015*
Mr. Hawes grows walnuts, cereals, peaches, winter pasture and operates a farm and ranch supply business. He is involved with the Shasta County Farm Bureau, Anderson Rotary Club, and California Crop Improvement Association. He also owns and operates Stillwater Plains Wetlands Mitigation Bank. He serves on the Sacramento River Conservation Area Forum and is a member of the Shasta County Resource Advisory Committee (RAC). He has served on the Northern California Farm Credit, ACA Board since 1995. Mr. Hawes' term expired in 2015 and the director position closed.

Thomas B. Martin *Term of Office: 2012-2015*
He grows almonds and walnuts. He is involved with Chico Rotary Club, Butte County Farm Bureau, is a board member at Superior Ag, member of the Board of Trustees at Enloe Hospital Foundation and is a member of California State University Chico Advisory Board. He joined the Northern California Farm Credit, ACA Board in 2004. Mr. Martin's term expired in 2015 and the director position closed.

SENIOR OFFICERS

Fletcher Monroe
Mr. Monroe has served as President and Chief Executive Officer from February 2015 to present. He began his career with the Farm Credit System in 1987. His career has included credit and management experience and he has been an active part of two Farm Credit Association mergers, most recently serving as the Regional Vice President of American AgCredit's Colorado region.

Daniel S. Stevenson
Mr. Stevenson has served as Executive Vice President and Chief Operating Officer since February 2015. Previously he served as Executive Vice President and acting co-CEO from June 2014 through January 2015. He also served as Senior Vice President for Northern California Farm Credit, ACA from January 1991 through 2013 and has been employed by the Farm Credit system since 1975.

Randy Tos
Mr. Tos has served as Executive Vice President and Chief Credit Officer since February 2015. Previously he has served as Regional Chief Credit Officer and acting Co-CEO from June 2014 through January 2015. He also served as Senior Vice President and Chief Credit Officer of the Federal Land Bank Association of Kingsburg, FLCA from 2004 through 2013 and has been employed by the Farm Credit System since 1982.

Larry Grager
Mr. Grager was hired in February 2016 as Vice President and Chief Financial Officer. He has previously served as Chief Financial Officer at First Mountain Bank, Big Bear Lake, CA; Seattle Metropolitan Credit Union, Seattle, WA; First National Bank of Southern California, Riverside, CA and Gilmore Bank, Los Angeles, CA. He is a CPA licensed by the state of Washington and has his MBA from the University of Puget Sound in Tacoma, WA.

Tim Gray
Mr. Gray began serving as Controller and Vice President-Secretary/Treasurer in February 2016. Previously he has served as Interim Chief Financial Officer and Vice President-Secretary/Treasurer from June 2014 through January 2016 and as Controller from January 2014 until May 2014. He served as Chief Financial Officer and Vice President-Treasurer for Northern California Farm Credit, ACA from 2011 through 2013 and has been employed by the Farm Credit System since 2010.

Craig Meyer
Mr. Meyer has served as Senior Vice President and Chief Risk Officer since February 2015. Previously he served as VP Customer Service and Risk Manager from January 2014 through February 2015, and he served as Vice President-Support Services & Credit Services for AgVantis, Inc. from January 2001 through December 2013. Mr. Meyer has been employed by the Farm Credit system since 1975.

Dave Lehrman
Mr. Lehrman has served as Appraisal Manager since January 2014. Previously he served as Appraisal Manager for Federal Land Bank Association of Kingsburg, FLCA since 2007. Mr. Lehrman has been employed in the Farm Credit System since 1986.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors are compensated for their services based on daily honorarium of $600 and a $100 preparation fee for members. The Board Chairman and Vice Chairman are paid a daily honorarium of $1,000 and $750, respectively, with the Board Chairman receiving a $250 preparation fee. The Audit Chairman and Compensation Chairman are paid a daily honorarium of $750. Directors are also reimbursed for mileage at the current IRS rate, as well as documented business expenses while serving in an official capacity.

Additional information for each director follows.

Name	Number of Days Served at: Board Meetings	Number of Days Served at: Other Official Activities	Compensation for: Board Meetings And Official Duties	Compensation for: Audit Committee	Compensation for: Compensation Committee	Total Compensation Paid During 2015
Michael Fry	8.5	4.0	$ 11,850	$ 250	$ –	$ 12,100
Gregory W. Long	9.5	4.5	9,600	250	–	9,850
Stephen Brown	9.0	7.0	10,150	–	250	10,400
Michael R. Chambers	7.5	1.5	5,450	250	–	5,700
Harry L. Cinquini	6.5	2.0	4,750	250	250	5,250
John de Jong	7.5	1.0	4,950	250	250	5,450
James M. Holt	9.5	5.5	9,150	250	–	9,400
Sandra Mansfield	9.5	9.5	12,350	250	–	12,600
George R. Nicolaus	9.5	8.0	10,050	250	250	10,550
James L. Oliver	9.5	7.0	9,950	250	–	10,200
Robert Reimer	6.5	4.5	6,650	–	–	6,650
George Swaner	9.5	5.5	8,950	–	250	9,200
Glenn E. Hawes	5.5	1.5	3,950	250	–	4,200
Thomas B. Martin	4.5	5.5	6,250	250	–	6,500
Total Compensation			$ 114,050	$ 2,750	$ 1,250	$ 118,050

Directors, officers, and employees of the Association are reimbursed for travel, subsistence, and other related expenses which are incurred in the performance of their duties. Each traveler is required to submit travel expenses on forms provided by the Association. They are then reviewed for appropriateness and reimbursed upon approval. A copy of the Association's travel and expense reimbursement policy is available to shareholders upon request. Aggregate reimbursements to directors for travel, subsistence and other related expenses were $37,844 in 2015, $22,563 in 2014 and $9,337 in 2013. There was no noncash compensation paid to directors in 2015.

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

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section are incorporated herein by reference from Note 12 to the financial statements, "Related Party Transactions," included in this annual report to shareholders.

INVOLVEMENT OF SENIOR OFFICERS AND DIRECTORS IN CERTAIN LEGAL PROCEEDINGS

There were no matters which came to the attention of management or the Board of Directors regarding involvement of senior officers or current directors in specified legal proceedings which are required to be disclosed in this section.

BORROWER PRIVACY STATEMENT

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. The Association does not sell or trade customers' personal information to marketing companies or information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting the Association.

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.

RELATIONSHIP WITH COBANK, ACB (COBANK)

The Association is materially affected by CoBank's financial condition and results of operations.

The Association's statutory obligation to borrow from CoBank is discussed in Note 7. Financial assistance agreements between the Association and CoBank are discussed in Note 8. Association requirement to invest in CoBank and CoBank's ability to access capital of the Association is discussed in Note 4 to the financial statements, "Investment in CoBank," included in this annual report to shareholders. CoBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section – Liquidity.

CoBank is required to distribute its Annual Report to shareholders of the Association if the bank experiences a significant event that has a material effect on the Association as defined by FCA regulations.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 15, 2016, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2015 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 1580 Ellis Street, Kingsburg, California 93631, or may be contacted by calling (559) 897-5814. The reports may also be obtained free of charge by visiting CoBank's website at www.cobank.com.

AFFIRMATIVE ACTION PLAN AND EQUAL EMPLOYMENT OPPORTUNITY POLICY

The Association has adopted an Affirmative Action Plan and Equal Employment Opportunity Policy.