



Fresno Madera Farm Credit  
**2015 ANNUAL REPORT**

*Agriculture is Our Only Business*

*Building*  
**QUALITY**  
**PARTNERSHIPS**  
*For 100 Years*



## WHO WE ARE

Fresno Madera Farm Credit (FMFC) is a federally chartered, member-owned, credit institution with two subsidiaries (Fresno Madera Production Credit Association and Fresno Madera Federal Land Bank Association, FLCA) operating under the authority of the Farm Credit Act. FMFC provides financial services to eligible borrowers in the central San Joaquin Valley.

## MISSION

Our mission is to provide access to credit and related services to farmers and ranchers in our region as an efficient organization that delivers service with people that are passionate about creating the best possible customer experience to the generations of farmers and ranchers that we proudly serve.

## VALUES

Customer Focused  
Committed  
Excellence  
Collaborative  
Responsible  
Strategic

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## LETTER TO SHAREHOLDERS

*Dear Member:*

It is our pleasure to present you with the audited financial results of our operations for the fiscal year 2015.

Overall 2015 was a financial success for the organization, and reflected the continued success of our membership. We again focused our efforts toward increasing our operating efficiency and also increasing our capacity to create the best possible customer experience for our member borrowers.

FMFC is a Mission driven lender – our mandate is to serve Agriculture in our region, in a manner that is consistent and responsible. We operate the organization every day with the future in mind as we are determined to be a consistent lender throughout the many cycles that occur in our great industry.





## CONDITIONS

Generally, the economic conditions during 2015 were favorable despite clear weakness and uncertainty in the world economy and also pockets of the U.S. economy. In agriculture, farm profitability in the West, and a continued low interest rate environment continues to contribute to high farm real estate values, and overall financial health. Commodity prices remained at profitable levels for the vast majority of the commodities raised in our region, however prices have softened and somewhat sharply in some cases. Dairy prices fell in 2015, and the outlook in that segment has weakened from 2014. The persistence of the dry weather pattern prevailed for much of 2015 and marked continued reduction in the number of acres that could be farmed in the area. The long-term impacts of this weather pattern to the Central Valley will be felt for many years.

## MEMBERS

Overall, our members continue to benefit from conditions that favor profits for most of the commodities that they grow despite the significant and negative impacts from the dry weather pattern. Member liquidity is strong and reflects the overall profitability from the past several years. There are some challenges that loom in the form of weakening prices in select commodities driven by continued weakness in the world economy and the strengthening of the U.S. dollar against most other currencies.

## 2015 FINANCIAL RESULTS

Strong member profits continue to drive overall strength in our portfolio as credit quality remains high. 99.6% of our total loans were classified as “Acceptable” or “OAEM” at the end of our fiscal year 2015. The Association had \$4.0 million of loans outstanding in nonaccrual status, which amounts to 0.37% of our total loan volume at the end of the year.

Our net interest income increased by 7% or \$1.72 million from 2014 as a result of growth in our average loans outstanding. Our loan growth was the result of new loans, and also advances from loans we made in previous years; overall our average loans outstanding grew by \$68.5 million, which represents a 7% increase from 2014.

Noninterest income also increased from 2014 by \$0.7 million or 15% to \$5.3 million and is mostly comprised of patronage income that was earned from our funding bank, CoBank.

FMFC’s noninterest expense increased by \$0.9 million; which represented a 8% increase from 2014. The majority of the increased expense is from a 24.4%, or \$0.7 million, increase in other noninterest expense related to an increase in purchased services and the establishment of a provision for unfunded commitments.

Net income increased by \$0.8 million from 2014 to total \$16.6 million; as a result the Association’s permanent capital increased to \$212.1 million and our permanent capital ratio increased to 17.54% for the fiscal year end 2015 – a level in excess of the board and regulatory minimums.

## PATRONAGE

One of the most unique aspects of FMFC is our structure as a farmer owned cooperative. As a result of this structure, excess margin is returned to the members each year depending on the Association’s needs throughout the year. The interest that we collect each year is used to cover all interest related to our funding source and our noninterest costs as well as to capitalize our asset growth, and to create allowances for loan loss. Once these needs are met, any excess interest is returned to the members according to our patronage program.

This year, FMFC will be distributing \$6.29 million of cash patronage back to the members which amounts to 0.60% of our patronage sourced volume for 2015 and 36% of our patronage sourced earnings. We strongly believe that our patronage program is an important part of our value proposition to our members.

On behalf of the board of directors and the staff, we want to thank the membership for their continued support of FMFC. Your ongoing loyalty and support are critical to our continued success as we focus on delivering the capacity that you need to operate your farms and ranches – in good times and bad.

Sincerely,

Jeffrey Jue  
Chairman of the Board

Keith Hesterberg  
Chief Executive Officer

# 2015 YEAR IN REVIEW

*Information as of 12/31/15*

## PATRONAGE PROGRAM

OVER  
**\$22**  
MILLION

Paid since 2012

**\$6.29**  
MILLION

**\$4.57**  
MILLION

**\$6.48**  
MILLION

**\$5.50**  
MILLION

**763**  
STOCKHOLDERS

**63**  
STAFF

**3** Fresno  
Madera  
Kingsburg  
OFFICES

# 2015 FINANCIAL HIGHLIGHTS

*operational*  
**EFFICIENCY**

*customer*  
**FOCUSED**

*quality*  
**PARTNERSHIPS**

These guiding principles contributed to a strong performance in 2015. The organization is operated with the future in mind and it is a priority to be your consistent, reliable, lender. Now and in the future.

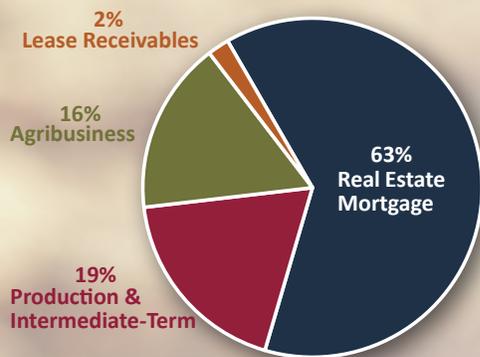
<b>NET INCOME</b>	<b>\$16.6M</b>
<b>LOAN PRINCIPAL</b>	<b>\$1,072.9M</b>
<b>RETURN ON AVG ASSETS</b>	<b>1.60%</b>
<b>PERMANENT CAPITAL RATIO</b>	<b>17.54%</b>
<b>PATRONAGE DISTRIBUTION</b>	<b>\$6.29M</b>
<b>COMMUNITY DONATIONS</b>	<b>\$175K+</b>

## LOAN PRINCIPAL BY COMMODITY

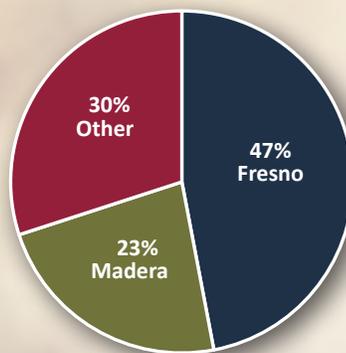


## LOAN PRINCIPAL

*By Type*



*By County*

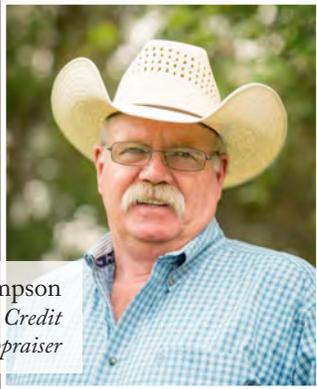


# FARM CREDIT SYSTEM CENTENNIAL

FARM CREDIT  
**100**  
ESTABLISHED 1916

**FRESH  
PERSPECTIVES**

## Congratulations Mark Thompson *Farm Credit Fresh Perspectives Honoree*



Mark Thompson  
*Fresno Madera Farm Credit  
Senior Chattel Appraiser*

Mark Thompson is among 100 visionaries being recognized nationally by Farm Credit for helping define the future of rural communities and agriculture. Mark was selected as a Farm Credit 100 Fresh Perspectives honoree and joins an impressive list of leaders in agriculture and rural enterprise.

The Farm Credit 100 Fresh Perspectives search was launched in 2015 at the start of the 100th anniversary of the cooperatively owned network of financial service providers. Fresno Madera Farm Credit joins the nearly 80 Farm Credit organizations that are celebrating the dynamic future of rural communities and agriculture. Selected by a panel of experts on rural matters, including Farm Credit leaders and others from around the Ag industry, honorees like Mark are among the best-of-the-best who are positively shaping what is next for rural communities and agriculture.

Fresno Madera Farm Credit congratulates Mark on his ongoing efforts in promoting and supporting the local Ag community. As a tenured staff member, boasting over 42 years of service with Farm Credit, his service and dedication is truly an inspiration to our organization and the community at large.

*July 17*

**1916**

President Woodrow Wilson signs legislation creating the Federal Land Bank System. The first loan is made less than a year later.



*June 16*

**1933**

In the midst of the Great Depression - which was even a greater hardship for agriculture - the System is rescued, expanded and helps save countless American farms.



The Agricultural Credits Act of 1923 extends service and provides short-term and intermediate operating credit, while the System strengthens its funding capability.



*Federal Land Bank President's, 1920s*

Three days after the attack on Pearl Harbor, officials of the Banks for Cooperatives meet in Washington D.C., to set new priorities. The entire Farm Credit System prepares to fight inflation and feed a nation at war.



*March 4*

**1923**

*December 10*

**1941**



# HONORING THE FARM CREDIT HISTORY

*100 years in the making*

*December 4*

**1953**

The Farm Credit Act of 1953 makes the Farm Credit Administration an agency of the executive branch and sets the System on a path toward independence.



*December 24*

**1980**

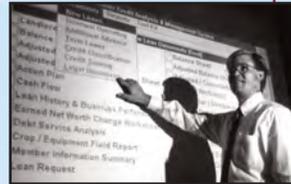
The Farm Credit Act Amendments of 1980 expand the System's lending authority, provide for the creation of Service Organizations and recognize the System's commitment to YBS farmers.



*October 1*

**1999**

After more than a decade of experimentation, the "Parent ACA" arrangement is developed, setting the pattern for subsequent mergers at the association level.



*July 17*

**2016**

Farm Credit marks its centennial and looks ahead to continue serving as the financial underpinning of U.S. agriculture and rural America.



Comprehensive new legislation completely updates the charter of the newly borrower-owned System, broadening its lending authority.



*December 2*

**1971**

In the midst of an extended farm crisis, the Agricultural Credit Act of 1987 provides federal financial assistance and requires the System to reorganize.



*January 6*

**1988**

Twenty years after the peak of the Farm Crisis, the System repays the last of the federal capital provided during the emergency, returning to fully borrower-owned status.



*June 10*

**2005**

## 2015 BOARD OF DIRECTORS



Top Row (L-R) Victor Sahatdjian, Jeff Jue (*Chairman*), Edward Martinazzi, Lance Shebelut, John Simpson (*1st Vice Chairman*),  
Bottom Row (L-R) Steve Schafer, Jeff Yribarren (*2nd Vice Chairman*), Denise Waite, Daniel Errotabere, Fred Fagundes

## EXECUTIVE MANAGEMENT TEAM



**Keith Hesterberg**  
Chief Executive Officer



**Dan Kiggins**  
Chief Credit Officer



**Joe Soto**  
Chief Financial Officer



**Stephanie Graham**  
Chief Administrative Officer



**David Ylarregui**  
SVP Field Operations

# Over \$175 THOUSAND

Donated to local organizations and Ag-related events in 2015

FMFC directly supported the following groups in 2015:

Ag Lenders Society  
 Ag Lending Institute  
 Ag One Foundation  
 Blue Diamond Growers  
 CA Ag Leadership Foundation  
 Cal Expo Fair  
 Caruthers Fair  
 Caruthers Lions Club  
 Center for Agriculture, Dairy & Rural Development  
 Chowchilla Fair  
 Clovis FFA  
 Common Threads Women in Ag  
 Fall Wine Cornucopia  
 Families Protecting the Valley  
 FFA Banking Contest (Central & Sanger High)  
 Fresno Basque Club  
 Fresno County Farm Bureau  
 Fresno Fair  
 Fresno Kings Cattlemen's Club  
 Fresno State: Agribusiness Club  
 Fresno State: Alpha Gamma Rho - Men in Agriculture  
 Howard 4-H  
 Kerman Lions Club  
 Kingsburg Swedish Festival  
 Kings County Fair  
 Madera County Ag Boosters  
 Madera County Farm Bureau  
 Madera Fair  
 Madera FFA  
 McKinley 4-H  
 National Society of Accountants for Cooperatives  
 Nisei Farmers League  
 Reedley College Ag Backers Council  
 San Joaquin Valley Winegrowers  
 San-Trans Lions Club  
 Senior Farmer Dinner & Awards  
 Sierra Shadows 4-H  
 Tulare County Fair  
 Western United Dairymen

## GROWTH PARTNERSHIPS

*Fresno Madera Farm Credit understands that growing partnerships locally is a fundamental component of future success for our Association and the community. FMFC supports a variety of Ag-related organizations and events - all geared toward promoting success and growth of Agriculture. As a local Ag Lender we see the value and impact in supporting these efforts and are proud to sponsor and volunteer.*

The Farm Credit Alliance is a group of California based Farm Credit Associations and CoBank, our discount bank, that have pooled resources to collectively fund advertisements, sponsorships, events and tradeshow. There really is strength in numbers, and this allows increased exposure to the Associations while being cost conscious. Through the Alliance, FMFC supported the following in 2015:

AgCouncil of California	Cal Poly Finance and Appraisal Chair
Agribusiness	Central Valley Farmland Trust
Management Conference	Community Food Bank
AgSafe	Farm Credit Dairy Center at World Ag Expo
Almond Conference	Farm Credit Homegrown Heroes
American Pistachio Conference	Fresno Chamber of Commerce
Blue Diamond Annual Meeting	Fresno Fair Livestock Barn Improvements
CA 4-H Livestock Judging Team	Fresno Grizzlies Farm Grown Program
CA Ag in the Classroom	Fresno State Multicultural Scholars Program
CA Ag Leadership Foundation	Latino Farmer Conference
CA ASFMR	San Joaquin Valley Wine & Grape Industry Forum
CA Cattlemen's Association	UC Davis Small and Ethnic Farmer Program
CA Certified Organic Farmers	Western Growers Association
CA Citrus Mutual	Western United Dairymen Convention
CA DHIA	Young Farmer Leadership Conference
CA Farm Bureau Federation	
CA Farm Water Coalition	
CA FFA	
CA Fig Festival	
CA Small Farmer Conference	
CA State Fair	
CA Farm Water Coalition	
CA Women for Agriculture	



# REPORT OF MANAGEMENT

The consolidated financial statements of Fresno Madera Farm Credit, ACA (Association) are prepared and reviewed by Management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. In the opinion of Management, the accompanying financial statements fairly present the financial condition and results of operations of the Association, in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the 2015 Annual Report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, Management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, the Association engaged CoBank, ACB's Internal Audit staff to perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as appropriate. The consolidated financial statements are examined by PricewaterhouseCoopers LLP, independent auditors. 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 meets and consults regularly with Management and the auditors to review the manner in which these groups are performing their responsibilities and to carry out the Board's oversight role with respect to auditing, internal controls, and financial reporting matters. These auditors also have direct access to the Audit Committee.

The undersigned certify that the Fresno Madera Farm Credit, ACA 2015 Annual Report has been prepared and reviewed 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.

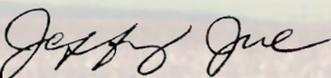
March 15, 2016



Denise Waite  
Audit Committee Chair  
Fresno Madera Farm Credit, ACA  
Fresno Madera PCA, FLCA



Keith Hesterberg  
President and Chief Executive Officer  
Fresno Madera Farm Credit, ACA  
Fresno Madera PCA, FLCA



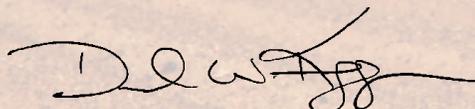
Jeff Jue  
Chairman of the Board  
Fresno Madera Farm Credit, ACA  
Fresno Madera PCA, FLCA



Joe Soto  
Senior Vice President and Chief Financial Officer  
Fresno Madera Farm Credit, ACA  
Fresno Madera PCA, FLCA



Jeff Yribarren  
Vice Chairman of the Audit Committee  
Fresno Madera Farm Credit, ACA  
Fresno Madera PCA, FLCA



Daniel W. Kiggins  
Senior Vice President and Chief Credit Officer  
Fresno Madera Farm Credit, ACA  
Fresno Madera PCA, FLCA

# AUDIT COMMITTEE REPORT

The Audit Committee (Committee) is comprised of three members from the Board of Directors of Fresno Madera Farm Credit, ACA. In 2015, eight 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 Controls Policy and 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 \$73,000 for audit services and \$12,775 for tax services. The Committee reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence.

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

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited consolidated financial statements for the year ended December 31, 2015 (the "Financial Statements") with Management. The Committee also reviews with PwC the matters required to be discussed by Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

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

March 15, 2016



Denise Waite, Audit Committee Chair

## **Audit Committee Members**

Denise Waite, Audit Committee Chair

Jeff Yribarren, Vice Chairman of the Audit Committee

Jeff Jue, Chairman of the Board

## Five-Year Summary of Selected Consolidated Financial Data

(Dollars in thousands, Unaudited)

	December 31				
	2015	2014	2013	2012	2011
<b>Consolidated Statement of Condition Data</b>					
Loans	<b>\$ 1,072,868</b>	\$ 1,002,109	\$ 948,443	\$ 928,131	\$ 863,968
Less allowance for loan losses	<b>6,227</b>	4,860	4,783	6,104	6,095
Net loans	<b>1,066,641</b>	997,249	943,660	922,027	857,873
Investment in CoBank, ACB	<b>29,977</b>	27,557	27,436	27,067	26,262
Other assets	<b>35,469</b>	27,683	24,461	26,269	26,510
<b>Total assets</b>	<b>\$ 1,132,087</b>	\$ 1,052,489	\$ 995,557	\$ 975,363	\$ 910,645
Obligations with maturities of one year or less	<b>\$ 894,887</b>	\$ 825,866	\$ 779,785	\$ 764,919	\$ 709,076
Obligations with maturities longer than one year	<b>383</b>	353	848	3,319	2,784
Reserve for unfunded commitments	<b>206</b>	-	-	-	-
<b>Total liabilities</b>	<b>895,476</b>	826,219	780,633	768,238	711,860
Capital stock and participation certificates	<b>763</b>	766	761	772	788
Unallocated retained earnings	<b>235,848</b>	225,504	214,282	206,503	198,013
Accumulated other comprehensive (loss)	<b>-</b>	-	(119)	(150)	(16)
<b>Total members' equity</b>	<b>236,611</b>	226,270	214,924	207,125	198,785
<b>Total liabilities and members' equity</b>	<b>\$ 1,132,087</b>	\$ 1,052,489	\$ 995,557	\$ 975,363	\$ 910,645

	For the Year Ended December 31				
	2015	2014	2013	2012	2011
<b>Consolidated Statement of Income Data</b>					
Net interest income	<b>\$ 24,958</b>	\$ 23,243	\$ 21,778	\$ 21,391	\$ 21,207
Patronage distribution from Farm Credit institutions	<b>4,411</b>	3,793	3,695	3,594	5,044
Tax-free recapitalization distribution due to AgBank merger	<b>-</b>	-	-	-	12,586
Provision for loan losses (Loan loss reversal)	<b>1,387</b>	105	(1,260)	96	1,241
Noninterest expense, net	<b>11,997</b>	11,149	12,173	10,209	10,444
(Benefit from) provision for income taxes	<b>(652)</b>	(10)	303	692	(796)
<b>Net income</b>	<b>\$ 16,637</b>	\$ 15,792	\$ 14,257	\$ 13,988	\$ 27,948

### Key Financial Ratios

#### For the Year

Return on average assets	<b>1.60%</b>	1.63%	1.51%	1.53%	3.23%
Return on average members' equity	<b>7.09%</b>	7.08%	6.64%	6.76%	15.60%
Net interest income as a percentage of average earning assets	<b>2.51%</b>	2.51%	2.42%	2.45%	2.53%
Net charge-offs (recoveries) as a percentage of average net loans	<b>&lt;0.01%</b>	<0.01%	0.01%	0.01%	0.11%

#### At Year End

Members' equity as a percentage of total assets	<b>20.90%</b>	21.50%	21.59%	21.24%	21.83%
Debt as a ratio to members' equity	<b>3.78:1</b>	3.65:1	3.63:1	3.71:1	3.58:1
Allowance for loan losses as a percentage of loans	<b>0.58%</b>	0.48%	0.50%	0.66%	0.71%
Permanent capital ratio	<b>17.54%</b>	17.48%	17.67%	17.68%	16.44%
Total surplus ratio	<b>17.47%</b>	17.41%	17.60%	17.60%	16.36%
Core surplus ratio	<b>17.47%</b>	17.41%	17.60%	17.57%	16.36%

#### Other

Patronage distribution declared	<b>\$ 6,293</b>	\$ 4,570	\$ 6,478	\$ 5,498	\$ -
Patronage distribution paid	<b>\$ 4,570</b>	\$ 6,478	\$ 5,516	\$ -	\$ -

# Management's Discussion and Analysis

(Unaudited)

## INTRODUCTION

The following discussion summarizes the financial position and results of operations of Fresno Madera Farm Credit, ACA (the Association) 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. These comments should be read 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
- Results of Operations
- Loan Portfolio
- Credit Risk Management
- Liquidity
- Capital Resources
- Regulatory Matters
- Critical Accounting Policies and Estimates
- Forward-Looking Statements

Our quarterly reports to members 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.fmfarmcredit.com](http://www.fmfarmcredit.com), or upon request. We are located at 4635 West Spruce, P.O. Box 13069, Fresno, California 93794-3069 or may be contacted by calling (559) 277-7000.

## 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 nearly 100 years. The System's mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related

businesses through a member-owned cooperative system. This is accomplished by providing loans and 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 Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be provided by the Association. 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. Members are farmers, ranchers, rural residents and agribusinesses under eligibility as prescribed in the Farm Credit Act. Members of the Association include all holders of legal title to capital stock or participation certificates of the Association. Our territory served extends across a diverse agricultural region of the San Joaquin Valley in California, specifically within Fresno and Madera counties. We provide production and intermediate-term loans for agricultural production or operating purposes and long-term real estate mortgage loans. Additionally, we provide other related services to our borrowers, such as funds held accounts, credit life insurance, multi-peril crop and crop hail insurance, lease placement and 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 one of the four Farm Credit Banks in the nation - CoBank, ACB (CoBank). In addition to providing lines of credit, CoBank is responsible for providing oversight to insure compliance with its general financing agreements with the Association and each subsidiary.

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](http://www.cobank.com), or may be obtained at no charge by contacting us at 4635 West Spruce, P.O. Box 13069, Fresno, California 93794-3069 or calling (559) 277-7000. Annual reports are available

## Management's Discussion and Analysis

(Unaudited)

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 expires on December 31, 2018. We are a shareholder in AgVantis, along with all other AgVantis customers. Additionally, we purchase payroll and human resource services from Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions.

### ECONOMIC OVERVIEW

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

From year to year, certain agricultural sectors have experienced significant stress, which has negatively impacted credit quality measures. Factors that can negatively impact the profitability of agricultural producers are high energy and fertilizer costs, increased feed, labor and water costs as well as issues with availability, rising market interest rates, adverse weather conditions and commodity price volatility. In an environment of less favorable economic and agricultural conditions, our financial performance and credit quality measures may be negatively impacted.

In 2015, the California agricultural economy continued to do well, despite economic concerns at both the state and federal levels. The majority of commodities we finance have enjoyed strong economic conditions over the past several years which has led to strong profitability for the majority of our members. The dairy industry, which was

coming off strong operating results in 2014, again saw softening in milk prices that is expected to lead to near breakeven to loss operating results in 2015. In addition, almonds, walnuts and wine grapes experienced reduced prices in 2015, though the majority of producers are expected to maintain profitability. Additional details can be found in the Portfolio Diversification section.

Water availability continues to be a major challenge in the San Joaquin Valley, as water users rely on a complex water distribution system to irrigate their crops. A system of reservoirs and canals carries water from the northern part of the state down to the southern part of the state, which annually receives significantly less rain and snow. Many factors influence the amount of water that is available to farmers, including the following:

- Annual precipitation rates that in drought years may not be sufficient to fill the reservoirs that capture the spring runoff;
- Critical issues related to environmental demands and regulatory restrictions of water;
- Ground water quality requirements for dairy and Ag processing businesses; and,
- Continued challenges related to increased competition for existing water supplies by metropolitan / industrial users, quality control, and fisheries.

The 2015 season marked the 4th consecutive year of drought conditions. The extremely low levels of rain and snow fall have severely reduced the availability of surface water available to our Members to irrigate their crops, with most reservoirs reporting water levels that are well below normal. Given the lack of surface water, farmers were forced to continue pumping groundwater at a high rate, further depleting groundwater levels. In 2014, California enacted legislation known as the Sustainable Groundwater Management Act that is designed to regulate how groundwater storage is managed, with groundwater sustainability to be achieved 20-years after adoption. The legislation has created uncertainty surrounding the long-term viability of groundwater as a source available to supplement surface water, however the full effects of the legislation will not be known for several years as implementation plans are not due until January 2020.

Beginning in fall of 2015, the weather pattern has shifted and the state is currently experiencing "El Nino"

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weather conditions, which are known to bring high levels of precipitation. Through December 2015, the majority of the state, including the Association's LSA, has experienced above average rain and snow fall. While the El Nino weather pattern has brought much needed precipitation, the availability of surface water available for farmers during 2016 continues to be in question as the state looks to replenish its water supply that has been severely depleted by the sustained drought conditions.

### RESULT OF OPERATIONS

During 2015, we recognized net income of \$16.6 million as compared to \$15.8 million and \$14.3 million for 2014 and 2013, respectively. The increase in net income in 2015 is primarily the result of an increase in net interest income and noninterest income partially offset by an increase in our provision for loan loss. The increase in 2014 was primarily due to an increase in interest income and a reduction in noninterest expense. The following table reflects key performance results as of December 31:

(\$ in thousands)	2015	2014	2013
Net income	\$ 16,637	\$ 15,792	\$ 14,257
Net interest income	\$ 24,958	\$ 23,243	\$ 21,778
Net interest margin	2.51%	2.51%	2.42%
Return on average assets	1.60%	1.63%	1.51%
Return on average members equity	7.09%	7.08%	6.64%

Change in the significant components impacting the results of operations are summarized in the following table:

(\$ in thousands)	2015 vs 2014	2014 vs 2013
Net income, prior year	\$ 15,792	\$ 14,257
Increase (Decrease) due to:		
Interest income	1,857	1,112
Interest expense	(142)	353
Net interest income	1,715	1,465
Provision for loan losses	(1,282)	(1,365)
Noninterest income	684	(66)
Noninterest expense	(914)	1,188
Provision for income tax	642	313
Total increase in net income	845	1,535
Net income, current year	\$ 16,637	\$ 15,792

### Net Interest Income

Net interest income for 2015 was \$25.0 million compared with \$23.2 million for 2014 and \$21.8 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. Net interest income increased

\$1.7 million or 7% from the prior year primarily due to higher average volume as our net interest margin of 2.51% has remained consistent with prior year.

The following table provides an analysis of the individual components of the change in net interest income during 2015 and 2014:

(\$ in thousands)	2015 vs. 2014	2014 vs. 2013
Net interest income, prior year	\$ 23,243	\$ 21,778
Increase (Decrease) due to:		
Interest rates earned	(345)	320
Interest rates paid	404	551
Volume of interest-bearing assets and liabilities	1,685	693
Interest income on nonaccrual loans	(29)	(99)
Increase in net interest income	1,715	1,465
Net interest income, current year	\$ 24,958	\$ 23,243

The following table illustrates net interest margin (net interest income as a percentage of average earning assets), the average interest rates on loans and debt cost, and interest rate spread.

	2015	2014	2013
Net interest margin	2.51%	2.51%	2.42%
Interest rate on:			
Average loan volume	3.26%	3.30%	3.27%
Average debt	0.93%	0.98%	1.06%
Interest rate spread	2.33%	2.32%	2.21%

Interest rate spreads on loans and our net interest margin remained relatively consistent from 2014. Our loan portfolio continues to be well diversified in Variable, Indexed Rate, and Fixed rate loan products. At December 31, 2015, variable direct loans comprised 57% of our portfolio with 15% of our direct loan portfolio in fixed rate products and 28% in indexed rate products; whereas at December 31, 2014, variable direct loans comprised 57% of our portfolio, fixed rate loans comprised 23%, and indexed rate products comprised 20%.

### Provision for Loan Losses

We monitor our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio. We recorded a net provision for loan losses of \$1.4 million in 2015, \$105 thousand in 2014, and a net loan loss reversal of \$1.3 million in 2013. The increase in 2015 is the result of an increase in our specific allowance related to impaired loans, and changes in our expense

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estimate for the risk of losses in our portfolio. The provision reflects the changes in our expense estimate for the risk of losses in our loan portfolio. Further discussion of the provision for loan losses can be found in Note 3, "Loans and Allowance for Loan Losses," of the accompanying consolidated financial statements.

### Non Interest Income

During 2015, we recorded noninterest income of \$5.3 million, compared with \$4.6 million in 2014 and \$4.7 million in 2013. Noninterest income is primarily comprised of patronage distributions, which reflect patronage income on direct borrowings from CoBank as well as loan participation activity with CoBank and other Farm Credit associations. Patronage income increased due to an increase in average volume outstanding compared to 2014.

Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. Patronage earned from CoBank was \$4.2 million in 2015, \$3.6 million in 2014 and \$3.5 million in 2013. This comprises 79%, 78% and 79% of total non interest income for 2015, 2014 and 2013 respectively.

The Association also receives patronage income from other Farm Credit entities. We receive patronage from AgVantis based on services purchased from them, from Farm Credit Foundations, the organization that provides our payroll and human resource services, and from loan participation activity with other Farm Credit associations.

Patronage from these entities and CoBank are included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

### Non Interest Expense

Noninterest expense for 2015 increased \$914 thousand, or 8%, to \$12.9 million compared with \$12.0 million in 2014 primarily due to increases in Farm Credit Insurance Fund premiums and other noninterest expense. The Insurance Fund premium increased \$150 thousand to \$918 thousand due to an increase in the premium rate and an increase in loan volume. Premium rates were 13 basis points during 2015 compared to 12 basis points in 2014. The increase in other noninterest expense was attributable to an increase in purchased services expenses

and recording a reserve of \$206 thousand for unfunded commitments in 2015. Purchased services expenses increased \$235 thousand or 34% to \$924 thousand in 2015 from \$688 thousand in 2014 as a result of member related attorney fee expenses mainly related to loans in nonaccrual status. The establishment of a separate reserve for unfunded commitments is described further in Note 2, "Summary of Significant Accounting Policies".

### Benefit from/Provision for income taxes

We recorded a \$652 thousand benefit from income taxes in 2015, compared with a \$10 thousand income tax benefit in 2014, and a \$303 thousand provision for income taxes in 2013. The fluctuations in our provision are driven primarily by changes in the pre-tax income of our Production Credit Association (PCA), and variability in the deferred tax asset mainly due to fluctuations in the provision for loan losses and nonaccrual income. The income tax benefit in 2015 is due to PCA recognizing a pretax loss of \$1.7 million primarily driven by a provision for loan loss from impaired loans. For additional information refer to Note 9, "Income Taxes", of the accompanying financial statements.

### LOAN PORTFOLIO

Total loans outstanding were \$1.1 billion at December 31, 2015, an increase of \$70.8 million, or 7%, from total loans at December 31, 2014 of \$1.0 billion. Overall loan volume increased as a result of a \$48.0 million increase in our direct loan volume and a \$22.8 million increase in participations purchased volume. The increase in loans was due to successful marketing efforts to develop quality new business and increased borrowing needs of our existing members. The types of loans outstanding are reflected in the following table.

As of December 31	2015	2014	2013
Real estate mortgage	63%	62%	63%
Production and intermediate-term	19%	23%	23%
Agribusiness:			
Cooperatives	6%	5%	4%
Processing and marketing	10%	9%	8%
Farm related business	0%	0%	1%
Lease receivables	2%	1%	1%
Total	100%	100%	100%

Real estate mortgage loans account for 63% of total loan volume, which represents a slight increase from the prior fiscal year end. The increase was driven by growth in the real estate mortgage portfolio, primarily due to strong

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new business development and utilization of existing loan commitments, which was offset by the scheduled paydown of existing loans. These 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.

Production and intermediate-term loans decreased from prior year end and account for 19% of total loan volume. The decline is due to lower loan volume at year end and is attributed to multiple factors, including lower usage for tax planning, origination of term financing that reduced operating lines, and increased participations sold to conform to ACA concentration management practices. Production loans are used to finance the timing gaps that exist in the production cycle for agricultural producers 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.

The total agribusiness volume accounted for 16% of total loan volume, which represents a slight increase from prior year end. Balances within the individual segments experienced minor fluctuations, with increases in cooperative lending and loans to processing and marketing businesses, with loans to farm related businesses remaining static.

We continued to have steady volume growth with average accruing loan volume growth at 6% with volume at \$985 million for 2015 compared to \$925.5 million for 2014. New business developed in 2015 amounted to \$333.5 million with 80% in direct loans and 20% in participations purchased.

### Portfolio Diversification

We provide loans and financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities. We manage this risk of being a single industry lender through strong credit administration and portfolio diversification. Our loan portfolio is diversified to mitigate this risk through utilization of loan participations purchased and sold, as well as diversification in geographic locations served, commodities financed, and loan size, as illustrated in the following four tables.

In order to meet the growing needs of our membership, we maintain strategic relationships that allow for the purchase of loan assets 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 manage risk related to individual loan concentrations and comply with regulatory and internal lending limits. 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. Total volume in participations purchased and sold as of December 31 follows:

(\$ in thousands)	2015	2014	2013
Purchased	\$ 212,422	\$ 189,602	\$ 173,483
Sold	\$ (232,862)	\$ (118,109)	\$ (65,016)

We primarily serve Fresno and Madera counties in the state of California. We also make loans outside of our chartered territory in accordance with concurrence agreements with other Farm Credit associations; these loans are included in "Other" in the following table.

The geographic distribution of the loan portfolio by county as of December 31 is as follows:

Counties	2015	2014	2013
Fresno	47%	44%	46%
Madera	23%	26%	24%
Other	30%	30%	30%
Total	100%	100%	100%

Loans originated in Fresno and Madera Counties remained stable in comparison to the prior year. Loans outside of our chartered territory were diversified within geographic locations with no concentration in any one county at or exceeding 10% of total loan volume.

Commodity and industry categories are 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.

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The following table shows the primary agricultural commodities produced by our borrowers as of December 31:

Commodities	2015	2014	2013
Nuts	30%	28%	26%
Agribusiness	20%	19%	19%
Dairy	11%	13%	13%
Wine & table grapes	8%	9%	11%
Vegetables & Melons	8%	8%	8%
Tree fruit	7%	6%	7%
Raisins	7%	6%	6%
Beef & livestock	4%	5%	4%
Other	5%	6%	6%
Total	100%	100%	100%

Overall, we maintain a well-diversified loan portfolio, centered in a concentration of nuts, agribusiness, dairy, and wine & table grapes.

Repayment ability of our borrowers is closely related to their debt leverage and to the production and profitability of the commodities they produce. 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 may be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities impacted and the magnitude and duration of the adverse agricultural conditions to our borrowers. Our risk in commodity concentrations is reduced by the fact that many of our borrowers are diversified into multiple commodities.

Nuts, which includes almonds, pistachios, and walnuts, collectively comprise 30% of our loan portfolio. Almond exposure accounts for 26% of the Nut volume, with pistachios and walnuts accounting for 3% and 1% of exposure, respectively. The nut industry has been strong for several years, as successful marketing efforts have kept supply and demand in relative balance despite continued increases in annual production, with prices reaching record highs in 2014. In 2015, Almond prices have declined from the prices received for the prior year crop due primarily to weakening global demand. Despite the drop in price, the majority of producers are expected to remain profitable as the expected 2015 price is anticipated to be well above long term averages.

The pistachio industry has also been successful in marketing at or above record crops while continuing to return strong prices to the growers. Walnut prices again declined in 2015, due primarily to pressure from China on exports.

Agribusinesses represent 20% of our loan portfolio. Generally, the agribusinesses that are doing well are those that have formed alliances directly with the food or fiber retailers and/or wholesalers. They are able to provide flexible customized packages of product or bulk commodities when and where the buyer needs them. Additionally, costs are more controlled due to the economies of scale achieved through increased throughput.

Dairies represent 11% of our loan portfolio. Following highly profitable operations in 2014 that strengthened the balance sheet of most dairy producers, milk prices declined during 2015, which is expected to return most dairy producers to near breakeven to loss operating results. The lower milk prices were offset by continued low feed costs and strong beef prices on culled cows for the first 9-months of the year.

Overall, there have been several factors that have impacted the repayment ability of our dairy portfolio. Our portfolio consists of high producing operations with manageable debt levels; however, further stress of the dairy industry could potentially impact the credit quality of our portfolio. Our risk in this industry is further mitigated by the quality of our customers, our conservative credit standards, and the fact that a high percentage of our dairy volume is on the mortgage side of our company with relatively low loan to collateral percentages.

Wine & table grapes represent 8% of our loan portfolio. The wine market remained challenging in 2015 as prices continued to be soft due to the strengthening dollar and competition from imports mainly sourced in South America and Australia. The table grape industry has reported solid results as growing conditions generally led to good quality and pricing.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers who typically derive most of their earnings from non-

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agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy.

Our portfolio is also diversified through loan size. The table below details loan principal by dollar size as of December 31.

	2015	2014	2013
(\$ in thousands)	Amount outstanding	Amount outstanding	Amount outstanding
\$1 - \$250	\$ 63,117	\$ 61,354	\$ 65,127
\$251 - \$500	77,230	75,316	68,854
\$501 - \$1,000	125,043	126,839	120,194
\$1,001 - \$5,000	576,213	477,795	450,071
\$5,001 - \$25,000	231,265	260,805	244,197
Total	\$ 1,072,868	\$ 1,002,109	\$ 948,443

	2015	2014	2013
(\$ in thousands)	Number of loans	Number of loans	Number of loans
\$1 - \$250	643	673	694
\$251 - \$500	210	208	187
\$501 - \$1,000	174	172	164
\$1,001 - \$5,000	264	217	209
\$5,001 - \$25,000	30	31	30
Total	1,321	1,301	1,284

The principal balance outstanding at December 31, 2015 for loans \$250 thousand and less account for 6% of loan volume but 49% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. Loans above \$5 million comprise 22% of our loan volume and are attributable to 30 loans. Due to their size, the loss of any of these loans or the failure of any of these loans to perform may adversely affect the portfolio and our future operating results. As such, we closely monitor all large loans.

Through Federal Agricultural Mortgage Corporation (Farmer Mac), we have reduced the credit risk of certain long-term real estate loans by entering into agreements that provide long-term standby purchase commitments in the event of default. Under this program, we continue to hold the loans in our portfolio, and we pay commitment fees to Farmer Mac for the right to sell a loan designated in these agreements to Farmer Mac 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 purchase commitment agreements are further

described in Note 3, "Loans and Allowance for Loan Losses". 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](http://www.farmermac.com). The amount of loans subject to these Farmer Mac credit enhancements was \$85.7 million at December 31, 2015, \$110.7 million at December 31, 2014 and \$110.7 million at December 31, 2013. Included in other operating expenses were fees paid for these Farmer Mac commitments totaling \$378 thousand in 2015, \$410 thousand in 2014 and \$379 thousand in 2013.

In addition, we obtained Federal Guarantees through the Farm Service Agency and State of California Guarantees through Valley Small Business Development Corporation. In the event of default, Federal Guarantees cover a specific percent of principal and interest due on the loan while State guarantees cover a specific percent of principal and the same percentage of post-default interest (up to ninety days from the default date). Loans outstanding with credit guarantees from government agencies amounted to \$2.2 million at year-end 2015, \$1.5 million at year-end 2014 and \$1.0 million at year-end 2013.

### Credit Commitments

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

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The table below summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2015.

(\$ in thousands)	Commitments to extend credit	Standby letters of credit	Total commitments
Less than 1 year	\$ 105,156	\$ 1,971	\$ 107,127
1 – 3 years	143,521	413	143,934
3 – 5 years	62,860	1	62,861
Over 5 years	212,021	4,840	216,861
Total	\$ 523,558	\$ 7,225	\$ 530,783

The total commitments do not necessarily represent future cash requirements since many of these commitments are expected to expire without being drawn upon. However, these credit-related financial instruments have off-balance-sheet credit risk because their contractual 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, as 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. Our high risk assets are primarily comprised of nonaccrual loans. Comparative information regarding high risk assets (including related accrued interest) in the portfolio as of December 31 follows:

(\$ in thousands)	2015	2014	2013
Nonaccrual loans:			
Real estate mortgage	\$ 21	\$ 248	\$ 279
Agribusiness	3,936	15,026	-
Total nonaccrual loans	3,957	15,274	279
Accruing restructured loans	-	-	-
Accruing loans 90 days past due	-	-	-
Total impaired loans	3,957	15,274	279
Other property owned	-	-	-
Total high risk assets	\$ 3,957	\$ 15,274	\$ 279
Nonaccrual loans to total loans	0.37%	1.52%	0.03%
High risk assets to total loans	0.37%	1.52%	0.03%
High risk assets to total members'	1.67%	6.75%	0.13%

Total high risk assets decreased \$11.3 million to \$4.0 million as of December 31, 2015 from \$15.3 million as of December 31, 2014.

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or interest. Nonaccrual volume decreased \$11.3 million from December 31, 2014 primarily due to large paydowns on existing impaired loans, as well as the reinstatement of one mortgage loan to accrual status. For the years ended December 31, 2015, 2014 and 2013 there were five, seven and six loans classified as nonaccrual, respectively.

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

(\$ in thousands)	2015	2014	2013
Nonaccrual loans current	\$ -	\$ 15,274	\$ 279
Nonaccrual loans past due	\$ 3,957	\$ -	\$ -
Cash basis nonaccrual loans	\$ -	\$ -	\$ -
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, 2014 or 2013.

### Credit Quality

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

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

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

	2015	2014	2013
Acceptable	<b>99.06%</b>	96.73%	98.04%
OAEM	<b>0.54%</b>	1.41%	1.55%
Substandard	<b>0.40%</b>	1.86%	0.41%
Doubtful	<b>0.00%</b>	0.00%	0.00%
Total	<b>100.00%</b>	100.00%	100.00%

During 2015, overall credit improved with loans classified as "Acceptable" and "OAEM" accounting for 99.6% of volume at December 31, 2015 compared to 98.14% at December 31, 2014. We had no loans classified as Doubtful or Loss in 2015, 2014 or 2013. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased to 0.06% at December 31, 2015, with the increase primarily attributed to one operating loan that is in the process of being refinanced. Loan delinquencies equated to 0% at December 31, 2014 and 2013.

We continue to emphasize strong underwriting standards to ensure the credit quality of our loan portfolio remains strong. During 2015, our borrowers are reporting continued profitability and the financial position of most of our borrowers has strengthened. 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. We have experienced record high credit quality in recent years

and credit quality is anticipated to remain sound in 2016. We do realize that less favorable economic conditions, including challenges faced in limited water supply for farmers located in our lending territory, may result in lower credit quality than achieved in recent years. We believe our robust capital and risk funds position, as well as our effective credit administration, will allow us to successfully manage this risk.

### 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:

(\$ in thousands)	2015	2014	2013
Balance at beginning of year	\$ 4,860	\$ 4,783	\$ 6,104
Charge-offs:			
Agribusiness	20	28	61
Total Charge-offs	20	28	61
Recoveries:	-	-	-
Net charge-offs	20	28	61
Provision for loan losses (Loan Loss Reversal)	1,387	105	(1,260)
Balance at December 31	\$ 6,227	\$ 4,860	\$ 4,783
Net charge-offs to average net loans	<0.01%	<0.01%	0.01%

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

(\$ in thousands)	2015	2014	2013
Real estate mortgage	\$ 306	\$ 374	\$ 394
Production and intermediate-term	1,306	824	2,000
Agribusiness	3,720	3,483	2,046
Energy	-	5	15
Lease receivables	895	174	328
Total	\$ 6,227	\$ 4,860	\$ 4,783

The allowance for loan losses increased \$1.4 million from December 31, 2014 to \$6.2 million as of December 31, 2015. The increase in the allowance for loan loss was

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primarily due to a specific allowance related to impaired loans. Overall, charge-off activity remains low relative to the size of our loan portfolio.

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:

As a result of the specific allowance noted above, the allowance as a percentage of loans has increased 10 basis points from 0.48% at December 31, 2014 to 0.58% at December 31, 2015. Amounts continue to provide an adequate and sound allowance for loan losses. Further discussion of the Allowance can be found in Note 3, "Loans and Allowance for Loan Losses," of the accompanying consolidated financial statements.

We maintain a separate reserve for unfunded commitment, which is included in Other Liabilities on the Consolidated Statements of Condition. The related provision for the reserve for unfunded commitments is included as part of other noninterest expense on the Consolidated Statements of Comprehensive Income.

### Credit Risk Management

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

Underwriting standards are developed and 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 are updated periodically to reflect market and industry conditions.

By regulation, loan commitments to one borrower cannot be more than 15% of our permanent capital. To further mitigate loan concentration risks, we have established internal lending limits that are below the regulatory requirements that are based on the risk associated with individual borrowers.

Exposure through loan participations are further limited by parameters based on geographic location and specific business relationships.

We have established internal lending delegations to properly control the loan approval process. All approvals require a minimum of two voters, with increased voter participation required based on loan size, complexity, type and risk. 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 also typically secured by crops, livestock, equipment and real estate. 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

## Management's Discussion and Analysis

(Unaudited)

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

We are committed to sound and constructive financing. We believe these standards, processes and tools allow us to maintain a successful credit administration function. This has allowed us to maintain high credit quality throughout the various economic cycles.

### LIQUIDITY

Liquidity is necessary to meet our financial obligations. Obligations that require liquidity include paying our note with CoBank, funding loans and other commitments, and funding operations in a cost-effective manner.

Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction, and liquidate nonearning assets expeditiously. Our direct loan with CoBank, cash on hand, and loan repayments provide adequate liquidity to fund ongoing 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 the Bank 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 that is subject to periodic renewal in accordance with normal business practices. The annual average principal balance of the note payable to CoBank was \$735.6 million in 2015, \$676.3 million in 2014 and \$678.6 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 (Funding Corporation).

Due to the Funding Corporation's effectiveness, 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. The Association's continued liquidity is directly dependent upon the Farm Credit System's ability to sell debt securities at competitive rates and the Association maintaining a sound financial position and borrowing relationship with CoBank. We anticipate continuation of strong liquidity levels that will be adequate to meet our obligations.

### **Interest Rate Risk**

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank and 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 their asset/liability management processes. Although CoBank incurs and manages

## Management's Discussion and Analysis

(Unaudited)

the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed excess loanable funds with CoBank at a fixed rate for a specified term as a part of CoBank's Association Equity Positioning Program (AEPP). This enables us to reduce our overall cost of funds with CoBank without significantly increasing our overall interest rate risk position.

### Funds Management

We offer competitively priced variable, fixed, adjustable, Prime-based, and Libor-based rate loans to borrowers. The Association has a differential pricing model based on loan size, type, credit quality, financial condition, and risk. The Board's fiduciary responsibility is to provide our members with the most competitive pricing possible while maintaining the short and long term fiscal integrity of the Association. Our Asset Liability Management Committee, under the direction of 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 and capital 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 cyclical nature of agriculture. We have been able to build capital primarily through net income.

Members' equity at December 31, 2015 totaled \$236.6 million, compared with \$226.3 million at December 31, 2014 and \$214.9 million at December 31, 2013. Members equity includes stock purchased by our members and retained earnings accumulated through net income less patronage distributed to members. Members' equity also includes accumulated other comprehensive income/loss. Our capital position is reflected in the following ratio comparisons:

	2015	2014	2013
Debt to members' equity	<b>3.78:1</b>	3.65:1	3.63:1
Members' equity as a % of net loans	<b>22.18%</b>	22.69%	22.78%
Members' equity as a % of assets	<b>20.90%</b>	21.50%	21.59%

### Retained Earnings

Our retained earnings increased \$10.3 million to \$235.8 million at December 31, 2015 from \$225.5 million at December 31, 2014. The increase was a result of net income of \$16.6 million partially offset by a \$6.3 million patronage distribution declared.

### Patronage Program

We have a patronage program that allows us to distribute a portion of our net earnings to our members. This program provides for the allocation of net earnings in the manner described in our Bylaws. When determining the amount and method of patronage to be distributed, the Board considers the setting aside of funds to increase retained earnings in order to (1) meet capital adequacy standards established by Farm Credit regulations, (2) meet our internal capital adequacy standards to support competitive pricing at targeted earnings levels, and (3) maintain reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of \$4.6 million in 2015, \$6.5 million in 2014, and \$5.5 million in 2013. During 2015, we declared patronage distributions of \$6.3 million to be paid in April 2016.

### Stock

Our total stock and participation certificates decreased \$3 thousand to \$763 thousand at December 31, 2015, from \$766 thousand at December 31, 2014. The increase was due to \$50 thousand of stock issuances, offset by \$53 thousand retirements. We require a one thousand dollar stock investment for each borrower.

### Accumulated Other Comprehensive Income and Loss

Previously certain employees participated in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Current 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 income/loss. We had no accumulated other comprehensive income/loss at December 31, 2015 or 2014, and accumulated other comprehensive loss of \$119 thousand at December 31, 2013.

# Management's Discussion and Analysis

(Unaudited)

## 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. The ratios serve as a measurement of the capital condition and capacity of the Association.

As shown in the following table, the Association significantly exceeded the minimum regulatory requirements which are noted parenthetically. The 2015 capital ratios also exceed the minimum targets established by the Board.

	2015	2014	2013
Permanent capital ratio (7%)	<b>17.54%</b>	17.48%	17.67%
Total surplus ratio (7%)	<b>17.47%</b>	17.41%	17.60%
Core surplus ratio (3.5%)	<b>17.47%</b>	17.41%	17.60%

We do not foresee any future events that would materially impact our capital adequacy in an adverse manner. Due to our strong capital position, we anticipate that we will be able to continue retiring at-risk stock.

## REGULATORY MATTERS

As of December 31, 2015, we had no enforcement actions in effect and FCA took no enforcement actions 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.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are based on accounting principles generally accepted in the United

## Management's Discussion and Analysis

(Unaudited)

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, refer to Note 2, "Summary of Significant Accounting Policies", of the accompanying consolidated financial statements. The development and selection of critical policies, and related disclosures, have been reviewed by our Audit Committee. The following is a summary of certain critical policies:

### **Allowance for Loan Losses**

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

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

Changes in the factors we consider in the evaluation of losses in the loan portfolio could occur for various credit related reasons and could result in a change in the allowance for loan losses, which would have a direct impact on the provision for loan losses and results of operations. For detailed information regarding the allowance for loan losses refer to Notes 2 and 3, "Summary of Significant Accounting Policies" and "Loans and Allowance for Loan Losses", of the accompanying consolidated financial statements.

### **Reserve for Unfunded Commitment**

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 Statements of Condition. 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 reserve for unfunded commitments is included in other noninterest expense in the Consolidated Statements of Comprehensive Income.

### **FORWARD-LOOKING STATEMENTS**

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. 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.



## Independent Auditor's Report

To the Board of Directors of  
Fresno Madera Farm Credit, ACA

We have audited the accompanying consolidated financial statements of Fresno Madera 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 members' 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 Fresno Madera 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

March 15, 2016

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T: (816) 472-7921, F: +(816) 218-1890, [www.pwc.com/us](http://www.pwc.com/us)

## Consolidated Statements of Condition

(Dollars in thousands)

	December 31		
	2015	2014	2013
<b>ASSETS</b>			
Loans	<b>\$1,072,868</b>	\$ 1,002,109	\$ 948,443
Less allowance for loan losses	<b>6,227</b>	4,860	4,783
Net loans	<b>1,066,641</b>	997,249	943,660
Cash	<b>14,368</b>	9,719	5,041
Accrued interest receivable	<b>8,265</b>	8,005	6,639
Investment in CoBank, ACB	<b>29,977</b>	27,557	27,436
Premises and equipment, net	<b>4,411</b>	4,589	4,771
Other assets	<b>8,425</b>	5,370	8,010
<b>Total assets</b>	<b>\$1,132,087</b>	\$ 1,052,489	\$ 995,557
<b>LIABILITIES</b>			
Note payable to CoBank, ACB	<b>\$ 808,220</b>	\$ 742,374	\$ 711,650
Funds held	<b>74,263</b>	73,171	49,218
Accrued interest payable	<b>773</b>	1,952	2,811
Patronage distributions payable	<b>6,293</b>	4,570	6,478
Other liabilities	<b>5,927</b>	4,152	10,476
<b>Total liabilities</b>	<b>895,476</b>	826,219	780,633
<b>Commitments and Contingencies (See Note 13)</b>			
<b>MEMBERS' EQUITY</b>			
Capital stock and participation certificates	<b>763</b>	766	761
Unallocated retained earnings	<b>235,848</b>	225,504	214,282
Accumulated other comprehensive loss	<b>-</b>	-	(119)
<b>Total members' equity</b>	<b>236,611</b>	226,270	214,924
<b>Total liabilities and members' equity</b>	<b>\$1,132,087</b>	\$ 1,052,489	\$ 995,557

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

## Consolidated Statements of Comprehensive Income

(Dollars in thousands)

	<b>For the Year Ended December 31</b>		
	<b>2015</b>	2014	2013
<b>INTEREST INCOME</b>			
Loans	\$ 32,370	\$ 30,513	\$ 29,401
<b>INTEREST EXPENSE</b>			
Note payable to CoBank, ACB	7,147	7,017	7,433
Funds held	265	253	190
<b>Total interest expense</b>	<b>7,412</b>	7,270	7,623
Net interest income	<b>24,958</b>	23,243	21,778
Provision for loan losses (Loan loss reversal)	<b>1,387</b>	105	(1,260)
Net interest income after provision for loan losses	<b>23,571</b>	23,138	23,038
<b>NONINTEREST INCOME</b>			
Financially related services income	409	295	460
Loan fees	393	435	450
Patronage distribution from Farm Credit institutions	4,411	3,793	3,695
Other noninterest income	93	99	83
<b>Total noninterest income</b>	<b>5,306</b>	4,622	4,688
<b>NONINTEREST EXPENSE</b>			
Salaries and employee benefits	7,670	7,587	8,811
Occupancy and equipment	490	496	451
Farm Credit Insurance Fund premium	918	768	641
Supervisory and examination costs	330	327	330
Other noninterest expense	3,484	2,800	2,933
<b>Total noninterest expense</b>	<b>12,892</b>	11,978	13,166
Income before income taxes	<b>15,985</b>	15,782	14,560
(Benefit from) Provision for income taxes	<b>(652)</b>	(10)	303
<b>Net income</b>	<b>\$ 16,637</b>	\$ 15,792	\$ 14,257
<b>COMPREHENSIVE INCOME</b>			
Amortization of retirement costs	-	113	33
Actuarial gain (loss) in retirement obligation	-	6	(2)
<b>Other comprehensive income</b>	<b>-</b>	119	31
<b>Total comprehensive income</b>	<b>\$ 16,637</b>	\$ 15,911	\$ 14,288

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

## Consolidated Statements of Changes in Members' Equity

(Dollars in thousands)

	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
<b>Balance at December 31, 2012</b>	772	206,503	(150)	207,125
Net income		14,257		14,257
Other comprehensive income			31	31
Capital stock and participation certificates issued	53			53
Capital stock and participation certificates retired	(64)			(64)
Patronage Distributions: Cash		(6,478)		(6,478)
<b>Balance at December 31, 2013</b>	761	214,282	(119)	214,924
Net income		15,792		15,792
Other comprehensive income			119	119
Capital stock and participation certificates issued	53			53
Capital stock and participation certificates retired	(48)			(48)
Patronage Distributions: Cash		(4,570)		(4,570)
<b>Balance at December 31, 2014</b>	\$ 766	\$ 225,504	\$ -	\$ 226,270
Net income		<b>16,637</b>		<b>16,637</b>
Capital stock and participation certificates issued	<b>50</b>			<b>50</b>
Capital stock and participation certificates retired	<b>(53)</b>			<b>(53)</b>
Patronage Distributions: Cash		<b>(6,293)</b>		<b>(6,293)</b>
<b>Balance at December 31, 2015</b>	<b>\$ 763</b>	<b>\$ 235,848</b>	<b>\$ -</b>	<b>\$ 236,611</b>

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

## Consolidated Statements of Cash Flows

(Dollars in thousands)

	<b>For the Year Ended December 31</b>		
	<b>2015</b>	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	<b>\$ 16,637</b>	\$ 15,792	\$ 14,257
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	<b>268</b>	311	330
Provision for loan losses (loan loss reversal)	<b>1,386</b>	105	(1,260)
Stock patronage from CoBank, ACB	<b>(228)</b>	(143)	(115)
Allocated patronage from AgVantis	<b>(26)</b>	(111)	(122)
Gains on sales of premises and equipment	<b>(27)</b>	(33)	(1)
Change in assets and liabilities:			
(Increase) decrease in accrued interest receivable	<b>(260)</b>	(1,366)	132
(Increase) decrease in other assets	<b>(2,938)</b>	2,773	(303)
Decrease in accrued interest payable	<b>(1,179)</b>	(859)	(403)
Increase (decrease) in other liabilities	<b>1,775</b>	(6,205)	(257)
Total adjustments	<b>(1,229)</b>	(5,528)	(1,999)
Net cash provided by operating activities	<b>15,408</b>	10,264	12,258
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net increase in loans	<b>(70,778)</b>	(53,694)	(20,373)
Increase in stock in CoBank, ACB	<b>(2,283)</b>	-	(310)
Proceeds from sale of premises and equipment	<b>27</b>	33	1
Purchase of premises and equipment	<b>(90)</b>	(129)	(152)
Net cash used in investing activities	<b>(73,124)</b>	(53,790)	(20,834)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net draw on (repayment of) note payable to CoBank, ACB	<b>65,846</b>	30,724	(9,045)
Net increase in funds held	<b>1,092</b>	23,953	21,151
Capital stock and participation certificates retired	<b>(53)</b>	(48)	(64)
Capital stock and participation certificates issued	<b>50</b>	53	53
Cash patronage distributions paid	<b>(4,570)</b>	(6,478)	(5,498)
Net cash provided by financing activities	<b>62,365</b>	48,204	6,597
Net increase (decrease) in cash	<b>4,649</b>	4,678	(1,979)
Cash at beginning of year	<b>9,719</b>	5,041	7,020
Cash at end of year	<b>\$ 14,368</b>	\$ 9,719	\$ 5,041
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Cash paid during the year for:			
Interest	<b>\$ 8,591</b>	\$ 8,129	\$ 8,026
Income taxes	<b>\$ 275</b>	\$ 2	\$ 98
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Patronage distributions payable	<b>\$ 6,293</b>	\$ 4,570	\$ 6,478
Amortization of retirement costs	<b>\$ -</b>	\$ 113	\$ 33
Actuarial gain (loss) in retirement obligation	<b>\$ -</b>	\$ 6	\$ (2)

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

# Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

## 1. ORGANIZATION AND OPERATIONS

### **Organization**

Fresno Madera Farm Credit, ACA and its wholly-owned subsidiaries, Fresno Madera Federal Land Bank Association, FLCA (FLCA), and Fresno Madera 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/members for qualified agricultural purposes in the counties of Fresno and Madera 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 (FCBs), one Agricultural Credit Bank and 74 associations.

CoBank, ACB (funding bank), its related associations (including Fresno Madera Farm Credit, ACA) and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. As of December 31, 2015, 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 System-wide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation 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 two 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 two percent level.

As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions.

CoBank passes this premium expense and the return of excess funds as applicable through to each Association based on the Association's average adjusted note payable with CoBank.

### **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.

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

The Association offers related services to our borrowers, such as credit life insurance, multi-peril crop and crop hail insurance, funds held accounts, lease placement and appraisal services.

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](http://www.cobank.com); or may be obtained at no charge by contacting the Association at 4635 W. Spruce, P.O. Box 13069, Fresno, California 93794-3069 or by calling (559) 277-7000. Upon request, Association members will be provided with a copy of the CoBank Annual Report, which includes the unaudited condensed combined balance sheet and income statement of CoBank and its related associations, and AgVantis. The CoBank Annual Report discusses the material aspects of the Bank's and District's financial condition, changes in financial condition, and results of operations.

### **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 (Management) to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates. Significant estimates are discussed in these footnotes as applicable. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the current year's financial statement presentation.

The consolidated financial statements include the accounts of Fresno Madera Farm Credit, ACA; and its wholly-owned subsidiaries, Fresno Madera FLCA and Fresno Madera PCA. All significant inter-company transactions have been eliminated in consolidation.

#### **Recently Issued Accounting Pronouncements**

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 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

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

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.

### Loans and Allowance for Loan Losses

Long-term real estate mortgage loans generally have original maturities ranging from five to 25 years. Substantially all short and intermediate-term loans made for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loan origination fees and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield.

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

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

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectability of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs, and collection of future payments is no longer in doubt.

If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first applied against accrued interest receivable and then the remainder is 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 and non-System entities to generate additional earnings and diversify risk. Additionally, the Association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. Loans are accounted for following the accounting requirements for sale treatment.

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

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality.

The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

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

associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

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

### 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.

### 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 participation sold to CoBank.

### Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is determined principally by the straight-line method over the estimated useful lives of the assets. Estimated useful lives for the buildings are 40 years and range from 3 to 7 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.

### Other Assets and Other Liabilities

Other assets are comprised primarily of accounts receivable, prepaid expenses, deferred tax assets, and

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

investments in Farm Credit institutions. Other liabilities primarily include Insurance Fund premiums payable, accounts payable and employee benefits.

### Funds Held

The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. Amounts received are recorded in the Consolidated Statements of Condition as interest bearing liabilities. Borrowers generally have unrestricted access to these amounts. Funds Held accounts are not insured. Interest is generally paid by the Association on Funds Held accounts.

### Employee Benefit Plans

Substantially all employees of the Association participate in the Eleventh District Defined Benefit Retirement Plan (Defined Benefit Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401 (k)).

The Defined Benefit Plan is a noncontributory multi-employer defined benefit retirement 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 participated in the Eleventh District nonqualified defined benefit Pension Restoration Plan. This plan provided retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under this plan were offset by the benefits payable from the pension plan. Further discussion of the Employee Benefit Plans can be found in Note 10, "Employee Benefit Plans".

### Patronage Distribution from CoBank

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

### 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 classifies interest and penalties as a component of the provision for income taxes.

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

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

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 AgBank's post-1992 earnings or on stock patronage distributions received from AgBank prior to January 1, 1993, the adoption date of FASB guidance on income taxes. Management's intent is to permanently invest these and other undistributed earnings in the funding bank thereby indefinitely postponing their conversion to cash. Additionally, deferred income taxes have not been provided on AgBank's post-1992 unallocated earnings. CoBank currently has no plans to distribute unallocated earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

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.

### Advertising Costs

The Association expenses advertising costs as they are incurred. For the years ended December 31, 2015, 2014,

and 2013, advertising costs included in other noninterest expense were \$96, \$81, and \$76, respectively.

### Other Comprehensive Income (Loss)

Other comprehensive income (loss) refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of members' 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.

### 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 supplemental executive 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

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

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 certain impaired loans and other property owned. The fair value disclosures are reported in Note 14, "Fair Value Measurements".

### 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.

We maintain a reserve for unfunded commitments at a level that, in the opinion of Management, is adequate to absorb probable losses associated with the Association's commitment to lend funds under these agreements. The reserve 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, and current production conditions. These estimates are evaluated regularly to determine if any necessary increases or decreases to the reserve are warranted and, changes in the reserve are reflected in the provision for unfunded commitments, included in noninterest expense on the Consolidated Statements of Comprehensive Income. Further discussion of the reserve for unfunded commitments can be found in Note 13, "Commitments and Contingencies".

### 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows:

<b>As of December 31</b>	<b>2015</b>	2014	2013
Real estate mortgage	\$ <b>677,744</b>	\$ 619,423	\$ 595,198
Production and intermediate-term	<b>200,853</b>	226,276	222,003
Agribusiness:			
Cooperatives	<b>58,643</b>	46,676	40,411
Processing and marketing	<b>110,793</b>	93,821	76,241
Farm-related business	<b>2,596</b>	2,751	3,041
Lease receivables	<b>22,239</b>	13,162	11,549
<b>Total loans</b>	<b>\$ 1,072,868</b>	\$ 1,002,109	\$ 948,443

Unamortized deferred loan fees and costs totaled \$4.8 million, \$5.0 million, and \$5.0 million as of December 31, 2015, 2014 and 2013, respectively.

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. We account for these transfers of financial assets as sales when control over the transferred financial assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from us, (2) the transferee has the right to pledge or exchange the assets (or beneficial interests) it

received, free of conditions that constrain it from taking advantage of that right, and (3) we do not maintain effective control over the transferred financial assets or third-party beneficial interest related to those transferred assets. No gain or loss has been recognized by us on the sale of these participation interests. The following table presents information regarding participations purchased and sold as of December 31, 2015:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 43,738	\$ 119,702	\$ 2,118	\$ -	\$ 45,856	\$ 119,702
Production and intermediate-term	22,819	88,050	-	-	22,819	88,050
Agribusiness	113,049	25,110	8,459	-	121,508	25,110
Lease receivables	22,239	-	-	-	22,239	-
Total loans	\$ 201,845	\$ 232,862	\$ 10,577	\$ -	\$ 212,422	\$ 232,862

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

As of December 31 Commodity	2015		2014		2013	
	Amount	Percent	Amount	Percent	Amount	Percent
Nuts	\$ 318,703	29.71%	\$ 277,825	27.72%	\$ 247,583	26.10%
Agribusiness	218,729	20.39%	193,213	19.28%	178,950	18.87%
Dairy	111,612	10.40%	126,325	12.61%	121,834	12.85%
Wine & table grapes	85,994	8.01%	91,435	9.12%	101,847	10.74%
Vegetables & Melons	85,695	7.99%	85,131	8.50%	74,766	7.88%
Tree fruit	77,035	7.18%	62,029	6.19%	67,950	7.16%
Raisins	79,262	7.39%	62,277	6.21%	60,534	6.38%
Beef & livestock	39,386	3.67%	45,957	4.59%	38,979	4.11%
Other	56,452	5.26%	57,917	5.78%	56,000	5.91%
Total	\$ 1,072,868	100.00%	\$ 1,002,109	100.00%	\$ 948,443	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.

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The Association has obtained credit enhancements by entering into Standby Commitment to Purchase Agreements (Agreements) with the Federal Agricultural Mortgage Corporation (Farmer Mac), covering loans with principal balance outstanding of \$85.7 million, \$110.7 million and \$110.7 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 \$378 for 2015, \$410 in 2014 and \$379 in 2013 are reflected in noninterest expense.

In addition, the Association obtains Federal Guarantees through the Farm Service Agency and State of California Guarantees through Valley Small Business Development Corporation. In the event of default, Federal Guarantees cover a specific percent of principal and interest due on the loan while State guarantees cover a specific percent of principal and the same percentage of post-default interest (up to ninety days from the default date).

Credit enhancements with government agencies of \$2.2 million at year-end 2015, \$1.5 million at year-end 2014 and \$1 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.

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

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.

<b>As of December 31</b>	<b>2015</b>	2014	2013
Real estate mortgage			
Acceptable	<b>99.83%</b>	97.46%	97.24%
OAEM	<b>0.11%</b>	1.95%	2.10%
Substandard	<b>0.06%</b>	0.59%	0.66%
Total	<b>100.00%</b>	100.00%	100.00%
Production and intermediate-term			
Acceptable	<b>99.91%</b>	99.09%	99.07%
OAEM	<b>0.09%</b>	0.91%	0.93%
Total	<b>100.00%</b>	100.00%	100.00%
Agribusiness			
Acceptable	<b>94.90%</b>	89.53%	100.00%
OAEM	<b>2.82%</b>	0.00%	0.00%
Substandard	<b>2.28%</b>	10.47%	0.00%
Total	<b>100.00%</b>	100.00%	100.00%
Lease receivables			
Acceptable	<b>99.98%</b>	99.95%	99.92%
OAEM	<b>0.02%</b>	0.05%	0.08%
Total	<b>100.00%</b>	100.00%	100.00%
Total Loans			
Acceptable	<b>99.06%</b>	96.73%	98.04%
OAEM	<b>0.54%</b>	1.41%	1.55%
Substandard	<b>0.40%</b>	1.86%	0.41%
Total	<b>100.00%</b>	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:

<b>As of December 31</b>	<b>2015</b>	2014	2013
Nonaccrual loans:			
Current as to principal and interest	\$ -	\$ 15,274	\$ 279
Past due	<b>3,957</b>	-	-
Total impaired loans	<b>\$ 3,957</b>	\$ 15,274	\$ 279

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

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

interest) and related credit quality are as follows:

	<b>2015</b>	2014	2013
Nonaccrual loans:			
Real estate mortgage	\$ 21	\$ 248	\$ 279
Agribusiness	<b>3,936</b>	15,026	-
Total non-accrual loans	<b>3,957</b>	15,274	279
Accruing restructured loans	-	-	-
Accruing loans 90 days past due	-	-	-
Total impaired loans	<b>3,957</b>	15,274	279
Other property owned	-	-	-
Total high risk assets	<b>\$ 3,957</b>	\$ 15,274	\$ 279

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 2015, 2014, and 2013.

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Additional impaired loan information is as follows:

	Carrying Value	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
<b>December 31, 2015</b>					
<b>Impaired loans with related allowance for credit losses:</b>					
Agribusiness					
Process and marketing	\$ 3,936	\$ 7,167	\$ 2,080	\$ 9,303	\$ -
Total	\$ 3,936	\$ 7,167	\$ 2,080	\$ 9,303	\$ -
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 21	\$ 43	\$ -	\$ 115	\$ 32
Total	\$ 21	\$ 43	\$ -	\$ 115	\$ 32
<b>Total Impaired Loans</b>	<b>\$ 3,957</b>	<b>\$ 7,210</b>	<b>\$ 2,080</b>	<b>\$ 9,418</b>	<b>\$ 32</b>

	Carrying Value	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
December 31, 2014					
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 248	\$ 349	\$ -	\$ 265	\$ 60
Production and intermediate-term	-	-	-	-	1
Agribusiness					
Process and marketing	15,026	18,257	-	82	-
Total	\$ 15,274	\$ 18,606	\$ -	\$ 347	\$ 61

	Carrying Value	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
December 31, 2013					
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 279	\$ 411	\$ -	\$ 425	\$ 38
Production and intermediate-term	-	1	-	269	120
Agribusiness					
Process and marketing	-	3,231	-	29	2
Total	\$ 279	\$ 3,643	\$ -	\$ 723	\$ 160

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2015, 2014, and 2013. The decrease in impaired loans in 2015 is primarily due to paydowns of principal from existing impaired loans.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2, "Summary of Significant Accounting Policies". The following table presents interest income recognized on impaired loans and average impaired loans.

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

<b>For the Year Ended December 31</b>	<b>2015</b>	2014	2013
Interest income recognized on:			
Nonaccrual loans	\$ 32	\$ 61	\$ 160
Accrual loans 90 days or more past due	-	-	-
Interest income recognized on impaired loans	<b>\$ 32</b>	\$ 61	\$ 160

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

<b>For the Year Ended December 31</b>	<b>2015</b>	2014	2013
Interest income which would have been recognized under the original loan terms	\$ 934	\$ 516	\$ 349
Less: interest income recognized	(32)	(61)	(160)
Foregone interest income	<b>\$ 902</b>	\$ 455	\$ 189

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

	<b>Current Loans</b>	<b>30-89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Loans Outstanding</b>	<b>Accrual loans 90 days or More Past Due</b>
December 31, 2015					
Real estate mortgage	\$ 684,048	\$ 21	\$ -	\$ 684,069	\$ -
Production and intermediate-term	201,508	675	-	202,183	-
Agribusiness	168,599	-	3,936	172,535	-
Lease receivables	22,346	-	-	22,346	-
Total	\$ 1,076,501	\$ 696	\$ 3,936	\$ 1,081,133	\$ -

	<b>Current Loans</b>	<b>30-89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Loans Outstanding</b>	<b>Accrual loans 90 days or More Past Due</b>
December 31, 2014					
Real estate mortgage	\$ 625,852	\$ -	\$ -	\$ 625,852	\$ -
Production and intermediate-term	227,459	-	-	227,459	-
Agribusiness	143,566	-	-	143,566	-
Lease receivables	13,225	12	-	13,237	-
Total	\$ 1,010,102	\$ 12	\$ -	\$ 1,010,114	\$ -

	<b>Current Loans</b>	<b>30-89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Loans Outstanding</b>	<b>Accrual loans 90 days or More Past Due</b>
December 31, 2013					
Real estate mortgage	\$ 600,356	\$ -	\$ -	\$ 600,356	\$ -
Production and intermediate-term	222,856	-	-	222,856	-
Agribusiness	120,246	-	-	120,246	-
Lease receivables	11,624	-	-	11,624	-
Total	\$ 955,082	\$ -	\$ -	\$ 955,082	\$ -

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

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

	Real estate mortgage	Production and intermediate-term	Agribusiness	Energy	Lease receivables	Total
<b>Allowance for Credit Losses:</b>						
Balance at December 31, 2014	\$ 373	\$ 824	\$ 3,484	\$ 5	\$ 174	\$ 4,860
Charge-offs	-	-	(20)	-	-	(20)
Recoveries	-	-	-	-	-	-
Provision for Loan Losses (Loan loss reversal)	(67)	482	256	(5)	721	1,387
Balance at December 31, 2015	\$ 306	\$ 1,306	\$ 3,720	\$ -	\$ 895	\$ 6,227
Ending balance: Allowance individually evaluated for impairment	\$ -	\$ -	\$ 2,080	\$ -	\$ -	\$ 2,080
Ending balance: Allowance collectively evaluated for impairment	306	1,306	1,640	-	895	4,147
Balance at December 31, 2015	\$ 306	\$ 1,306	\$ 3,720	\$ -	\$ 895	\$ 6,227
<b>Recorded Investments in Loans Outstanding:</b>						
Ending balance: Loans individually evaluated for impairment	\$ 21	\$ -	\$ 3,936	\$ -	\$ -	\$ 3,957
Ending balance: Loans collectively evaluated for impairment	684,048	202,183	168,599	-	22,346	1,077,176
Balance at December 31, 2015	\$ 684,069	\$ 202,183	\$ 172,535	\$ -	\$ 22,346	\$ 1,081,133

	Real estate mortgage	Production and intermediate-term	Agribusiness	Energy	Lease receivables	Total
<b>Allowance for Credit Losses:</b>						
Balance at December 31, 2013	\$ 394	\$ 2,000	\$ 2,046	\$ 15	\$ 328	\$ 4,783
Charge-offs	-	-	(28)	-	-	(28)
Recoveries	-	-	-	-	-	-
Provision for Loan Losses (Loan loss reversal)	(21)	(1,176)	1,466	(10)	(154)	105
Balance at December 31, 2014	\$ 373	\$ 824	\$ 3,484	\$ 5	\$ 174	\$ 4,860
Ending balance: Allowance individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending balance: Allowance collectively evaluated for impairment	373	824	3,484	5	174	4,860
Balance at December 31, 2014	\$ 373	\$ 824	\$ 3,484	\$ 5	\$ 174	\$ 4,860
<b>Recorded Investments in Loans Outstanding:</b>						
Ending balance: Loans individually evaluated for impairment	\$ 248	\$ -	\$ 15,026	\$ -	\$ -	\$ 15,274
Ending balance: Loans collectively evaluated for impairment	625,604	227,459	128,540	-	13,237	994,840
Balance at December 31, 2014	\$ 625,852	\$ 227,459	\$ 143,566	\$ -	\$ 13,237	\$ 1,010,114

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

	Real estate mortgage	Production and intermediate-term	Agribusiness	Energy	Lease receivables	Total
<b>Allowance for Credit Losses:</b>						
Balance at December 31, 2012	\$ 937	\$ 2,075	\$ 2,847	\$ -	\$ 245	\$ 6,104
Charge-offs	-	-	(61)	-	-	(61)
Recoveries	-	-	-	-	-	-
Provision for Loan Losses (Loan loss reversal)	(543)	(75)	(740)	15	83	(1,260)
Balance at December 31, 2013	\$ 394	\$ 2,000	\$ 2,046	\$ 15	\$ 328	\$ 4,783
Ending balance: Allowance individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending balance: Allowance collectively evaluated for impairment	394	2,000	2,046	15	328	4,783
Balance at December 31, 2013	\$ 394	\$ 2,000	\$ 2,046	\$ 15	\$ 328	\$ 4,783
<b>Recorded Investments in Loans Outstanding:</b>						
Ending balance: Loans individually evaluated for impairment	\$ 279	\$ -	\$ -	\$ -	\$ -	\$ 279
Ending balance: Loans collectively evaluated for impairment	600,077	222,856	120,246	-	11,624	954,803
Balance at December 31, 2013	\$ 600,356	\$ 222,856	\$ 120,246	\$ -	\$ 11,624	\$ 955,082

#### 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 its 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 participation sold is paid 75 percent cash and 25 percent Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements or 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.

#### 5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

As of December 31	2015	2014	2013
Land, buildings and improvements	\$ 5,832	\$ 5,832	\$ 5,825
Furniture and equipment	2,271	2,248	2,220
Automobiles	47	58	60
	<b>8,150</b>	8,138	8,105
Less: accumulated depreciation	(3,739)	(3,549)	(3,334)
Total	<b>\$ 4,411</b>	\$ 4,589	\$ 4,771

#### 6. NOTE PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA) which provides for an open-ended revolving line of credit. The GFA and promissory note are subject to periodic renewals in the normal course of business. The GFA matures on May 31, 2018. Management expects renewal of the GFA at that time. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2015.

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

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 0.97 percent for the year ended December 31, 2015, compared with 1.04 percent for the year ended December 31, 2014, and 1.10 percent at December 31, 2013.

The Association has the opportunity to commit 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 loanable funds are netted against the note payable to CoBank.

The committed funds as of December 31 are as follows:

	2015	2014	2013
Committed funds	\$263,206	\$ 258,134	\$ 232,138
Average rates	0.17%	0.12%	0.18%

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 note payable is within the specified limitations.

### 7. MEMBERS' EQUITY

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

#### **Capital Stock and Participation Certificates**

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership

of the capital 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 retains a first lien on the stock or participation certificates owned by borrowers. In accordance with the Farm Credit Act, such equities are unprotected and at-risk. Retirement of such equities will be solely at the discretion of the Board of Directors and generally be at the lower of par or book value. 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 two (2) to ten (10) percent of the member's collective loan or commitment balance. 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 one thousand dollars per customer.

#### **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 risk-adjusted assets of 3.50 percent.

At December 31, 2015, the Association's permanent capital, total surplus and core surplus ratios were 17.54 percent, 17.47 percent, and 17.47 percent, respectively.

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

An existing regulation empowers the 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.

### 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 the following classes of equity outstanding, all at a par value of \$5 per share/unit.

Class	Number of Shares	Voting	Protected
C - common stock	150,800	yes	no
F - participation certificates	1,800	no	no

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

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

Any assets remaining after such distribution will be shared, pro-rata, by all stock and certificate holders of record immediately before the liquidation distribution.

### Patronage Program

In 2011 the Board of Directors approved the adoption of a Patronage Program that allows the Association to distribute available net earnings to its members. 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 patronage-sourced net income to its members

by declaring a cash patronage distribution. For 2015, the Association allocated 36 percent of its patronage sourced net income to its patrons. In accordance with Subchapter T of the Internal Revenue Code, the portion of patronage-sourced net income not distributed in cash may also be allocated to members in the form of nonqualified written notices of allocation. The Board of Directors considers these nonqualified allocations as 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.

### Accumulated Other Comprehensive Income (Loss)

The Association reports accumulated other comprehensive income (loss) in its Consolidated Statements of Changes in Members' Equity. As more fully described in Note 2, "Summary of Significant Accounting Policies", accumulated other comprehensive income (loss) results from the recognition of the Pension Restoration Plan's net unamortized actuarial gains and losses and prior service costs or credits. The Association had no accumulated other comprehensive income (loss) as of December 31, 2015 and 2014, and accumulated other comprehensive loss of \$119 as of December 31, 2013. There were no other items affecting comprehensive income or loss.

## 8. PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

As of December 31	2015	2014	2013
Current			
Federal	\$ 81	\$ 98	\$ 53
State	2	2	2
Deferred			
Federal	(735)	(110)	248
State	-	-	-
(Benefit from) provision for income taxes	\$ (652)	\$ (10)	\$ 303

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 was paid by CoBank in March 2015. The amount declared in December 2013 by CoBank was accrued in 2013 and was paid in March 2014.

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

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 the Association's payroll and human resource services.

Patronage distributions from District Associations were in cash and recorded in the year received. These distributions represent patronage related to loan participation activity with other District associations.

### 9. INCOME TAXES

The provision for (benefit from) income taxes follows:

<b>As of December 31</b>	<b>2015</b>	2014	2013
Current			
Federal	\$ 81	\$ 98	\$ 53
State	2	2	2
Deferred			
Federal	(735)	(110)	248
State	-	-	-
(Benefit from) provision for income taxes	\$ (652)	\$ (10)	\$ 303

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

<b>As of December 31</b>	<b>2015</b>		2014		2013	
	Amount	Percent	Amount	Percent	Amount	Percent
Federal tax at statutory rate	\$ 5,435	34%	\$ 5,366	34%	\$ 4,950	34%
State tax, net	1	-	1	-	1	-
Effect of non-taxable FLCA income	(6,012)	-38%	(5,229)	(33%)	(4,629)	(32%)
Patronage distributions	(72)	0	(146)	(1%)	(11)	-
Other	(4)	-	(2)	-	(8)	-
(Benefit from) provision for income taxes	\$ (652)	(4%)	\$ (10)	0%	\$ 303	2%

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

Deferred tax assets and liabilities are comprised of the following:

As of December 31	2015	2014	2013
Gross deferred tax asset:			
Allowance for loan losses	\$ 2,016	\$ 1,488	\$ 1,480
Nonaccrual loan interest	305	75	-
Patronage Loss Carryforward	86	86	86
Gross deferred tax asset	2,407	1,649	1,566
Less: valuation allowance	(86)	(86)	(86)
Deferred tax assets, net of valuation allowance	2,321	1,563	1,480
Gross deferred tax liability:			
Bank patronage allocations	(407)	(384)	(410)
Stock patronage distributions from System banks	(909)	(909)	(909)
Gross deferred tax liability	(1,316)	(1,293)	(1,319)
Net deferred tax asset	\$ 1,005	\$ 270	\$ 161

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 \$86 in 2015, \$86 in 2014, and \$86 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 net operating loss carryforwards that expire in 2032.

The Association has no uncertain tax positions as of December 31, 2015, 2014, or 2013. The Association accounts for income taxes in accordance with Accounting Standards Codification (ASC) 740, which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements.

ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Association's tax returns to determine whether the tax positions are more-likely-than-not of being sustained upon examination by the applicable tax authority, based on the technical merits of the tax position, and then measuring the tax benefit that is more-likely-than-not to be realized. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax

expense in the current reporting period. The tax years that remain open for federal and major state income tax jurisdictions are 2012 and forward.

### 10. EMPLOYEE BENEFIT PLANS

Certain employees participate in the Eleventh Retirement Plan, a multi-employer defined benefit retirement plan (Defined Benefit Plan). The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers eligible employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if the Association chooses to stop participating in the plan, the Association may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

The Defined Benefit Plan reflects an unfunded liability totaling \$90.1 million 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 of the plan was \$244.5 million at December 31, 2015, \$247.2 million at December 31, 2014, and \$207.8 million at December 31, 2013. The fair value of the plan assets was \$154.5 million at December 31, 2015, \$162.0 million at December 31, 2014 and \$157.0 million at December 31, 2013. The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was \$4.8 million in 2015, \$2.5 million in 2014, and \$3.3 million in 2013. The Association's allocated share of plan expenses included in salaries and employee benefits was \$268 for 2015, \$106 for 2014, and \$209 for 2013. Participating employers contributed \$7.5 million in 2015, \$5.1 million in 2014, and \$4 million in 2013 to the plan. The Association's allocated share of these pension contributions was \$416 in 2015, \$215 in 2014, and \$255 in 2013. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants.

The amount of the total employer contributions expected to be paid into the pension plans during 2016 is \$11.1 million. The Association's allocated share of these pension contributions is expected to be \$697. 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 \$33 in 2015, \$25 in 2014, and \$25 in 2013. These expenses are equal to the Association's cash contributions for each year.

The Association participated in a non-qualified defined benefit Pension Restoration Plan that was unfunded. The plan provided retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. There were no Pension Restoration Plan expenses included in salaries and employee benefits in 2015, compared with \$119 in 2014, and \$42 in 2013.

Additionally, the Association provided a Supplemental Executive Retirement Program for one key executive, who retired in 2013. Costs associated with the plan included in salaries and employee benefits were \$610 in 2013. The Association had no expense associated with this plan in 2015 and 2014 and does not have any liabilities with respect to the plan.

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

The funding status and the amounts recognized in the Consolidated Statements of Condition for the Association's Pension Restoration Plan follows:

	<b>Nonqualified Restoration Pension Benefits</b>		
	<b>2015</b>	2014	2013
<b>Change in benefit obligation:</b>			
Benefit obligation at the beginning of the period	\$ -	\$ 119	\$ 227
Service cost	-	-	-
Interest cost	-	6	9
Actuarial (gain) loss	-	(6)	2
Benefits paid	-	(119)	(119)
Benefit obligation at the end of the period	\$ -	\$ -	\$ 119
Employer Contributions	-	119	119
Benefits paid	-	(119)	(119)
Fair value of plan assets at the end of the period	\$ -	\$ -	\$ -
Funded status of the plan	\$ -	\$ -	\$ (119)
<b>Amounts recognized in the Consolidated Statements of Condition consist of:</b>			
Accrued benefit liability	-	-	(119)
Net amount recognized	\$ -	\$ -	\$ (119)

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

	<b>2015</b>	2014	2013
Net actuarial loss	\$ -	\$ -	\$ 119
Total amount recognized in accumulated other comprehensive loss	\$ -	\$ -	\$ 119

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

	<b>2015</b>	2014	2013
Projected benefit obligation	\$ -	\$ -	\$ (119)
Accumulated benefit obligation	\$ -	\$ -	\$ (119)

The net periodic pension expense for the defined benefit pension restoration plan included in the Consolidated Statements of Income is comprised of the following at December 31.

	<b>Nonqualified Restoration Pension Benefits</b>		
	<b>2015</b>	2014	2013
<b>Components of net periodic benefit cost</b>			
Service cost	\$ -	\$ -	\$ -
Interest cost	-	6	9
Net amortization and deferral of net actuarial loss	-	113	33
Net periodic benefit cost	\$ -	\$ 119	\$ 42

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

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

	2015	2014	2013
Current year net actuarial (gain) loss	\$ -	\$ (6)	\$ 2
Amortization of net actuarial (gain)	-	(113)	(33)
Total recognized in other comprehensive income	\$ -	\$ (119)	\$ (31)

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

	Nonqualified Restoration Pension Benefits		
	2015	2014	2013
Discount rate	-	4.10%	4.85%
Rate of compensation increase	-	4.50%	4.50%

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

	Nonqualified Restoration Pension Benefits		
	2015	2014	2013
Discount rate	-	4.85%	4.05%
Rate of compensation increase	-	4.50%	4.50%

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan (Contribution Plan). The Contribution Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employer contributions to the Contribution Plan were \$654 in 2015, \$659 in 2014, and \$713 in 2013.

### 11. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association enters into loan transactions with 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 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 30 days. If not, the director must resign from the Board of Directors.

The Association has a policy that employees, including senior officers, may not enter into loan transactions with the Association. Loan information to related parties is shown below:

As of December 31	2015	2014	2013
Beginning balance	\$ 81,015	\$ 102,545	\$ 105,965
New Loans	49,179	59,526	112,448
Repayments	(46,362)	(54,726)	(117,291)
Reclassifications <sup>(1)</sup>	(28,783)	(26,330)	1,423
Ending balance	\$ 55,049	\$ 81,015	\$ 102,545

(1) Represents loans that were once considered related party but are no longer considered related party, or loans that were not related party that subsequently became related party loans.

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

In the opinion of Management, none of the loans outstanding to directors at December 31, 2015, involved more than a normal risk of collectability.

The Association also has business relationships with certain other System entities. The Association paid \$870 in 2015, \$715 in 2014, and \$700 in 2013 to AgVantis for technology services. The Association paid \$132 in 2015, \$119 in 2014, and \$102 in 2013 to Foundations for human resource services.

### **12. REGULATORY ENFORCEMENT MATTERS**

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

### **13. COMMITMENTS AND CONTINGENCIES**

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted. The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract.

Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2015, \$524 million of commitments to extend credit were outstanding.

As commitments may expire before being fully 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 Statements of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and Management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to

the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on Management's credit evaluation of the borrower.

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2015, the Association had \$7.2 million of standby letters of credit outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2016 to 2024. The maximum potential amount of future payments the Association is required to make under the guarantees is \$7.2 million.

The Association has set aside a reserve for unfunded commitments in the amount of \$206 at December 31, 2015, which is included in other liabilities on the Consolidated Statements of Condition. The adequacy of the reserve is evaluated regularly to determine if any increase or decrease to the reserve is warranted and, when necessary, the provision expense is recorded in other noninterest expense in the Consolidated Statements of Comprehensive Income.

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

### **14. FAIR VALUE MEASUREMENTS**

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

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

Assets measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
2015	\$ -	\$ -	\$ -	\$ -
2014	\$ -	\$ -	\$ -	\$ -
2013	\$ 3,031	\$ -	\$ -	\$ 3,031

The Association has no 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 below.

	Fair Value Measurement Using			Total Fair Value	Total Losses
	Level 1	Level 2	Level 3		
Impaired loans:					
2015	\$ -	\$ -	\$ 1,856	\$ 1,856	\$ (2,100)
2014	\$ -	\$ -	\$ -	\$ -	\$ (28)
2013	\$ -	\$ -	\$ -	\$ -	\$ (61)

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, "Summary of Significant Accounting Policies", 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:

### Impaired 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. Management key assumptions used in estimating fair value for collateral-dependent impaired loans are unique to each underlying collateral property and included selling costs and other discounts ranging from one to ten percent at December 31, 2015.

### Assets Held in Non-Qualified Benefits Trusts

Assets held in a Rabbi Trust related to the supplemental executive retirement plan (SERP) are classified within Level 1. The assets previously held in trust funds were invested in cash equivalent money market funds that are actively traded and have quoted net asset values that are observable in the marketplace.

## Notes to Consolidated Financial Statements

(Dollars in thousands, except as noted)

### 15. 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	\$ 5,681	\$ 6,194	\$ 6,531	\$ 6,552	\$ 24,958
(Loan loss reversal) Provision for loan losses	(176)	577	1,134	(148)	1,387
Noninterest expense, net	1,456	1,797	2,156	1,525	6,934
Net income	\$ 4,401	\$ 3,820	\$ 3,241	\$ 5,175	\$ 16,637

	2014				
	First	Second	Third	Fourth	Total
Net interest income	\$ 5,337	\$ 5,742	\$ 6,110	\$ 6,054	\$ 23,243
(Loan loss reversal) Provision for loan losses	(159)	(74)	259	79	105
Noninterest expense, net	1,738	1,884	1,896	1,828	7,346
Net income	\$ 3,758	\$ 3,932	\$ 3,955	\$ 4,147	\$ 15,792

	First	Second	Third	Fourth	Total
	Net interest income	\$ 5,117	\$ 5,354	\$ 5,490	\$ 5,817
(Loan loss reversal) Provision for loan losses	(346)	(1,212)	108	190	(1,260)
Noninterest expense, net	1,936	2,030	2,146	2,669	8,781
Net income	\$ 3,527	\$ 4,536	\$ 3,236	\$ 2,958	\$ 14,257

### 16. SUBSEQUENT EVENTS

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

## Disclosure Information

(Unaudited)

### DESCRIPTION OF BUSINESS

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

Location	Description	Form of Ownership
4635 W. Spruce Fresno, California	Corporate Headquarters and Credit Delivery Office Building	Owned
305 North "I" Street Madera, California	Credit Delivery - Madera Office Building	Owned
1698 Draper Street Kingsburg, California	Credit Delivery - Kingsburg Office Building	Leased

### LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

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

### DESCRIPTION OF CAPITAL STRUCTURE

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

### DESCRIPTION OF LIABILITIES

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

The description of funds held 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 13 to the financial statements, "Commitments and Contingencies," included in this annual report to shareholders.

### SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 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.

### GOVERNANCE

The Association is governed by a 10 member board that delegates the day to day management and operation of the Association to the CEO. Of these directors, 8 are elected by the members and 2 are appointed by the elected directors. The Board of Directors represents the interests of our members and has a fiduciary responsibility to them and to the Farm Credit System.

## Disclosure Information

(Unaudited)

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, marketing plan, human capital plan, capital adequacy plan, financial plan and approves the annual operating plan and budget;
- sets policies, and monitors the performance of the Association in accordance with their policies;
- advises management on significant issues; and,
- oversees the financial reporting process, communications with members, and our legal and regulatory compliance.

### Director Independence

All directors must exercise sound judgment in deciding matters in the Association's 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. A borrowing relationship with a director could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established disclosure reporting requirements to ensure that a loan relationship does not compromise the independence of our Board.

Annually, in conjunction with the preparation of our Annual Report to shareholders, each director provides financial information, other documentation and/or assertions needed to determine the independence of each Board member.

### Audit Committee

The Audit Committee's responsibilities 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 and auditing matters.

The Audit Committee Report published on page 11 of this report describes the Committee's activities during 2015.

### Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Committee is comprised of the entire Board of Directors. The Committee annually reviews and evaluates the compensation policies, programs, and plans for senior officers, employees and directors. Additionally, the Committee reviews and approves the overall compensation program for senior officers (including the CEO).

### 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 have implemented 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 the President/CEO, Chief Financial Officer, Chief Credit Officer and all other senior financial professionals, all employees and the Board of Directors;
- 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.

## Disclosure Information

(Unaudited)

### DIRECTORS AND SENIOR OFFICERS

The following represents certain information regarding the directors of the Association.

#### DIRECTORS

##### **Jeff Jue, Chairman**

Term of Office: 2013 – 2016

Committees: Audit, Compensation (Chairman), CEO Evaluation, CoBank Association Leadership Committee, Farm Credit Council Representative

Board or Officer Experience: Fresno Madera Farm Credit Director since 2007 with designation as a Financial Expert since 2008 and Board Chairman since 2012; Jue, LLC (President and Chairman); Jeff and Velvet Jue Family Trust (Trustee); SunMaid Raisin Growers of California (Chairman); Raisin Administrative Committee (Director); and Sequoia Walnut Growers (Director).

Mr. Jue is a fourth generation farmer and president of Jue, LLC which is a farming and agricultural limited liability company. Mr. Jue produces raisins, wine grapes, walnuts, and tangerines. He also operates a fruit dehydrator specializing in golden raisins and raisin reconditioning.

##### **John W. Simpson, 1<sup>ST</sup> Vice Chairman and Outside Appointed Director**

Term of Office: 2015 - 2018

Committees: Compensation, CEO Evaluation (Chairman)

Board or Officer Experience: Fresno Madera Farm Credit Appointed Director since January 2011 and Vice Chairman since 2003; Fresno Madera Farm Credit Shareholder Elected Director from April 2010–December 2010; Fresno Madera Farm Credit Appointed Director from 2007 - April 2010; Fresno Madera Farm Credit Shareholder Elected Director from 1999 – 2007.

Mr. Simpson is a fourth generation farmer with extensive farming experience in the wine grape, raisin and concentrate industries. He is also self-employed as a portfolio manager.

##### **Jeff Yribarren, 2<sup>ND</sup> Vice Chairman**

Term of Office: 2015 – 2018

Committees: Audit, Compensation, CEO Evaluation

Board or Officer Experience: Fresno Madera Farm Credit Director since 2012 and Second Vice Chairman since May 2014; J. Yribarren Farms, Inc. (Owner and President); Yribarren Winery, Inc. (Owner and President); Riverbend

West, LLC (Member); Western Custom Ag, LLC (Member).

Mr. Yribarren is a fourth generation farmer and farms raisins, alfalfa, alfalfa seed, squash, melons, almonds, and wheat. Mr. Yribarren is also a vintner. Mr. Yribarren does not presently serve on any other board of directors.

##### **Daniel Errotabere, Director**

Term of Office: 2014 - 2017

Committees: Compensation

Board or Officer Experience: Fresno Madera Farm Credit Director since 2014; Errotabere Ranches (General Partner); El Dorado Almonds (Partner); Errotabere Exports, Inc. (Member); Errotabere Westside Trust (Trustee); Westlands Water District (Vice President & Board Member); California Cotton Growers (Board Member); Family Farm Alliance (Treasurer & Board Member); California Farm Bureau (Board Member); Fresno County Farm Bureau (Board Member); and CSUF Agriculture Foundation (Board Member).

Mr. Errotabere is a third generation farmer and farms almonds, pistachios, wine grapes, pima cotton, tomatoes, garlic, wheat, and garbanzos.

##### **Fred Fagundes, Director**

Term of Office: 2015 - 2018

Committees: Compensation

Board or Officer Experience: Fresno Madera Farm Credit Director since 2015; Fagundes Dairy (Owner); Fagundes, Fagundes, Fagundes (Owner); Fagundes Brothers LLC (Owner); Fagundes Bros. Dairy 2 (Owner); Fagundes Bros. Dairy 3 (Owner); Fagundes Bros. Dairy 4 (Owner); Forebay Farms LLC (Owner); Cressey River LLC (Owner); Links Ranch LLC (Owner); Valley Calf LLC (Owner); and The Chowchilla Industrial Development Corporation (Vice President).

Mr. Fagundes is a third generation farmer and farms alfalfa, almonds, corn, dairies, holstein steer feeders calves, oats, pistachios, processing tomatoes, and wheat.

##### **Edward Martinazzi, Director**

Term of Office: 2013 – 2016

Committees: Compensation, CEO Evaluation

Board or Officer Experience: Fresno Madera Farm Credit Director since 2013; Bonita Inc. (President and Stockholder); Berenda Creek Farms (Partner); E & B Farms, Inc. (President); Martinazzi Inc. (President and Stockholder); and Nolo Farms II, LLC (Member and Manager).

## Disclosure Information

(Unaudited)

Mr. Martinazzi is a fourth generation farmer and farms almonds. Mr. Martinazzi previously served on the board of directors for the Madera County Ag Boosters.

### **Victor Sahatdjian, Director**

Term of Office: 2014 - 2017

Committees: Compensation, CEO Evaluation

Board or Officer Experience: Fresno Madera Farm Credit Director since 2011; Victor Packing, Inc. (President and Co-Owner); Raisin Administrative Committee (Member); Raisin Marketing Sales Subcommittee of the Raisin Administrative Committee (Vice Chairman); California Raisin Marketing Board (Board Member); The R.K.R.K. 1998 Irrevocable Trust (Trustee); Liberty Farms (Partner); Liberty Farms II (Partner); S & S Farms (Partner); Garin Farms (Partner); B & V Farms (Partner); Oro Valley Investments, LLC (Member); Sahatdjian Brothers Farms (Partner); Woodset Partners, LLC (Member); Drumwright Oilwell Services, LLC (Member); Lynn Energy, LLC (Member); Nustar Energy, LP (Partner); Victor and Arlyne Sahatdjian Family Trust (Trustee), and VSA, LP (Partner).

Mr. Sahatdjian is a third generation farmer and farms almonds, kiwi, and raisin grapes. Mr. Sahatdjian is also a co-owner of Victor Packing; a raisin farming, raisin packing, and grape dehydration facility. He is also involved in Farm Partnerships growing grapes for raisins.

### **Steve Schafer, Director**

Term of Office: 2013 – 2016

Committees: Compensation, CEO Evaluation

Board or Officer Experience: Fresno Madera Farm Credit Director since 2004; Schafer Ranch, Inc. (Officer); Almond Tree Hulling, Inc. (Stockholder); Nolo Farms II, LLC (Member); MSM Airport Ranch (Member); Schafer & Schafer (Partner); San Joaquin Wine Co. (Owner); Glassy Winged Sharpshooter Control Board (Vice Chairman); and Madera Community Hospital Governing Board (Member). He has previously served as Chairman on the Board of Directors for the California Association of Winegrape Growers.

Mr. Schafer is a fourth generation farmer and farms wine grapes, almonds, raisins, apricots, and figs. Mr. Schafer is a vintner and also manages farm operations and is a partner in an almond huller operation.

### **Lance Shebelut, Director**

Term of Office: 2014 - 2017

Committees: Compensation

Board or Officer Experience: Fresno Madera Farm Credit Director since 2014; Del Shebelut Farms (General Partner); El Lancer (Partner); S & W Farming, Inc. (Stockholder); Hat Trick Farming, Inc. (Stockholder); Trinity Packing Company (Stockholder); and California Apple Commission (Board Member); S & W Pom Partners (Partner); and The Orchards LLC (Part Owner).

Mr. Shebelut is a second generation farmer and farms almonds, apples, peaches, and pears. Mr. Shebelut is also an employee involved in grower relations for Trinity Fruit Sales.

### **Denise Waite, Outside Appointed Director**

Term of Office: 2013 – 2016

Committees: Audit (Chairperson), Compensation

Board or Officer Experience: Fresno Madera Farm Credit Appointed Director with designation as a Financial Expert since 2013; Dritsas Groom McCormick LLP (Partner); and Hinds Hospice (Audit Committee).

Mrs. Waite is a Certified Public Accountant in the State of California and has significant experience with audit and assurance engagements. Mrs. Waite's areas of expertise include: audit, review and compilation services, controllership services, internal accounting functions, and tax planning and preparation services for a broad range of businesses, including agriculture.

## Disclosure Information

(Unaudited)

### COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

The Audit Committee meetings were held both in conjunction with and outside the regular board meetings, so compensation was paid accordingly. The Compensation committee meetings were held in conjunction with the regular board meetings, so no additional compensation was paid to the directors for these meetings.

Additional information for each director and compensation paid for committee meetings outside the Board Meeting is provided below:

Name of Director	Days Served in Board and			Audit Committee	CEO Evaluation Committee	Total Compensation Paid During 2015
	Days Served at Board	Other Official Activities	Other Official Duties			
Jeff Jue	11	33	\$ 28,500	\$ 3,000	\$ 1,500	\$ 33,000
John Simpson	11	12	15,750	-	1,500	17,250
Jeff Yribarren	11	22	16,200	2,400	1,200	19,800
Daniel Errotabere	9	3	6,000	-	-	6,000
Fred Fagundes	7	1	4,000	-	-	4,000
Edward Martinazzi	11	4	7,000	-	500	7,500
Victor Sahatdjian	11	5	7,000	-	1,000	8,000
Steve Shafer	10	4	6,500	-	500	7,000
Lance Shebelut	11	3	7,000	-	-	7,000
Denise Waite	11	14	15,750	3,000	-	18,750
Richard Shehadey	3	2	2,500	-	-	2,500
<b>Total Compensation</b>	<b>106</b>	<b>103</b>	<b>\$116,200</b>	<b>\$ 8,400</b>	<b>\$ 6,200</b>	<b>\$ 130,800</b>

Directors and Outside Appointed Directors of the Association were compensated for services based on a daily honorarium of \$500 and \$750 respectively. The Chairman, 1st Vice Chairman, and 2nd Vice Chairman are paid a daily honorarium of \$750, \$600, and \$600, respectively, due to the demands of these offices. If the Vice Chairman is also a Board Appointed Director, he or she shall receive the Board Appointed Director rate. Directors are also reimbursed for mileage, as well as documented business expenses while serving in an official capacity. The total compensation paid to directors for 2015, as outlined above and including compensation to outgoing directors, amounted to \$130,800. The Association has adopted a policy concerning travel, subsistence and other related expenses as they apply to directors and senior officers. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to all directors as a group for travel, subsistence and other related expenses were \$10,127 in 2015, \$7,909 in 2014, \$9,983 in 2013.

### SENIOR OFFICERS

FCA regulations also require the following disclosure of the business experience for the last five years for each senior officer. The following summarizes the composition and experience of the Senior Management Committee:

#### Keith Hesterberg President and Chief Executive Officer

Mr. Hesterberg was hired on June 13, 2013 and serves as President and Chief Executive Officer. He has 22 years of experience working in the Farm Credit System. Mr. Hesterberg is responsible for implementing the strategic direction of the Association as set by the Board of Directors. He is a member of the National Society of Accountant's for Cooperatives (Far West Chapter) and has previously served as Chapter President. Prior to joining Fresno Madera Farm Credit, he worked for CoBank, ACB for fourteen years primarily based in Denver, Colorado and Sacramento, California. His experience includes managing two regional banking centers serving 14 states in the West, Midwest, and Southeastern U.S. Mr. Hesterberg began his Farm Credit service in Illinois in various roles including Branch Manager.

#### Dan Kiggins Senior Vice President and Chief Credit Officer

Mr. Kiggins serves as ACA Senior Vice President and Chief Credit Officer and has 19 years of Farm Credit experience. Mr. Kiggins manages the credit administration function of the Association, including ensuring loans are properly structured, documented and are in compliance with applicable laws and regulations prior to closing. He is also responsible for ensuring that the Association's lending policies and guidelines are in compliance with FCA regulations and Board approved policies, as well as managing the operations of the loan documentation department. He was hired in October 1996 and has served in various capacities including Loan Officer, Portfolio Manager, Fresno Branch Manager and Portfolio Manager, and Assistant Chief Credit Officer. He has served in his current capacity since November 1, 2012. Mr. Kiggins Farm Credit experience includes complex direct lending, branch management, credit administration, development of supervisory controls and loan approvals.

## Disclosure Information

(Unaudited)

### **Joe Soto**

#### **Senior Vice President and Chief Financial Officer**

Mr. Soto was hired in June 2015 and serves as ACA Senior Vice President and Chief Financial Officer. He is responsible for the Association's information technology, accounting, and fiscal departments. He is a Certified Public Accountant, licensed in the state of California and is also a member of the American Institute of Certified Public Accountants (AICPA) and California Society of Certified Public Accountants. Mr. Soto's prior experience includes over 13 years of public accounting experience including service as a Senior Manager leading teams in performing financial statement audits, consulting, internal control evaluations, and merger and acquisition services. His previous clients included numerous financial institutions from community banks, credit unions, and SEC registrants located within California, including Fresno.

### **Stephanie Graham**

#### **Senior Vice President and Chief Administrative Officer**

Ms. Graham serves as ACA Senior Vice President and Chief Administrative Officer and has 18 years of Farm Credit Experience. Ms. Graham directs administrative operations including human resources, training and staff programs, marketing, insurance risk management, and the facilities and fleet operations. She was hired in January, 1998 and has served in various capacities within the organization including Loan Accounting Manager and Administrative Services/HR Manager. She has served in her current capacity as Chief Administrative Officer since March 15, 2012. Prior to joining Fresno Madera Farm Credit, Ms. Graham worked in public accounting.

### **David Ylarregui**

#### **Senior Vice President of Field Operations**

Mr. Ylarregui serves as ACA Senior Vice President of Field Operations and has 25 years of Farm Credit experience. Mr. Ylarregui is responsible for loan origination and servicing, branch management, and achieving individual and branch portfolio credit quality standards and profitability. He was hired in September 1990 and has served in various capacities including Loan Officer, Portfolio Manager, and Madera Branch Manager. He has served in his current capacity since February 1, 2014.

### **Frank Seelye**

#### **Senior Vice President and Chief Risk Officer**

Mr. Seelye serves as ACA Senior Vice President, Chief Risk Officer and the Standards of Conduct Official, with 11 years of Farm Credit Experience. Mr. Seelye is responsible for ensuring the Association's lending and loan quality objectives are met and compliance to the Association's credit standards, quality control programs and policies and procedures. Mr. Seelye was hired in September 2011 and has served in various capacities including the Manager of Legal, Loan Documentation & Closing, Assistant Chief Credit Officer, and Interim Chief Financial Officer. He has served in his current capacity as Chief Risk Officer since July 1, 2015 and Standards of Conduct Official since September 1, 2014. Mr. Seelye's prior experience includes 27 years as a Controller for cooperative and private companies dealing in agricultural lending and all phases of mortgage banking and 7 years as President of a regional cooperative agricultural finance association serving 20 states. His Farm Credit experience includes supervision, regulatory compliance, credit administration, accounting, fiscal, complex direct lending, loan approvals, loan documentation and closing, audit and review at the Association, District Bank and Regional level. He also previously served as a director for the Outreach Housing organization.

### **Ken Brown**

#### **Senior Vice President and Appraisal Program Manager**

Mr. Brown serves as ACA Senior Vice President and Appraisal Program Manager and has 24 years of Farm Credit experience. Mr. Brown is responsible for the operation of the real estate and chattel appraisal department and ensures the delivery of credible, accurate and timely appraisals which are developed independently from credit delivery operations to mitigate risk. He was hired in April 1991 and has held his current position as Appraisal Program Manager since August 16, 1999. He is a Certified General Real Estate appraiser and is designated as an Accredited Rural Appraiser (ARA). Prior to joining Fresno Madera Farm Credit, Mr. Brown worked for Farmers Home Administration in agricultural lending and appraisal as an Assistant County Supervisor.

## **Disclosure Information**

(Unaudited)

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

### **TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS**

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

### **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.

### **RELATIONSHIP WITH 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 6 to the financial statements, "Note Payable to CoBank." Financial assistance agreements between the Association and CoBank are discussed in Note 7 to the financial statements, "Members' Equity." Association requirement to invest in CoBank and CoBank's ability to access capital of the Association is discussed in Note 4, "Investment in CoBank." CoBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section on 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.

### **RELATIONSHIP WITH INDEPENDENT AUDITORS**

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

### **BORROWER PRIVACY**

Borrower financial privacy and the security of your other nonpublic information are important to us. The Association holds your financial and other non-public information in strictest confidence. Federal regulations allow disclosure of such information by us only in certain situations. Examples of these situations include law enforcement or legal proceedings or when such information is requested by a Farm Credit System institution with which you do business. Borrower privacy and the security of the borrowers' personal information are vital to our continued ability to serve our member's ongoing credit needs.

### **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**

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](http://www.cobank.com), or may be obtained at no charge by contacting us at 4635 West Spruce, P.O. Box 13069, Fresno, California 93794-3069 or calling (559) 277-7000. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

# Young, Beginning and Small Farmers and Ranchers Program

(Unaudited)

## OVERVIEW

A new generation of well-educated, hands-on managers and owners is essential for a successful and viable Ag industry. This demographic factor, coupled with the ever-decreasing number of existing family farms, requires us to focus on market segmentation so that entry-level products and services can be offered to young and beginning farmers as well as part-time farmers in a constructive, sound and economical manner.

To facilitate credit offerings to this specialized customer base, we support financing programs and use government-guaranteed loan programs. We are actively involved in developing and sponsoring educational opportunities, leadership training, and business financial training for YBS farmers and ranchers.

## YBS MISSION

The YBS mission of Fresno Madera Farm Credit, ACA, is to be the premier lender of choice in our market area. In order to ensure the emergence of young and beginning farmers into the marketplace, we will finance all eligible young, beginning, and small farmers in a constructive, consistent, and reliable manner. We will utilize this program to establish our relationships with these borrowers so that we can continue to fully serve our market territory.

## PROGRAM DEFINITIONS

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

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

## SERVICES PROVIDED

Over the years, we have committed time, energy, and resources to serving YBS farmers. Below are some of the positive results:

- Partnership - Beginning in 2013 we began dialogue with Valley Small Business Development Corporation in order to understand their capabilities and market outreach. They are privately owned and 100% focused on agriculture in the Central Valley, including our full loan service area. Their staff include many experienced lenders, including several that are performing outreach in YBS and alternative food production areas. Budget funds have been designated to support the project in partnership with Golden State Farm Credit and Farm Credit West. The project included funds for a mobile resource that will create a regional presence that provides support to our rural communities in the valley whether through access to loans to finance small farming operations, or local and personal access to people that can provide insight regarding how to complete a budget, or undertake a process to apply for a loan.
- Fair Participation - FMFC has allocated budget funds to contribute to 4-H and FFA livestock purchases at fairs throughout the Central Valley. During 2015, there were fair sponsorships, belt buckles, and animal purchases. Fairs included California State Fair, Caruthers District Fair, Chowchilla Fair, Fresno Fair, Kings County Fair, Madera Fair, and Tulare Fair.
- Grants - At our springtime Annual Meeting we award three to five \$500 grants to the Ag programs associated with the high schools or 4-H programs located in our LSA, based upon the best efforts by a group or individual within the program at the state or national level in animal, equipment or crop judging/showmanship, public speaking, or parliamentary procedure. We awarded five grants in 2015 and will continue this for the planning period.
- Awards - Each year, FMFC sponsors the banking and finance competition for FFA's California West Central Section and East Fresno Madera Section. The competition is directed toward agriculture and finance. The winners receive a \$500 scholarship from FMFC for future college expenses.
- YBS Advisory Committee - The YBS Advisory Committee (Committee) of FMFC is established by and reports

# Young, Beginning and Small Farmers and Ranchers Program

(Unaudited)

to the Board of Directors (Board) to assist the Board in fulfilling its outreach program to attract young, beginning, and small (YBS) farmers and ranchers. The Mission of the Committee is to implement effective outreach programs to attract YBS farmers and ranchers, which may include the use of advertising campaigns and educational credit and services beneficial to “young,” “beginning,” and “small” farmers and ranchers to provide views on how the credit and services of the direct lender association could better serve the credit and services needs of YBS farmers and ranchers.

- Guarantee and Participation Programs - Federal and State government guarantees continue to be used appropriately. FMFC coordinates credit with other lenders for participations in loans that benefit young, beginning, and small farmers.

## DEMOGRAPHICS

The following table outlines our percentage of YBS loans as a percentage of our loan portfolio (by number) as of December 31. 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.

	USDA	2014	2013	2012
Young	11.24%	<b>12.48%</b>	12.53%	13.41%
Beginning	27.57%	<b>15.84%</b>	15.77%	17.31%
Small	71.60%	<b>18.34%</b>	18.79%	20.14%

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.

## GOALS AND RESULTS

We have positive results for the year for beginning loan volume. The other areas of the goals were close in meeting numbers and volume. Based on our market information, efforts and historical results, we have included growth in loan numbers and volume for all segments for the three year planning period. In addition to specific growth targets for each of the segments, development of an outreach program to further educate and promote the Farm Credit System will be a focus. We will continue to seek opportunities to enhance YBS programs in an effort to enable YBS farmers in our LSA to begin, grow, and remain in agricultural production as well as to facilitate the transfer of agricultural operations from one generation to the next. Periodic 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. The following chart outlines our 2015 goals and results:

	Goal Number	Actual Number	Percent of Plan Number
Young	229	215	94%
Beginning	296	273	92%
Small	344	316	92%

	Goal Volume	Actual Volume	Percent of Plan Volume
Young	\$ 246,000	\$ 244,003	99%
Beginning	\$ 203,000	\$ 168,855	83%
Small	\$ 56,000	\$ 55,305	99%

We have established 2016 minimum goals by using historical trends from 2002 and possible student loans. The goal for the small farmer group will be continually reevaluated as we assess the achievement level of the Quick Loan program.

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, the loans are made utilizing the same credit standards as other loans. Additional efforts are made to meet the specific credit and related needs of an eligible borrower as long as safety and soundness are not compromised.

## 3 LOCATIONS TO SERVE YOU



Kingsburg Customer Service Center

### **FRESNO**

*NE Corner of  
Herndon & Milburn  
4635 West Spruce  
Fresno, CA 93722  
(559) 277-7000  
Fax (559) 277-7030  
Hours: 8am - 5pm, M-F*

### **MADERA**

*NE Corner of  
4th & "I" Street  
305 North "I" Street  
Madera, CA 93637  
(559) 674-2437  
Fax (559) 673-8414  
Hours: 8am - 5pm, M-F*

### **KINGSBURG**

*SE Corner of  
Draper & Washington  
1698 Draper Street  
Kingsburg, CA 93631  
(559) 419-5411  
Fax (559) 419-5416  
Hours: T-W: 8am - 5pm  
M, Th, F: By appointment*

### **LOAN ACCOUNTING**

*(559) 277-7016*

### **TOLL FREE**

*1-877-363-8637*

### **WEBSITE**

*[www.fmfarmcredit.com](http://www.fmfarmcredit.com)*





*Proudly serving the Central Valley Ag Community for nearly 100 years!*

**Fresno Madera Farm Credit, ACA**  
Fresno Madera Production Credit Association  
Fresno Madera Federal Land Bank Association, FLCA  
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