



## Farm Credit Services of Colusa-Glenn, ACA

Farm Credit Services of Colusa-Glenn, PCA  
Farm Credit Services of Colusa-Glenn, FLCA

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May 10, 2013

Dear Member/Stockholder:

### DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

#### STATEMENT OF CONDITION

The attached Balance Sheet shows loan volume at March 31, 2013, to be \$274.2 million; \$37.9 million lower than at 2012 year-end. The decrease is due to annual payments on mortgage loans and seasonal repayments of operating loans.

The allowance for loan losses of \$1,369,018 is .49% of loans. Management considers the allowance for loan losses at March 31, 2013, to be an adequate provision for any foreseeable losses.

The Association's unallocated retained earnings were \$76,618,444 at March 31, 2013, \$1,284,714 higher than at 2012 year-end. The Association's permanent capital ratio as of March 31, 2013, was 21.49%, within the optimum permanent capital goal range of 17 - 25%.

Nonaccrual loan volume decreased slightly during the quarter from \$1,203,286 to \$1,188,293 due to payments received.

#### STATEMENT OF INCOME

The Association had a net income after income taxes of \$1,284,714 through the first three months of this year, which is \$207,680 lower than the first three months of 2012. The decrease in net income can be attributed primarily to a decrease in net interest income and an increase in non-interest expenses, offset by a decrease in interest expense and an increase in non-interest income.

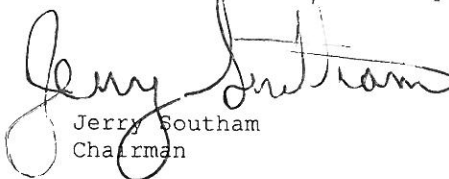
#### GENERAL

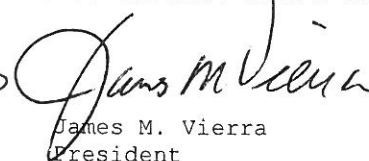
The overall financial condition of the Association has been stable. Earnings were adequate with a year-to-date return on average assets of 1.81%.

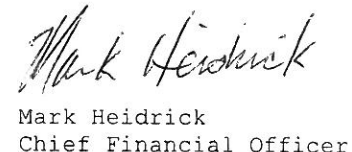
The Association has a \$10,287,019 investment in CoBank. The stockholders' investment in the Association is materially affected by the financial condition and the results of operation of CoBank. A copy of CoBank's quarterly report to shareholders is available upon request.

Please refer to the attached statements for additional details. If you have any questions, or if you have any suggestions of how we can better serve you, please be sure to contact your area director or the office. Your patronage as a member/stockholder of this cooperative is very much appreciated.

On behalf of the Board, the undersigned certify that they have reviewed this report and that this report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of his or her knowledge and belief.

  
Jerry Southam  
Chairman

  
James M. Vierra  
President

  
Mark Heidrick  
Chief Financial Officer

FARM CREDIT SERVICES OF COLUSA-GLENN, ACA  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

|  | March 31,<br>2013    | December 31,<br>2012 |
|--|----------------------|----------------------|
| <b>ASSETS</b>                                |                      |                      |
| Loans  | \$274,151,773        | \$312,091,507        |
| Allowance for loan losses                    | (1,369,018)          | (1,363,557)          |
| Net loans                                    | 272,782,755          | 310,727,950          |
| Accrued interest receivable                  | 2,885,101            | 2,920,360            |
| Investment in CoBank, FCB                    | 10,287,019           | 10,281,382           |
| Premises and equipment                       | 466,068              | 474,629              |
| Other assets                                 | 423,039              | 1,161,467            |
|  | <u>\$286,843,982</u> | <u>\$325,565,788</u> |
| Total assets                                 |                      |                      |
| <br><b>LIABILITIES</b>                       |                      |                      |
| Note payable to CoBank, FCB                  | \$179,268,608        | \$232,893,674        |
| Advance conditional payments                 | 28,536,847           | 13,977,634           |
| Accrued interest payable                     | 291,872              | 317,354              |
| Deferred tax liability                       | 657,615              | 672,251              |
| Other liabilities                            | 361,618              | 476,799              |
| Unfunded Disbursements                       | 356,659              | 1,148,411            |
|  | <u>209,473,219</u>   | <u>249,486,123</u>   |
| Total liabilities                            |                      |                      |
| Commitments and contingent liabilities       |                      |                      |
| <br><b>MEMBERS' EQUITY</b>                   |                      |                      |
| Capital stock and participation certificates | 752,320              | 745,935              |
| Unallocated retained earnings                | 76,618,444           | 75,333,730           |
|  | <u>77,370,764</u>    | <u>76,079,665</u>    |
| Total members' equity                        |                      |                      |
|  | <u>\$286,843,983</u> | <u>\$325,565,788</u> |
| Total liabilities and members' equity        |                      |                      |

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

FARM CREDIT SERVICES OF COLUSA-GLENN, ACA  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

|   | For the Three Months Ended<br>March 31, |             |
|---|---|-------------|
|   | 2013                                    | 2012        |
| <b>INTEREST INCOME</b>                              |   |             |
| Loans   | \$2,814,465                             | \$2,972,834 |
| <b>INTEREST EXPENSE</b>                             |   |             |
| Note payable to CoBank, FCB                         | 887,162                                 | 932,504     |
| Other   | 32,918                                  | 54,240      |
| Total interest expense                              | 920,080                                 | 986,744     |
| Net interest income                                 | 1,894,385                               | 1,986,090   |
| Provision for loan losses                           | 3,482                                   | (132,705)   |
| Net interest income after provision for loan losses | 1,890,903                               | 2,118,795   |
| <b>NONINTEREST INCOME</b>                           |   |             |
| Patronage refund from CoBank, FCB                   | 221,000                                 | 223,592     |
| Fees for financially related services               | 1,677                                   | 3,349       |
| Miscellaneous                                       | 20,171                                  | 11,242      |
| Total noninterest income                            | 242,848                                 | 238,183     |
| <b>NONINTEREST EXPENSE</b>                          |   |             |
| Salaries and employee benefits                      | 476,186                                 | 430,636     |
| Occupancy and equipment expense                     | 15,845                                  | 22,509      |
| Insurance fund premium                              | 46,000                                  | 24,000      |
| Other operating expenses                            | 263,610                                 | 241,983     |
| Total noninterest expense                           | 801,641                                 | 719,128     |
| Income before income taxes                          | 1,332,110                               | 1,637,850   |
| Provision for income taxes                          | 47,396                                  | 145,456     |
| Net income  | \$1,284,714                             | \$1,492,394 |

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

FARM CREDIT SERVICES OF COLUSA-GLENN, ACA  
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY  
Three Months Ended March 31, 2012 and 2013  
(Unaudited)

|   | Capital Stock<br>and Participation<br>Certificates | Unallocated<br>Retained<br>Earnings | Total<br>Members'<br>Equity |
|---|--|-------------------------------------|-----------------------------|
| Balance at December 31, 2011                            | \$753,275  | \$68,903,206                        | \$69,656,481                |
| Net income  |  | 1,492,394                           | 1,492,394                   |
| Capital stock and participation<br>certificates issued  | 13,410   |                                     | 13,410                      |
| Capital stock and participation<br>certificates retired | <u>(15,995)</u>                                    |                                     | <u>(15,995)</u>             |
| Balance at March 31, 2012                               | <u>\$750,690</u>                                   | <u>\$70,395,600</u>                 | <u>\$71,146,290</u>         |
| Balance at December 31, 2012                            | \$745,935  | \$75,333,730                        | \$76,079,665                |
| Net income  |  | 1,284,714                           | 1,284,714                   |
| Capital stock and participation<br>certificates issued  | 22,265   |                                     | 22,265                      |
| Capital stock and participation<br>certificates retired | <u>(15,880)</u>                                    |                                     | <u>(15,880)</u>             |
| Balance at March 31, 2013                               | <u>\$752,320</u>                                   | <u>\$76,618,444</u>                 | <u>\$77,370,764</u>         |

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

**FARM CREDIT SERVICES OF COLUSA-GLENN, ACA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 1 - Organization and Significant Accounting Policies**

A description of the organization and operations of Farm Credit Services of Colusa-Glenn, ACA, (ACA), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2012 are contained in the 2012 Annual Report to Stockholders. These unaudited first quarter 2013 financial statements should be read in conjunction with the 2012 Annual Report to Stockholders.

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures.

In February 2013, the FASB issued guidance, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for non-public entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the condition or results of operations, but resulted in additional disclosures.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles and prevailing practices within the banking industry.

**NOTE 2 - Loans and Allowance for Loan Losses**

A summary of loans follows:

|                                  | <b>March 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|----------------------------------|---------------------------|------------------------------|
| Real estate mortgage             | \$ 181,104,500            | \$ 173,174,471               |
| Production and intermediate term | 71,016,903                | 115,218,975                  |
| Processing and marketing         | 13,259,778                | 14,495,518                   |
| Farm related business            | 8,770,593                 | 9,202,543                    |
| Total loans                      | \$ 274,151,774            | \$ 312,091,507               |

The Bank and Associations purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold during the quarter ended March 31, 2013:

|                                     | Other Farm Credit Institutions     |                               | Non-Farm Credit Institutions       |                               | Total                              |                               |
|-------------------------------------|------------------------------------|-------------------------------|------------------------------------|-------------------------------|------------------------------------|-------------------------------|
|                                     | Participations<br><u>Purchased</u> | Participations<br><u>Sold</u> | Participations<br><u>Purchased</u> | Participations<br><u>Sold</u> | Participations<br><u>Purchased</u> | Participations<br><u>Sold</u> |
| Real estate mortgage                | \$ 8,348,253                       | \$ 9,700,566                  | -                                  | \$ 241,613                    | \$ 8,348,253                       | \$ 9,942,179                  |
| Production and<br>intermediate term | 636,922                            | 1,463,816                     | -                                  | -                             | 636,922                            | 1,463,816                     |
| Agribusiness                        | 1,504,702                          | 52,503                        | -                                  | -                             | 1,504,702                          | 52,503                        |
| Total                               | <u>\$10,489,877</u>                | <u>\$11,216,885</u>           | -                                  | <u>\$ 241,613</u>             | <u>\$10,489,877</u>                | <u>\$11,458,498</u>           |

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

|                                  | <b>March 31,<br/><u>2013</u></b> | <b>December 31,<br/><u>2012</u></b> |
|----------------------------------|----------------------------------|-------------------------------------|
| <b>Nonaccrual loans:</b>         |                                  |                                     |
| Real estate mortgage             | \$1,081,845                      | \$1,082,445                         |
| Production and intermediate-term | 106,253                          | 120,841                             |
| Agribusiness                     | 195                              | -                                   |
| Total nonaccrual loans           | <u>\$1,188,293</u>               | <u>\$1,203,286</u>                  |

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

|                                  | <b>March 31,<br/><u>2013</u></b> | <b>December 31,<br/><u>2012</u></b> |
|----------------------------------|----------------------------------|-------------------------------------|
| Real estate mortgage             |                                  |                                     |
| Acceptable                       | 99.35%                           | 98.87%                              |
| OAEM                             | .05                              | .51                                 |
| Substandard/doubtful             | .60                              | .62                                 |
|                                  | <u>100.00%</u>                   | <u>100.00%</u>                      |
| Production and intermediate-term |                                  |                                     |
| Acceptable                       | 96.41%                           | 97.06%                              |
| OAEM                             | 2.46                             | 2.28                                |
| Substandard/doubtful             | 1.13                             | .66                                 |
|                                  | <u>100.00%</u>                   | <u>100.00%</u>                      |
| Agribusiness                     |                                  |                                     |
| Acceptable                       | 100.00%                          | 100.00%                             |
| OAEM                             | .00                              | .00                                 |
| Substandard/doubtful             | .00                              | .00                                 |
|                                  | <u>100.00%</u>                   | <u>100.00%</u>                      |
| Total Loans                      |                                  |                                     |
| Acceptable                       | 98.64%                           | 98.29%                              |
| OAEM                             | .67                              | 1.12                                |
| Substandard/doubtful             | .69                              | .59                                 |
|                                  | <u>100.00%</u>                   | <u>100.00%</u>                      |

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

|   | 30-89 Days<br>Past Due | 90 Days<br>or More<br>Past Due | Total Past<br>Due  | Not Past Due<br>or less than 30<br>Days Past Due | Total Loans          | Recorded<br>Investment<br>90 Days or<br>More Past<br>Due |
|---|------------------------|--------------------------------|--------------------|--|----------------------|--|
| March 31, 2013                                    |                        |                                |                    |  |                      |  |
| Real estate mortgage                              | \$ -                   | \$ -                           | \$ -               | \$183,193,224                                    | \$183,193,224        | \$ -   |
| Production and intermediate<br>term               | \$2,055,329            | -                              | \$2,055,329        | 69,516,469                                       | 71,571,798           | -  |
| Processing and marketing<br>Farm-related business | -                      | -                              | -                  | 13,434,865                                       | 13,434,865           | -  |
|   | -                      | -                              | -                  | 8,836,847  | 8,836,847            | -  |
| <b>Total</b>                                      | <b>\$2,055,329</b>     | <b>\$ -</b>                    | <b>\$2,055,329</b> | <b>\$274,971,405</b>                             | <b>\$277,026,734</b> | <b>\$ -</b>  |
| December 31, 2012                                 |                        |                                |                    |  |                      |  |
| Real estate mortgage                              | \$ -                   | \$ -                           | \$ -               | \$175,104,924                                    | \$175,104,924        | \$ -   |
| Production and intermediate<br>term               | -                      | -                              | -                  | 115,997,704                                      | 115,997,704          | -  |
| Processing and marketing<br>Farm-related business | -                      | -                              | -                  | 14,524,307                                       | 14,524,307           | -  |
|   | -                      | -                              | -                  | 9,384,932  | 9,384,932            | -  |
| <b>Total</b>                                      | <b>\$ -</b>            | <b>\$ -</b>                    | <b>\$ -</b>        | <b>\$315,011,867</b>                             | <b>\$315,011,867</b> | <b>\$ -</b>  |

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

Additional impaired loan information is as follows:

|  | At March 31, 2013             |                                       |                             | At December 31, 2012          |   |                             |
|--|-------------------------------|---------------------------------------|-----------------------------|-------------------------------|---|-----------------------------|
|  | Recorded<br><u>Investment</u> | Unpaid<br>Principal<br><u>Balance</u> | Related<br><u>Allowance</u> | Recorded<br><u>Investment</u> | Unpaid<br>Principal<br><u>Balance<sup>a</sup></u> | Related<br><u>Allowance</u> |
| Impaired loans with no related<br>allowance for credit losses: |                               |                                       |                             |                               |   |                             |
| Real estate mortgage   | 1,081,845                     | 1,361,264                             | 0                           | 1,082,445                     | 1,361,534   | 0                           |
| Production and inter-mediate term                              | 106,253                       | 2,171,180                             | 0                           | 120,841                       | 2,181,250   | 0                           |
| Farm-related business  | 195                           | 29,897                                | 0                           | -                             | 31,525  | 0                           |
| <b>Total</b>   | <b>1,188,293</b>              | <b>3,562,341</b>                      | <b>0</b>                    | <b>1,203,286</b>              | <b>3,574,309</b>                                  | <b>0</b>                    |
| Total impaired loans:  |                               |                                       |                             |                               |   |                             |
| Real estate mortgage   | 1,081,845                     | 1,361,264                             | 0                           | 1,082,445                     | 1,361,534   | 0                           |
| Production and inter-mediate term                              | 106,253                       | 2,171,180                             | 0                           | 120,841                       | 2,181,250   | 0                           |
| Farm-related business  | 195                           | 29,897                                | 0                           | -                             | 31,525  | 0                           |
| <b>Total</b>   | <b>1,188,293</b>              | <b>3,562,341</b>                      | <b>0</b>                    | <b>1,203,286</b>              | <b>3,574,309</b>                                  | <b>0</b>                    |

|   | At March 31, 2013         |                               | At December 31, 2012      |                               |
|---|---------------------------|-------------------------------|---------------------------|-------------------------------|
|   | Average<br>Impaired Loans | Interest Income<br>Recognized | Average<br>Impaired Loans | Interest Income<br>Recognized |
| Impaired loans with no related allowance for credit losses: |                           |                               |                           |                               |
| Real estate mortgage  | 1,081,042                 | -                             | 1,170,676                 | -                             |
| Production and inter-mediate term                           | 106,577                   | -                             | 122,547                   | -                             |
| Farm-related business                                       | 168                       | 1,934                         | 288                       | 12,962                        |
| Total   | 1,187,788                 | 1,934                         | 1,293,511                 | 12,962                        |
| Total impaired loans:                                       |                           |                               |                           |                               |
| Real estate mortgage  | 1,081,042                 | -                             | 1,170,676                 | -                             |
| Production and inter-mediate term                           | 106,577                   | -                             | 122,547                   | -                             |
| Farm-related business                                       | 168                       | 1,934                         | 288                       | 12,962                        |
| Total   | 1,187,788                 | 1,934                         | 1,293,511                 | 12,962                        |

A summary of 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 | Total       |
|-------------------------------------|----------------------|----------------------------------|--------------|-------------|
| <b>Allowance for Credit Losses:</b> |                      |                                  |              |             |
| Balance at December 31, 2012        | \$ 323,225           | \$ 1,019,264                     | \$ 21,068    | \$1,363,557 |
| Recoveries                          |                      | 1,979                            |              | 1,979       |
| Provision for loan losses           | (25,264)             | 29,826                           | (1,080)      | 3,482       |
| Balance at March 31, 2013           | \$ 297,961           | \$ 1,051,069                     | \$ 19,988    | \$1,369,018 |

|                                     | Real estate mortgage | Production and intermediate term | Agribusiness | Total       |
|-------------------------------------|----------------------|----------------------------------|--------------|-------------|
| <b>Allowance for Credit Losses:</b> |                      |                                  |              |             |
| Balance at December 31, 2011        | \$ 517,072           | \$ 996,975                       | \$ 33,102    | \$1,547,149 |
| Recoveries                          |                      | 1,997                            |              | 1,997       |
| Provision for loan losses           | (43,595)             | (81,291)                         | (3,825)      | (128,711)   |
| Balance at March 31, 2012           | \$ 473,476           | \$ 911,690                       | \$ 29,277    | \$1,416,441 |

### **NOTE 3 - Subsequent Events**

The Association has evaluated subsequent events through May 10, 2013 which is the date the financial statements were issued.