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FRESNO MADERA FARM CREDIT, ACA 2004 CONSOLIDATED ANNUAL REPORT

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REPORT OF MANAGEMENT

March 25, 2005

Dear Stockholder:

It is a pleasure to bring you the 2004 Consolidated Annual Report of the Fresno Madera Farm Credit, ACA and its subsidiaries, Fresno Madera Production Credit Association and Fresno Madera Federal Land Bank Association, FLCA (collectively known as FMFC) for the year ended December 31, 2004.

Nearly all of our customers enjoyed a return to operational profitability in 2004. This dramatic improvement in economic conditions and subsequent increase in loan repayment strengthened our customer base, which in turn, strengthens FMFC.

During 2004 FMFC credit quality was outstanding. Our interest rates were highly competitive. We enjoyed the lowest ever operating expense ratio (\$1.65 cost per hundred) and generated earnings to make a strong addition to capital. Additionally, for the sixth consecutive year we achieved record new business development; \$167 million booked in 2004!

Today's loan portfolio is more diverse as to size, location and commodity than ever before. The Association has responded to sweeping changes in the agricultural industry with innovative programs and automated processes that reduce servicing costs and provide outstanding customer service to every market segment.

The Association's constructive lending philosophy and use of risk management tools such as guarantee programs offered by Farmer Mac, Valley Small Business and the Farm Services Agency to diversify portfolio risk, contributed to outstanding credit performance again in 2004. At yearend, credit quality remained strong at 97.8% acceptable and special mention (OAEM). During the year, special mention credit quality levels decreased as economic conditions improved. FMFC did not have any acquired farmland on the books at yearend. Non-accrual loan volume was less than 1% of outstanding volume, which is remarkable.

The consolidated financial statements of the Association are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. In the opinion of management, the accompanying financial statements fairly present the financial condition and results of operations of the Association, in conformity with generally accepted accounting principles. Other financial information included in this Annual Report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, the Association's internal auditors and review staff perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as appropriate. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who consider internal controls in connection with the audit of the financial statements in accordance with generally accepted auditing standards. Their report is located on page 13 of this Annual Report. The Association is also examined by the Farm Credit Administration.

The Association's Board of Directors, which is composed of directors who are not employees, has overall responsibility for the Association's system of internal controls and financial reporting. The Board of Directors meets periodically with management and the internal 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 and independent accountants also have access to the Board of Directors and the individual members at any time.

The stockholders' investment in the Association is materially affected by the financial condition and the results of the operation of the U.S. AgBank. To obtain a copy of the 2004 District Annual Report to Stockholders, free of charge, please contact the U. S. AgBank Administrative Office, 245 N. Waco, P.O. Box 2940, Wichita, Kansas 67201-2940 or by telephoning toll free 800-322-9880. U.S. Ag Bank and the Association also publish quarterly reports which are available free of charge after May 15th, August 15th, and November 15th. District reports can be obtained by contacting the U.S. AgBank at the address and phone number previously listed. Copies of your Association's reports are available by writing Fresno Madera Farm Credit at P.O. Box 13069, Fresno, California 93794-3069 or calling the Administrative Office at (559) 277-7000.

The undersigned certify that the 2004 Annual 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 our knowledge and belief.

Sincerely,

Thomas E. Brown, President
Fresno Madera Farm Credit, ACA
Fresno Madera PCA/FLBA, FLCA

Sheree L. Gayer, Chief Financial Officer
Fresno Madera Farm Credit, ACA
Fresno Madera PCA/FLBA, FLCA

Steven R. Edmonston, Chief Credit Officer
Fresno Madera Farm Credit, ACA
Fresno Madera PCA/FLBA, FLCA

Allen Cosyns, Chairman of the Board
Fresno Madera Farm Credit, ACA
Fresno Madera PCA/FLBA, FLCA

John W. Simpson, Vice-Chairman of the Board
Fresno Madera Farm Credit, ACA
Fresno Madera PCA/FLBA, FLCA

AUDIT COMMITTEE REPORT

March 25, 2005

The Audit Committee (Committee) is composed of the entire Board of Directors of Fresno Madera Farm Credit Association, ACA (the Association). In 2004, ten Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside accountants, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. In addition, the Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as the Association's independent accountant for 2004. The Committee's responsibilities are described more fully in the Audit Committee Charter.

Management is responsible for the Association's internal controls and the preparation of the combined 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 combined 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 audited financial statements for the year ended December 31, 2004 (the "Audited Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communication with Audit Committees), and both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

The Committee discusses with PwC its independence from the Association.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Audited Financial Statements in the Association's Annual Report to Stockholders for the year ended December 31, 2004.

Allen Cosyns, Chairman of the Audit Committee

John W. Simpson
Richard Braddy
Brian Pacheco
Marvin Caprelian

Robert Carstens
William M. Urrutia
Matthew Abercrombie
Steve Schafer

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(\$ in thousands)

	December 31,				
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Balance Sheet Data					
Loans	\$ 511,326	\$ 498,872	\$ 464,170	\$ 406,480	\$ 367,726
Less: allowance for loan losses	<u>(5,247)</u>	<u>(13,064)</u>	<u>(13,110)</u>	<u>(12,060)</u>	<u>(11,810)</u>
Net loans	506,079	485,808	451,060	394,420	355,916
Investment in and receivable from					
AgBank	9,692	9,412	9,162	8,909	12,620
Other assets	<u>14,040</u>	<u>15,566</u>	<u>11,172</u>	<u>10,667</u>	<u>12,291</u>
Total Assets	<u>\$ 529,811</u>	<u>\$ 510,786</u>	<u>\$ 471,394</u>	<u>\$ 413,996</u>	<u>\$ 380,827</u>
Obligations with maturities of					
one year or less	\$ 411,731	\$ 409,058	\$ 377,160	\$ 325,240	\$ 297,343
Obligations with maturities					
greater than one year	<u>1,412</u>	<u>1,069</u>	<u>1,341</u>	<u> </u>	<u> </u>
Total liabilities	<u>413,143</u>	<u>410,127</u>	<u>378,501</u>	<u>325,240</u>	<u>297,343</u>
Members' equity					
At-risk equity:					
Capital stock and participation certificates	978	1,019	1,032	1,063	1,079
Unallocated retained earnings	<u>115,690</u>	<u>99,640</u>	<u>91,861</u>	<u>87,693</u>	<u>82,405</u>
Total members' equity	<u>116,668</u>	<u>100,659</u>	<u>92,893</u>	<u>88,756</u>	<u>83,484</u>
Total liabilities and members' equity	<u>\$ 529,811</u>	<u>\$ 510,786</u>	<u>\$ 471,394</u>	<u>\$ 413,996</u>	<u>\$ 380,827</u>
Statement of Income Data					
Net interest income	\$ 14,665	\$ 14,616	\$ 13,537	\$ 12,811	\$ 10,811
(Reversal) provision for loan losses	(7,815)		1,160	1,210	
Noninterest expenses, net	6,939	7,536	7,153	6,645	6,534
(Benefit From) provision for income taxes	<u>(628)</u>	<u>(259)</u>	<u>(80)</u>	<u>(332)</u>	<u>100</u>
Net income	<u>\$ 16,169</u>	<u>\$ 7,339</u>	<u>\$ 5,304</u>	<u>\$ 5,288</u>	<u>\$ 4,177</u>
For the year ended December 31:					
Return on average assets	3.19%	1.51%	1.18%	1.33%	1.13%
Return on average members' equity	15.25%	7.58%	5.71%	6.10%	5.08%
Net interest income as a percentage of					
average earning assets	3.01%	3.12%	3.10%	3.34%	3.05%
Net charge-offs(recoveries) as a percentage					
of average loans	0.00%	0.01%	0.02%	0.25%	0.00%
At year end:					
Members' equity as a percentage of total					
assets	24.73%	21.34%	19.69%	21.44%	21.92%
Debt as a ratio to members' equity	4.07:1	4.07:1	4.07:1	3.66:1	3.56:1
Allowance for loan losses as a percentage					
of loans	1.03%	2.62%	2.82%	2.97%	3.21%
Permanent capital ratio – average	18.78%	18.23%	19.34%	22.16%	19.37%
Total surplus ratio – average	18.12%	18.03%	19.11%	21.87%	18.98%
Core surplus ratio – average	18.60%	17.50%	18.83%	20.81%	17.24%

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

FORWARD-LOOKING STATEMENTS

This report contains various forward-looking statements, usually containing the words "estimate," "project," "expect," "objective," "goal," or similar expressions and includes assumptions concerning the Association's operations, future results, and prospects. These forward-looking statements are based upon current expectations and are subject to risk, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

Some factors that may cause actual results to differ from the forward-looking statements include the following: (i) the effect of changing regional and national economic conditions; (ii) significant changes in interest rates; (iii) credit risks of commercial, real estate, and other lending activities; (iv) changes in Farm Credit regulations and; (v) other external developments which could materially impact the Association's operational and financial performance. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Association undertakes no obligation to update any forward-looking statements to reflect events or circumstances arising after the date on which they are made.

The following commentary explains the principal aspects of the financial condition and results of operations of the Fresno Madera Farm Credit, ACA and its subsidiaries. This commentary should be read in conjunction with the accompanying financial statements.

SIGNIFICANT EVENTS

Effective October 1, 2004, the Western Farm Credit Bank and the Farm Credit Bank of Wichita merged to form the U.S. AgBank (AgBank). Prior to the merger, the banks had been jointly managed since January 1, 2002. The merger and our relationship with AgBank are more fully described in Note 1 of the financial statements.

LOAN PORTFOLIO

As more fully described in Note 3 of the financial statements, the Association's loan volume consists primarily of long-term farm mortgage loans, and production and intermediate term loans with lesser amounts in processing and marketing loans, sales contracts arising from the sale of acquired property through foreclosure, farm related business loans, and participation loan purchases.

	2004		2003	
	<u>Volume</u>	<u>Percent of Total</u>	<u>Volume</u>	<u>Percent of Total</u>
Long-term farm mortgage	\$ 354,039	69.2%	\$ 360,494	72.3%
Production and intermediate-term	91,241	17.8%	84,063	16.8%
Farm related business	9,543	1.9%	3,983	.8%
Participations purchased	<u>56,503</u>	<u>11.1%</u>	<u>50,332</u>	<u>10.1%</u>
Total	\$ 511,326	100.0%	\$ 498,872	100.0%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Total loan volume at December 31, 2004, was \$511.3 million compared to \$498.9 million and \$464.2 million at December 31, 2003 and 2002, respectively. Average accruing loan volume for 2004, 2003, and 2002, was \$487.3 million, \$467.9 million, and \$436.0 million, respectively. The increase in total loan volume over the years is primarily attributable to new borrower activity including increased participation loan purchases. The Association, after due diligence, periodically purchases interests in loans originated by other Farm Credit and non-Farm Credit entities. Volume in participation loan purchases amounted to \$56.5 million at December 31, 2004 as compared to \$50.3 million at December 31, 2003.

The Association primarily serves all or portions of Fresno and Madera counties in the state of California. The distribution of the loan portfolio by county as of December 31, 2004, is as follows:

<u>County</u>	<u>Number of Loans</u>	<u>Total Loan Volume (Millions)</u>	<u>Percent of Total</u>
Fresno	1,069	\$276.0	54.0%
Madera	385	128.4	25.1%
Other	<u>147</u>	<u>106.9</u>	<u>20.9%</u>
Total	<u>1,601</u>	<u>\$511.3</u>	<u>100.0%</u>

The loan portfolio includes the following major commodities or types of agriculture:

	<u>Percentage of Total Volume</u>
Nuts	22%
Wine grapes	16%
Dairy	14%
Raisins	11%
Treefruit	8%
Vegetables and Melons	6%
Table Grapes	5%
Cotton	4%
Other	<u>14%</u>
Total	<u>100%</u>

The Central San Joaquin Valley enjoyed a dramatic price increase in many major agricultural commodity groups in 2004. The almond industry continues to enjoy high profitability; other nut groups, such as walnuts and pistachios did well also. Wine prices improved dramatically as did raisin prices. Table grape producers whose production allowed them to properly time the market enjoyed significant returns as did treefruit producers, vegetable and melon growers, especially those that had contracts with the major retailers.

Cotton crops and other field crops were profitable as well. The year of 2004 was unusual for FMFC as nearly every major commodity in the portfolio was profitable. As a result, our ACA received unprecedented loan pay downs from customer profits. As with all industries, well managed, vertically integrated customers who control not only production but processing and marketing are leading the ranks of the profitable farming operations and successful agribusinesses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The following is a summary of the 2004 results and 2005 outlook for the Association's major commodities.

Nut crops comprise 22% of our volume and include almonds, walnuts and pistachios. The 2004 almond crop is estimated to be around 985 million pounds. Despite increased plantings, prices have continued to increase with the strong demand. Estimates indicate 150,000 to 200,000 acres may be planted over the next three years, with greater than 700,000 producing acres in California by the end of the decade. Inventory shortfalls for the 2004 crop caused late fall prices to spike above the \$3.00 per pound level. Walnut industry estimates project the 2004 crop at 325,000 pounds. During 2004, the utilization of the walnut crop hit an all time high of 633,000 pounds. Current utilization is exceeding last year's record with prices for the 2004 crop anticipated to be 5 to 10% better than 2003. This strong demand paves the way for a solid 2005 crop year. The pistachio nut tree trends toward alternate-year bearing production. 2004 was the "on" year with crop production estimated to be a record breaking 350 million pounds. Pistachio shipments are once again on a record setting pace at a level 60% higher than 2003. Overall, the nut industry has benefited from a combination of the reported health benefits of consuming nuts and the weakness in the U.S. dollar relative to foreign currencies.

Wine, raisin and table grapes comprised 16%, 11%, and 5%, respectively of our outstanding loan volume at year end.

Depending on the variety, the 2004 wine grape crop production was average to below average. Prices to the grower increased significantly from 2003 and wineries are actively offering contracts. The growers are anticipating good demand with good prices in 2005.

The raisin industry has undergone a severe marketplace adjustment since 2000. Many vineyards have been removed over the last three years, particularly the Thompson variety that can be used for both raisins and juice. In 2004, we saw supply and demand begin to balance out as bids from both the wineries and packers increased dramatically. Many growers who typically make raisins instead sold their grapes for juice.

Final estimates for the 2004 raisin crop are near 250,000 tons. This is less than the prior three year average production and is near trade demand. The Raisin Advisory Committee (RAC) has declared 100% free tonnage for the 2004 crop. This has had a positive impact on the 2004 crop with prices set at \$1,210 per ton between the Raisin Bargaining Association (RBA) and packers. The 2005 agreed upon price is based on a sliding scale of \$910 per ton to \$1,510 per ton depending upon total available tonnage.

The 2004 table grape crop was early, but generally had good quality with good prices. Reports indicate that unsold yearend inventories were low. The industry is receiving a good response from consumers as a result of the favorable reports on the benefits of eating grapes.

Milk prices peaked in May 2004 at \$16.99 per cwt for non quota milk and averaged \$13.89 per cwt for 2004. This is the highest yearly average since 1998. Across the United States 2004 yearend cow numbers decreased 1% from 2003. Overall cow numbers are expected to decline again in 2005. At yearend the ban on imported heifers and cows from Canada remained in place. The USDA is predicting the all-milk price for the U.S. to be between \$13.35 and \$14.25 per cwt. for 2005.

Treefruit producers comprise 8% of the Association's volume. Despite lower production, early peach and nectarine prices were down from prior periods. There was some improvement in price in the later varieties.

The 2004 plum crop was small; however, prices were higher reflecting this reduced crop supply. There were some nectarine blocks that did not size well and were abandoned. In general, the harvest was early with tree fruit maturing between ten days to two weeks ahead of schedule. Growers that fared well in 2004 were those

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

associated with a strong marketer or program, were able to time their harvest with market demand, and offered more desirable pack styles.

As a group, vegetable and melon operations comprised 6% of loan volume at year end. In almost all cases, the 2004 vegetable crop was two weeks earlier than normal. Broccoli acreage increased an estimated 9% during the year. The 2004 spring broccoli season experienced some of the lowest prices received by growers in recent times. Prices fell to near breakeven levels for efficient operators and below breakeven for less efficient operators. Pressure on the broccoli prices came from additional acreage planted in Arizona. The fresh corn prices were a little higher in 2004. Planted acreage for October through December decreased 2% from 2003 levels. Melon prices were average with good product demand.

2004 projects to be one of the best cotton production years ever due primarily to favorable growing season weather. Cotton comprises 4% of the Association year end volume. Industry estimates project the 2004 California Upland cotton production to be at 1.75 million bales. Production for individual fields reportedly exceeded 4.5 bales per acre with the average estimated at 1,508 pounds per acre for the Upland variety and 1,425 pounds per acre for the Pima variety. Growers in the government program that harvested prior to the October rains did well in 2004.

Although adequate in 2004, water supply continues to be a major concern. The late fall rains and early winter snowfall show good promise of an increased supply for 2005.

There was a dramatic improvement in economic conditions for agriculture in our area during the last part of 2004. After several years of stable to declining values, land sales evidenced a dramatic increase in value within Fresno and Madera Counties. The demand for varietal vineyards has increased as wineries offered multi-year contracts at improved prices. Due to high profitability, almond orchards have become very valuable. Open land values have been driven upward with an increased demand for suitable ground to plant new almond orchards and other permanent plantings as well as a need for farmers to reinvest significant operational profits.

LOSS EXPERIENCE AND NONPERFORMING ASSETS

There were net charge offs of \$2 thousand, \$46 thousand and \$110 thousand during 2004, 2003, and 2002, respectively. The 2004 charge offs were for unpaid loans in our student loan program. The overall program has shown good performance. The 2003 losses were from two distressed vineyard loans. The charge-off in 2002 was associated with a loan which was purchased several years ago from another Farm Credit entity.

The Association has achieved risk reduction by entering into a long term standby commitment to purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreement is effectively a credit guarantee placed on loans with a book value at December 31, 2004 of \$46.2 million. The agreement, which will remain in place until the loans are paid in full, provides the Association the right to sell to Farmer Mac any covered loan for which a delinquency of four months occurs.

The following table presents information concerning nonaccrual loans of the Association (\$ in thousands):

	<u>2004</u>		<u>2003</u>		<u>2002</u>	
	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>
Nonaccrual loans	22	\$5,145	30	\$6,811	44	\$3,391

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

There was a net decrease in both the number and the volume of loans in nonaccrual at year end in reflection of the beginnings of an improved agricultural economy. The increase during 2003 is primarily attributable to one loan complex for a table grape grower. All of the nonaccrual credits are mortgage loans.

Loans by performance classification were as follows:

	<u>2004</u>		<u>2003</u>		<u>2002</u>	
	<u>Number of Loans</u>	<u>Loan Volume</u>	<u>Number of Loans</u>	<u>Loan Volume</u>	<u>Number of Loans</u>	<u>Loan Volume</u>
Performing loans	98.6%	99.0%	98.2%	98.7%	97.3%	99.3%
Nonaccrual loans	1.4%	1.0%	1.8%	1.3%	2.7%	.7%

The following table presents credit classification at December 31:

<u>Credit Classification</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Acceptable	93.5%	89.5%	90.5%
Special Mention	4.3%	7.6%	5.9%
Substandard	<u>2.2%</u>	<u>2.9%</u>	<u>3.6%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

A discussion of the accounting methods used in determining the allowance for loan losses and detailed account activity are outlined in Note 2, Note 3 and Note 4 of the financial statements.

During 2004, the Association completed its study to further refine the allowance for loan losses methodology taking into account recently issued guidance by the Farm Credit Administration (FCA), the System's regulator, as well as the Securities and Exchange Commission (SEC) and Federal Financial Institutions Examination Council guidelines. As a result of this study and the resulting refinements in methodology, during the fourth quarter of 2004, the Association recorded a \$7.8 million reversal of the allowance for loan losses.

The Association's allowance for loan losses methodology was adjusted and revised in the late 1980s to take into account the credit losses experienced in the mid-to-late 1980s, as a result of unusually adverse economic factors affecting American agriculture. Given the long cyclical nature of the agricultural economy, loss factors utilized to determine the allowance for loan losses subsequent to 1989 continued to reflect, to some extent, the loss history of the mid-to-late 1980s, which resulted in conservative estimates of the allowance for loan losses. The Association's allowance for loan losses methodology utilized throughout the period was in accordance with generally accepted accounting principles and was consistently applied.

While conservative in estimating the allowance for loan losses, the methodology used resulted in annual provisions for loan losses over the periods that reflected changes in credit quality and loss experience. Accordingly, the reserves provided in the mid-to-late 1980s have, in effect, remained part of the allowance for loan losses. The Association's allowance for loan losses methodology has consistently adhered to proper accounting policies, under the regulatory supervision of the Farm Credit Administration in its role as a "safety

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

and soundness" regulator. It was the Farm Credit Administration's view that the allowance for loan losses should include among others, an assessment of: probable losses, historical loss experience and economic conditions.

In April 2004, the Farm Credit Administration issued an "Informational Memorandum" to System institutions regarding the criteria and methodologies that would be used in evaluating the adequacy of a System institution's allowance for loan losses. The Farm Credit Administration endorsed the direction provided by other bank regulators and the SEC and indicated the conceptual framework addressed in their guidance would be included as part of their examination process.

The refinement in methodology resulted in a calculated allowance for loan losses that was significantly less than the previously recorded balance due to revised loss factors that are more indicative of actual loss experience in recent years and current borrower analysis. The factors considered in determining the revised levels of allowance for loan losses were generally based on recent historical charge-off experience adjusted for relevant environmental factors. The Association considered the following when adjusting the historical charge-offs experience:

- changes in credit risk classifications,
- changes in collateral values,
- changes in risk concentrations,
- changes in weather related conditions, and
- changes in economic conditions.

While the reversal had a significant impact on 2004 results of operations and the previously recorded allowance for loan losses, the refinement in methodology is not expected to have a significant impact on comparative results of operations in future periods. Additionally, the refinement in methodology did not have a significant impact on the level of the risk bearing capacity of the Association, generally referred to as "risk funds" (capital plus the allowance for loan losses), which totaled \$120.9 million at December 31, 2004 (23.7% of Association loans), as compared with \$112.7 million at December 31, 2003 (22.6% of Association loans).

The following tables provide information regarding the allowance for loan losses at December 31 (\$ in thousands).

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Allowance for loan losses	\$ 5,247	\$ 13,064	\$ 13,110
Net charge-offs/(recoveries)	\$ 2	\$ 46	\$ 110
Allowance for loan losses to loans	1.03%	2.62%	2.82%
Net charge-offs/(recoveries) to average net loans	0.00%	0.01%	0.02%

The Association's allowance for loan losses at December 31, 2004, was determined in accordance with generally accepted accounting principles and is considered to be adequate to absorb the risk inherent in the loan portfolio.

Specific allowances are based on management's analysis of the risk of loss on higher risk loans. General allowances by credit classification are established to provide for the risk of loss on loans without specific allowances. There were no loans with a net realizable collateral deficit requiring a specific allowance at December 31, 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The Association's lending practices require borrowers to meet reasonable, minimum collateral margin levels. Based on conservative values, these margins are adequate as related to the Association's overall portfolio.

RESULTS OF OPERATIONS

During 2004, the Association recognized net income of \$16.2 million as compared to \$7.3 million and \$5.3 million for 2003 and 2002, respectively.

Major components of changes in net income over the past three years are summarized below (\$ in thousands):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Increase (decrease) in net income due to changes in:			
Net interest income	\$ 49	\$1,079	\$ 726
(Reversal) provision for loan losses	7,815	1,160	50
Noninterest income	563	(20)	(13)
Noninterest expense	34	(363)	(495)
Benefit/(provision) for income taxes	<u>369</u>	<u>179</u>	<u>(252)</u>
Total increase (decrease) in net income	<u>\$ 8,830</u>	<u>\$ 2,035</u>	<u>\$ 16</u>

Net interest income increased only slightly during 2004 as interest costs increased and the Association held rates to borrowers. The increase from 2002 to 2003 reflected the lower interest costs during 2003. The reversal of the provision for loan losses during 2004 which had a positive impact on earnings was as a result of the refinement of the methodology as discussed in other sections. Changes in noninterest income reflect the fluctuations in patronage distributions from AgBank. Noninterest expense increased slightly from 2003 as expenses for the System insurance fund premiums and the intra-system financial assistance decreased substantially during 2004 partially offsetting usual operating cost increases. Tax benefits increased during 2004 as the Association recognized prior years' income tax refunds. The Five-Year Summary of Selected Financial Data on page 1 of this report provides a comparison of operating results, which we include herein by reference.

Factors influencing net interest income are changes in the volume of interest-earning assets and interest-bearing liabilities and changes in interest rates earned and paid. The following table presents the components of the changes in net interest income (\$ in thousands):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Increase (decrease) in net interest income due to changes in:			
Interest rates earned	(\$ 727)	(\$ 2,176)	(\$ 7,628)
Average interest-earning assets	1,440	1,800	3,649
Cash basis interest income on nonaccrual loans	155	53	(75)
Interest reversed on loans transferred to nonaccrual status	-	-	-
Increase (decrease) in interest income	<u>868</u>	<u>(323)</u>	<u>(4,054)</u>
Interest rates paid	(516)	2,151	7,203
Average interest-bearing liabilities	<u>(303)</u>	<u>(749)</u>	<u>(2,423)</u>
(Increase) decrease in interest expense	<u>(819)</u>	<u>1,402</u>	<u>4,780</u>
Increase (decrease) in net interest income	<u>\$ 49</u>	<u>\$ 1,079</u>	<u>\$ 726</u>

LIQUIDITY AND FUNDING

The Association's source of funds and largest liability is its direct loan from AgBank. Substantially all cash received is applied to the direct loan and all cash disbursements are drawn from the direct loan. The Association may also generate liquidity through the sale of loan participations or through the securitization of loans.

At December 31, 2003, the note payable to the AgBank consisted of the following (\$ in thousands):

<u>Type</u>	<u>Weighted Average Interest Rates</u>	<u>Balance</u>
Mortgage variable rates	2.71%	\$ 194,700
Mortgage fixed rates	4.06%	\$ 96,238
Commercial fixed rates	2.65%	\$ 116,142

The maturity date on the note payable to AgBank is established by the General Financing Agreement discussed in Note 7 to the financial statements, "Notes Payable to AgBank", included in this Annual Report to shareholders.

AgBank's primary source of funds is the sale of securities to investors through the Federal Farm Credit Banks Funding Corporation. The continued liquidity of the Association is therefore directly dependent on the ability of the Farm Credit System to continue to obtain funds.

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

A basic spread is added to our cost of funds to cover the operating needs of the Association. The Association has separate differential interest pricing schedules for mortgage and commercial variable rate loans based on loan size, credit quality, and financial condition, in addition to programs for repriced, adjustable and fixed rate mortgage and commercial loans. The liquidity of the Association at December 31, 2004, continued to be adequate to support lending activities with loanable funds in relation to the direct note balance at 19 percent.

The following table illustrates the net interest margin for the Association:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net interest income as a percentage of average earning assets	3.01%	3.12%	3.10%

Net interest margin decreased slightly as interest costs increased and the Association held rates to borrowers. Prior to the October 1, 2003 AgBank merger, AgBank paid interest credits on our investment with them, which was reported as other interest income. AgBank discontinued the interest credit program and began a patronage program based on excess investment in AgBank.

The Association is a certified seller/servicer of loans for Farmer Mac. The Association receives origination/servicing fee revenue for such services which is included in "Miscellaneous Noninterest Income" on the accompanying Statement of Income.

During 2001, the Association placed a portion of the mortgage portfolio into the Farmer Mac standby guarantee program. The agreement, which will remain in place until the loans are paid in full, specifies that Farmer Mac will purchase any loan in the program that becomes delinquent greater than four months. At December 31, 2004, loans in this program totaled \$46.2 million. The cost of this guarantee program was reflected as a reduction in interest income and totaled \$273 thousand.

CAPITAL RESOURCES

Equity purchased by members and surplus accumulated through earnings comprise the Association's capital resources. The ratio of members' equity to total assets was 18.78 percent at December 31, 2004, compared to 18.23 percent and 19.34 percent for 2003 and 2002, respectively. The debt to capital ratio was 4.07:1 at December 31, 2004, compared to 4.07:1 for 2003 and 4.07:1 for 2002. The change in members' equity to assets reflects the net operating results.

The Association periodically evaluates its capital position in accordance with the guidelines and definitions as outlined by FCA regulations. The regulations specify calculations for permanent capital, total and core surplus ratios. Permanent capital, which consists primarily of adjusted surplus, is divided by risk adjusted assets, primarily loans, that have been risk weighted in accordance with the regulations to arrive at the permanent capital ratio. The total and core surplus ratios are similarly calculated. The ratios serve as a measurement of the capital condition and capacity of the Association. As they are prepared consistently by all Farm Credit institutions, the ratios provide a good peer comparison. Further information is available on the public website of FCA which can be accessed at www.fca.gov.

The following table presents the average capital ratios at December 31:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>Minimum</u>	<u>Optimum</u>
Permanent Capital Ratio	18.78%	18.23%	19.34%	7.00%	12.00%
Total Surplus Ratio	18.12%	18.03%	19.11%	7.00%	12.00%
Core Surplus Ratio	18.60%	17.50%	18.83%	3.50%	7.00%

As discussed in Note 8 of the financial statements, our permanent capital level exceeds the minimum requirement, and the optimum capital level of 12 percent set by our Board of Directors and is considered adequate. The total and core surplus ratios exceed minimum requirements and optimum levels have been set at 12 percent and 7 percent, respectively. We do not foresee any future events which would materially impact our capital adequacy in an adverse manner.

OTHER BUSINESS MATTERS

Board Oversight

Our Board of Directors meets regularly to review and discuss our strategies and performance, our plans and prospects, the issues we face and the risks we manage.

The Board maintains an Audit Committee for the purpose of monitoring the integrity of financial statements, compliance with applicable legal and FCA requirements and selecting, directing and reviewing the work of independent auditors and examiners. Currently, the Audit Committee is comprised of the entire Board.

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

- Adopted an Audit Committee Charter
- Adopted a Code of Ethics, and
- Established a “whistleblower program”

The Audit Committee Report published on page v of this report describes the committee’s activities during 2004.

Young, Beginning and Small Farmers and Ranchers Program

We are committed to providing sound and dependable credit to young, beginning and small (YBS) farmers and ranchers. Annual marketing goals are established to increase market share of loans to YBS farmers and ranchers. Quarterly reports are provided to the Board detailing the number, volume and credit quality of the YBS customers we have financed.

To facilitate credit, we have adopted financing programs and use government guaranteed loan programs. We are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers.

YBS farmers and ranchers are defined as:

Young Farmer: A farmer or rancher who was age 35 or younger as of the date the loan was originally made.

Beginning Farmer: A farmer or rancher who had 10 years or less farming or ranching experience as of the date the loan was originally made.

Small Farmer: A farmer or rancher who normally generated less than \$250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The following table outlines the percentage of YBS loans in the loan portfolio (by number) as of December 31 compared to the number of farmers and ranchers classified as YBS within our territory per the 2002 USDA Agricultural Census, which is the most current data available.

	2004	2003	2002	USDA
Young	17.8%	15.6%	13.5%	3.4%
Beginning	21.4%	17.3%	14.4%	26.3%
Small	41.2%	42.1%	41.2%	79.2%

SUMMARY

The Association continues to make financial progress as reflected in the Five-Year Summary of Selected Financial Data on page 1. Loan volume at year-end 2004 is higher than the previous five year-ends, reflecting favorably on the marketing and servicing efforts of our staff.

As discussed earlier, with the dramatic improvement in economic conditions for agriculture in our area during the last part of 2004, the prospects for a profitable year for growers during 2005 are very high.

Report of Independent Auditors

To Board of Directors and Stockholders
Fresno Madera Farm Credit, ACA and subsidiaries:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in members' equity and cash flows present fairly, in all material respects, the financial position of Fresno Madera Farm Credit, ACA and subsidiaries (the Association) at December 31, 2004, 2003 and 2002, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 25, 2005

CONSOLIDATED BALANCE SHEET

(\$ in thousands)

	2004	2003	2002
Assets			
Cash	\$ 8	\$ 8	\$ 6
Loans	511,326	498,872	464,170
Less: allowance for loan losses	<u>(5,247)</u>	<u>(13,064)</u>	<u>(13,110)</u>
Net loans	506,079	485,808	451,060
Accrued interest receivable	6,102	7,669	7,589
Investment in and receivable from AgBank	9,692	9,412	9,162
Premises and equipment, net	6,003	6,094	1,659
Deferred tax assets, net	878	1,083	827
Other assets	<u>1,049</u>	<u>712</u>	<u>1,091</u>
Total assets	<u>\$ 529,811</u>	<u>\$ 510,786</u>	<u>\$ 471,394</u>
Liabilities			
Notes payable to AgBank	\$ 407,080	\$ 404,246	\$ 368,224
Advance conditional payments	2,553	1,863	3,435
Accrued interest payable	927	682	3,273
Other liabilities	<u>2,583</u>	<u>3,336</u>	<u>3,569</u>
Total liabilities	<u>413,143</u>	<u>410,127</u>	<u>378,501</u>
Commitments and contingencies			
Members' Equity			
At-risk equity:			
Capital stock and participation certificates	978	1,019	1,032
Unallocated retained earnings	116,505	100,336	92,997
Accumulated other comprehensive loss	<u>(815)</u>	<u>(696)</u>	<u>(1,136)</u>
Total members' equity	<u>116,668</u>	<u>100,659</u>	<u>92,893</u>
Total liabilities and members' equity	<u>\$ 529,811</u>	<u>\$ 510,786</u>	<u>\$ 471,394</u>

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

FRESNO MADERA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF INCOME

(\$ in thousands)

	2004	2003	2002
Interest Income			
Loans	\$ 23,678	\$ 22,810	\$ 23,133
Interest Expense			
Notes payable to AgBank	8,982	8,169	9,535
Advance conditional payments and other	31	25	61
Total interest expense	<u>9,013</u>	<u>8,194</u>	<u>9,596</u>
Net interest income	14,665	14,616	13,537
(Reversal) provision for loan losses	<u>(7,815)</u>	<u>-</u>	<u>1,160</u>
Net interest income after provision for loan losses	<u>22,480</u>	<u>14,616</u>	<u>12,377</u>
Noninterest Income			
Patronage distribution from AgBank	1,092	765	865
Fees for financially related services	45	39	42
Miscellaneous	460	230	147
Total noninterest income	<u>1,597</u>	<u>1,034</u>	<u>1,054</u>
Noninterest Expense			
Salaries and employee benefits	5,712	5,235	4,986
Occupancy and equipment expense	685	637	599
Insurance fund premium	252	572	139
Other operating expenses	1,371	1,351	1,593
Intra-System financial assistance expense	255	546	629
Supervisory and examination expense	261	229	261
Total noninterest expense	<u>8,536</u>	<u>8,570</u>	<u>8,207</u>
Income before income taxes	15,541	7,080	5,224
Benefit from income taxes	628	259	80
Net income	<u>\$ 16,169</u>	<u>\$ 7,339</u>	<u>\$ 5,304</u>

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

FRESNO MADERA FARM CREDIT, ACA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

(\$ in thousands)

	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance, December 31, 2001	\$ 1,063	\$ 87,693		\$ 88,756
Net income		5,304		
Other comprehensive income (loss)			\$ (1,136)	
Total comprehensive income				4,168
Capital stock and participation certificates issued	502			502
Capital stock and participation certificates retired	<u>(533)</u>			<u>(533)</u>
Balance, December 31, 2002	1,032	92,997	(1,136)	92,893
Net income		7,339		
Other comprehensive income (loss)			440	
Total comprehensive income				7,779
Capital stock and participation certificates issued	1,136			1,136
Capital stock and participation certificates retired	<u>(1,149)</u>			<u>(1,149)</u>
Balance, December 31, 2003	1,019	100,336	(696)	100,659
Comprehensive income				
Net income		16,169		
Other comprehensive income (loss)			(119)	
Total comprehensive income				16,050
Capital stock and participation certificates issued	156			156
Capital stock and participation certificates retired	<u>(197)</u>			<u>(197)</u>
Balance, December 31, 2004	<u>\$ 978</u>	<u>\$ 116,505</u>	<u>\$ (815)</u>	<u>\$ 116,668</u>

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

FRESNO MADERA FARM CREDIT, ACA

STATEMENT OF CASH FLOWS

(\$ in thousands)

	2004	2003	2002
Increase (Decrease) in Cash			
Cash flows from operating activities:			
Interest and loan origination fees received	\$ 25,245	\$ 22,730	\$ 23,889
Financially related service fees and other income	505	269	189
Interest expense paid	(8,768)	(10,785)	(10,266)
Operating and other expenses paid	(9,369)	(8,001)	(7,477)
Income tax refund received, net	833	221	133
Net cash provided by operating activities	8,446	4,434	6,468
Cash flows from investing activities:			
Increase in loans, net	(12,456)	(34,874)	(57,802)
Acquisition of premises and equipment	(285)	(4,651)	(1,449)
Sale (purchase) of AgBank stock, net	4	-	612
Patronage received in cash	808	515	-
Proceeds from sale of foreclosed assets	-	140	-
Recoveries of loans previously charged off	-	1	2
Net cash used in investing activities	(11,929)	(38,869)	(58,637)
Cash flows from financing activities:			
Net draws on notes payable to AgBank	2,834	36,022	53,032
(Decrease) increase in advance conditional payments, net	690	(1,572)	(830)
Retirement of capital stock and participation certificates, net	(41)	(13)	(31)
Net cash provided by financing activities	3,483	34,437	52,171
Net increase (decrease) in cash	-	2	2
Cash, beginning of year	8	6	4
Cash, end of year	\$ 8	\$ 8	\$ 6

(Continued on next page)

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

FRESNO MADERA FARM CREDIT, ACA

STATEMENT OF CASH FLOWS (CONTINUED)

(\$ in thousands)

	2004	2003	2002
Reconciliation of Net Income to Net Cash Provided by Operating Activities:			
Net income	\$ 16,169	\$ 7,339	\$ 5,304
Adjustments to reconcile net income to net cash provided by operating activities:			
(Reversal) provision for loan losses	(7,815)	-	1,160
Depreciation	377	215	137
Gain on sale of foreclosed assets	-	(15)	-
Patronage distribution from AgBank	(1,092)	(765)	(865)
(Increase) decrease in accrued interest receivable	1,567	(80)	756
Decrease (increase) in other assets and deferred taxes	(170)	26	257
Increase (decrease) in accrued interest payable	245	(2,591)	(670)
(Decrease) increase in other liabilities	(835)	305	389
Net cash provided by operating activities	<u>\$ 8,446</u>	<u>\$ 4,434</u>	<u>\$ 6,468</u>

Supplemental Schedule of Noncash Transactions from Investing and Financing Activities

Increase in investment in AgBank due to patronage distribution	<u>\$ 284</u>	<u>\$ 250</u>	<u>\$ 865</u>
Decrease in loans and allowance for loan losses due to charge-offs	<u>\$ 2</u>	<u>\$ 47</u>	<u>\$ 112</u>
Decrease in loans due to acquisition of foreclosed assets	<u>\$ -</u>	<u>\$ 265</u>	<u>\$ -</u>
Loans originated upon sale of foreclosed assets	<u>\$ -</u>	<u>\$ 140</u>	<u>\$ -</u>

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

FRESNO MADERA FARM CREDIT, ACA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Operations

Organization

The Fresno Madera Agricultural Credit Association (ACA) and subsidiaries, Fresno Madera Federal Land Bank Association (FLCA), and Fresno Madera Production Credit Association (PCA) (collectively, the Association), is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders 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 (the System), a nationwide system of cooperatively owned Banks and Associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The most recent significant amendment of the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2004, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and numerous associations.

U.S. AgBank, FCB (AgBank) and its related associations are collectively referred to as the "District." AgBank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. On December 31, 2004, the District consisted of AgBank, 27 ACA parent companies, which each have two wholly-owned subsidiaries (a FLCA and a PCA), three FLCAs, and AgVantis. Effective January 1, 2005, two ACAs in the District merged operations.

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. 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 the associations and certain actions by the associations are subject to the prior approval of the FCA and/or AgBank.

Effective October 1, 2003, the former Farm Credit Bank of Wichita (Wichita Bank) and the former Western Farm Credit Bank (Western Bank) merged to form AgBank. The banks had been jointly managed since January 1, 2002, and doing business as AgBank. The Western Bank provided funding to the Association prior to the merger.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used to 1) ensure the timely payment of principal and interest on Systemwide debt obligations, 2) to ensure the retirement of protected borrower capital 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 into the Insurance Fund based on its annual average loan principal outstanding until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as two percent of the aggregate insured obligations (Systemwide debt obligations) or such other percentage of the aggregate amount as the Insurance Corporation in its sole discretion determines is actuarially sound to maintain in the Insurance Fund taking into account the risk of insuring outstanding insured obligations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. AgBank passes this premium expense through to the Association based on the Association's annual average loan volume.

Operations

The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow from the Association and financial services which can be offered 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, rural residents and farm-related businesses.

The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance, and in providing additional services to borrowers such as lease placement and appraisal services.

The AgBank District Annual Report to Shareholders (District's Annual Report) is available on its web site, www.usagbank.com; or upon request, shareholders of the Association will be provided with a copy of the District's Annual Report, which includes the combined financial statements of AgBank and its related associations. The Association's financial condition may be impacted by factors affecting AgBank. Certain District expenses are allocated to the associations. Based on this fact, disclosure of certain accounting policies related to these costs is included in the District's Annual Report. The District's Annual Report discusses the material aspects of the District's financial condition, changes in financial condition, and results of operations. In addition, the District's Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation.

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

2. Summary of Significant Accounting Policies

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

The consolidated financial statements include the accounts of Fresno Madera Farm Credit, ACA; Fresno Madera Federal Land Bank Association, FLCA; and Fresno Madera Production Credit Association, PCA.

Loans and Allowance for Loan Losses

Long-term real estate mortgage loans generally have maturities ranging up to 40 years. Substantially all short-term and intermediate-term loans for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. 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 circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years).

When loans are in non-accrual status, loan payments are generally applied against the recorded investment in the loan asset. Nonaccrual loans may, at times, be maintained on a cash basis. Generally, cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be transferred to accrual status when all contractual principal and interest payments are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified Doubtful or Loss.

Loan origination fees and certain direct origination costs for mortgage loans with terms greater than one year are capitalized and recognized as an adjustment of the yield of the related loan.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss. The determination of the allowance for loan losses is based on management's current judgments about the credit quality of its loan and lease portfolio. A specific allowance may be established for impaired loans under SFAS No. 114. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent. See Note 3 for a discussion on the refinement of the allowance for loan losses methodology.

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 provisions for loan losses and loan recoveries and is decreased through reversals of provisions for loan losses and loan charge-offs.

The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The Association considers the following factors when adjusting the historical charge-offs experience:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Changes in credit risk classifications,
- Changes in collateral values,
- Changes in risk concentrations,
- Changes in weather related conditions, and
- Changes in economic conditions.

Cash

Cash, as included in the financial statements, represents cash on hand and on deposit at banks.

Investment in AgBank

The Association's investment in AgBank is in the form of Class A Stock. The minimum required investment in AgBank is 6.25 percent of average direct loan volume, net of excess investment. The required investment will be adjusted on a quarterly basis to reflect changes in direct loan volume, attributed surplus and stock investment balances. The required investment may consist of AgBank surplus attributed to the Association, patronage based stock and purchased stock.

Foreclosed Assets

Foreclosed assets, consisting of real and personal property acquired through a collection action, are recorded at fair value less estimated selling costs upon acquisition. Revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations, carrying value adjustments and realized gains (losses) upon sale are included in gains (losses) on foreclosed assets.

Premises and Equipment

Land is carried at cost. Association premises, furniture and equipment, and leasehold improvements are carried at cost less accumulated depreciation. Depreciation is provided principally by the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements are capitalized.

Advance Conditional Payments

The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. Such payments are presented as liabilities in the accompanying Consolidated Balance Sheet. Advance conditional payments are not insured. The Association pays interest on advance conditional payments.

Employee Benefit Plans

The employees of the Association may be eligible to participate in the Eleventh District defined benefit and defined contribution retirement plans. Substantially all Association employees are covered under one or both of the plans.

The defined benefit plan is a non-contributory plan. The "Projected Unit Credit" actuarial method is used for financial reporting purposes and the "Entry Age Normal Cost" actuarial method is used for funding purposes. Benefits are based on employee salaries and years of service. The defined benefit plan was closed to new participants beginning January 1, 1998. As a result of the funded status of the underlying plan, the Association recorded a minimum liability, an intangible asset relating to unrecognized prior service cost and other comprehensive income (loss).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Eleventh District defined contribution plan has two components. First, employees who do not participate in the defined benefit plan may participate in the Money Purchase Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Second, all Association employees may participate in a Salary Deferral Plan component governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. All defined contribution plan costs are expensed in the same period that participants earn contributions.

The Association provides certain health and life insurance benefits to eligible current and retired employees through participation in the Eleventh District plan. Substantially all of the employees of the Association may become eligible for those benefits if they reach normal retirement age while working for the Association.

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. The ACA, which is the holding company, along with the wholly-owned PCA subsidiary, is subject to income tax. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries have been eliminated in consolidation.

The FLCA is exempt from Federal and other income taxes as provided in the Farm Credit Act. As such, no taxes are provided on FLCA subsidiary earnings and no deferred tax assets or liabilities are recognized on FLCA activities. Deferred income taxes have not been provided on accumulated FLCA subsidiary earnings as it is management's intention to permanently retain this investment in the FLCA subsidiary or to distribute the earnings to members in a manner that results in no additional tax liability to the Association.

The Association has provided for Federal and certain other income taxes based on taxable income from the ACA and the PCA subsidiary. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts reflected in the financial statements and tax bases of assets and liabilities. A valuation allowance is provided for deferred tax assets to the extent that it is more likely than not (over 50% probability), based on management's estimate, that they will not be realized.

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.

At December 31, 2004, deferred income taxes have not been provided on approximately \$8.0 million of patronage refunds received from AgBank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. Management's intent is to permanently invest these undistributed earnings in AgBank, thereby indefinitely postponing their conversion to cash. Deferred income taxes must be provided on patronage refunds received from AgBank after December 31, 1992, except to the extent these amounts will be distributed in the form of qualified patronage to Association members. Deferred taxes have been provided on approximately \$1.7 million of patronage refunds distributed by AgBank to the taxable entity after December 31, 1992. Additionally, deferred income taxes have not been provided on AgBank's post-1992 unallocated earnings. AgBank currently has no plans to distribute unallocated AgBank earnings.

Patronage Distribution from AgBank

The Association records patronage distributions from AgBank upon receipt of the patronage.

Other Comprehensive Income (Loss)

Other comprehensive income refers to revenue, expenses, gains and losses that under generally accepted accounting principles are recorded as an element of shareholders' equity but are excluded from net income. The Association's other comprehensive income (loss) is comprised of minimum pension liability adjustments.

3. Refinement of the Allowance for Loan Losses Methodology

During 2004, the Association conducted a study to further refine its allowance for loan losses methodology taking into account recently issued guidance by FCA, the System's regulator, as well as the Securities and Exchange Commission (SEC) and Federal Financial Institutions Examination Council guidelines.

The Association's allowance for loan losses methodology was adjusted and revised in the late 1980s to take into account credit losses in that period. Given the long cyclical nature of the agricultural economy, loss factors utilized to determine the allowance for loan losses subsequent to 1989 continued to reflect, to some extent, the loss history of the mid-to-late 1980s, which resulted in conservative estimates of the allowance for loan losses. The Association's allowance for loan losses methodology utilized throughout the period was in accordance with generally accepted accounting principles and was consistently applied.

While conservative in estimating the allowance for loan losses, the methodology used resulted in annual provisions for loan losses over the periods that reflected changes in credit quality and loss experience. Accordingly, the reserves provided in the mid-to-late 1980s have, in effect, remained part of the allowance for loan losses. The Association's allowance for loan losses methodology has consistently adhered to proper accounting policies, under the regulatory supervision of the FCA in its role as a "safety and soundness" regulator. It was the FCA's view that the allowance for loan losses should include among others, an assessment of: probable losses, historical loss experience and economic conditions.

In April 2004, the FCA issued an "Informational Memorandum" to System institutions regarding the criteria and methodologies that would be used in evaluating the adequacy of a System institution's allowance for loan losses. The FCA endorsed the direction provided by other bank regulators and the SEC and indicated the conceptual framework addressed in their guidance would be included as part of their examination process.

During the fourth quarter of 2004, the Association completed its study and refined its methodology to be in compliance with the guidance discussed in the previous paragraph. The refinement in methodology resulted in a calculated allowance for loan losses that was significantly less than the previously recorded balance due to revised loss factors that are more indicative of actual loss experience in recent years and current borrower analysis.

While the \$7.8 million reversal had a significant impact on 2004 results of operations and the previously recorded allowance for loan losses, the refinement in methodology is not expected to have a significant impact on comparative results of operations in future periods. Additionally, the refinement in methodology did not have a significant impact on the level of the risk bearing capacity of the Association, generally referred to as "risk funds" (capital plus the allowance for loan losses),

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

which totaled \$120.9 million at December 31, 2004 (23.7% of Association loans), as compared with \$112.7 million at December 31, 2003 (22.6% of Association loans).

4. Loans and Allowance for Loan Losses

Components of loans in the Consolidated Balance Sheet are as follows at December 31 (dollars in thousands):

	2004	2003	2002
Long-term farm mortgage	\$ 378,390	\$ 369,345	\$ 321,215
Production and intermediate term	96,462	106,134	99,766
Farm-related business	15,543	9,983	22,491
Processing and marketing	19,416	11,250	18,103
Sales contracts	1,515	2,160	2,595
Loans	<u>\$ 511,326</u>	<u>\$ 498,872</u>	<u>\$ 464,170</u>

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

The Association considers its primary market area for lending to be Fresno and Madera counties. Although the Association has a diversified loan portfolio, a substantial portion of the Association's borrowers' ability to honor their loan obligations is dependent on the economic stability of their geographical area and of the commodities they produce or with which they are otherwise associated.

The Association's concentration of credit risk in various agricultural commodities is shown in the following table at December 31 (dollars in thousands):

Commodity	<u>2004</u>		<u>2003</u>		<u>2002</u>	
	Amount	%	Amount	%	Amount	%
Raisins, wine & table grapes	\$ 163,827	32%	\$ 179,456	36%	\$ 179,966	39%
Nuts	111,101	22%	80,130	16%	71,486	15%
Vegetables & melons	30,125	6%	42,620	9%	37,522	8%
Dairy	71,094	14%	56,182	11%	36,715	8%
Cotton	19,798	4%	39,593	8%	36,115	8%
Tree fruit	42,384	8%	43,752	9%	34,561	7%
Other	72,997	14%	57,139	11%	67,805	15%
Total	<u>\$ 511,326</u>	<u>100%</u>	<u>\$ 498,872</u>	<u>100%</u>	<u>\$ 464,170</u>	<u>100%</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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% (97% if guaranteed 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.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. The following table presents information relating to impaired loans at December 31 (dollars in thousands):

	2004	2003	2002
Non-accrual:			
Current as to principal and interest	\$ 5,099	\$ 6,195	\$ 2,009
Past due	<u>46</u>	<u>616</u>	<u>1,382</u>
Total non-accrual	<u>5,145</u>	<u>6,811</u>	<u>3,391</u>
Accrual:			
Restructured	-	-	-
90 days or more past due	<u>-</u>	<u>1</u>	<u>-</u>
Total impaired loans	<u>\$ 5,145</u>	<u>\$ 6,812</u>	<u>\$ 3,391</u>

There were no material commitments to lend additional funds to debtors whose loans were classified impaired at December 31, 2004.

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

	For the Year Ended December 31,		
	2004	2003	2002
Interest income recognized on nonaccrual loans	<u>\$ 462</u>	<u>\$ 306</u>	<u>\$ 254</u>
Average impaired loans	<u>\$ 6,249</u>	<u>\$ 6,210</u>	<u>\$ 3,704</u>

The impaired loans carried no specific allowance for 2004 and were considered in the determination of the overall allowance for loan losses. Impaired loans carried a specific allowance of \$14 thousand for 2003 and none for 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	For the Year Ended December 31,	
	2004	2003
Interest income which would have been recognized under the original loan terms	\$ 673	\$ 970
Less: interest income recognized	<u>(462)</u>	<u>(306)</u>
Foregone interest income	<u>\$ 211</u>	<u>\$ 664</u>

A summary of the changes in the allowance for loan losses at December 31 follows (dollars in thousands):

	2004	2003	2002
Balance, beginning of year	\$ 13,064	\$ 13,110	\$ 12,060
Provision for loan losses	-	-	1,160
Nonrecurring provision reversal for loan losses*	(7,815)	-	-
Charge-offs	(2)	(47)	(112)
Recoveries	<u>-</u>	<u>1</u>	<u>2</u>
Balance, end of year	<u>\$ 5,247</u>	<u>\$ 13,064</u>	<u>\$ 13,110</u>

*Represents the amount of provision reversal due to the refinement of methodology.

A breakdown of the allowance for loan losses follows.

	<u>2004</u>		<u>2003</u>		<u>2002</u>	
Long-term farm mortgage	\$ 2,989	57%	\$ 9,539	73%	\$ 9,551	73%
Production and intermediate-term	<u>2,258</u>	<u>43%</u>	<u>3,525</u>	<u>27%</u>	<u>3,559</u>	<u>27%</u>
Total	<u>\$ 5,247</u>	<u>100%</u>	<u>\$ 13,064</u>	<u>100%</u>	<u>\$ 13,110</u>	<u>100%</u>

To mitigate the risk of loan losses, the Association may enter into Long-Term Standby Commitment to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event a delinquency of four months occurs. The balance of the loans under the Long-Term Standby Commitments was \$46.2 million, \$60.3 million and \$68.9 million at December 31, 2004, 2003 and 2002, respectively. Fees paid to Farmer Mac for such commitments totaled \$273 thousand, \$331 thousand and \$342 thousand for the year ended December 31, 2004, 2003 and 2002, respectively. These amounts are classified as a reduction in interest income.

5. Investment in AgBank

The Association's investment in AgBank may consist of AgBank surplus attributed to the Association, patronage based stock and purchased stock. Effective October 1, 2003, AgBank converted all shares of Class B, AR and AR-P Stock to Class A Stock. The Association is required to maintain an investment in AgBank equal to 6.25 percent of average direct loan volume, net of excess investment. The investment in AgBank will be adjusted on a quarterly basis to reflect changes in direct loan volume, attributed surplus and stock investment balances through purchases of additional shares or sale of shares. If needed to meet capital adequacy requirements, AgBank may require the Association to purchase a total of at-risk stock subject to a limit of one percent of the Association's average Direct Loan Volume in a twelve-month period.

6. Premises and Equipment

Premises and equipment consist of the following at December 31 (dollars in thousands):

	2004	2003	2002
Land, buildings and improvements	\$ 5,592	\$ 5,440	\$ 299
Construction in progress	-	-	1,237
Furniture and equipment	2,052	1,964	1,342
Automobiles	66	61	27
	<u>7,710</u>	<u>7,465</u>	<u>2,905</u>
Less accumulated depreciation	<u>(1,707)</u>	<u>(1,371)</u>	<u>(1,246)</u>
Total premises and equipment	<u>\$ 6,003</u>	<u>\$ 6,094</u>	<u>\$ 1,659</u>

7. Notes Payable to AgBank

The Association's indebtedness to AgBank primarily 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 to AgBank and is governed by a General Financing Agreement (GFA) which provides a \$475 million line of credit. The GFA requires the Association to comply with certain covenants and is subject to annual renewal. The line of credit expires April 30, 2005; however, the Association expects renewal of the GFA. The interest rate may periodically be adjusted by AgBank based on the terms and conditions of the borrowing. The average notes payable outstanding to the Bank during 2004 were \$396 million and the weighted average interest rate was 2.87% at December 31, 2004.

Upon expiration of the line of credit, undisbursed amounts available under the line of credit expire except for undisbursed outstanding commitments on loans which are not in default. The outstanding balance of the notes payable will continue until it has been fully discharged.

Under the Farm Credit Act, the Association is obligated to borrow only from AgBank, unless AgBank approves borrowing from other funding sources. AgBank, 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, 2004, the Association's notes payable are within the specified limitations.

8. Members' Equity

A description of the Association's capitalization requirements, capital protection mechanisms, regulatory capitalization requirements and restrictions, and equities is provided below.

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 capital stock (for agricultural loans) or participation certificates (for rural home and farm-related business loans) in the Association as a condition of borrowing. In accordance with the Association's capitalization bylaws, the required investment in the Association is \$1,000 per customer.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment; the aggregate par value 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 at-risk equities will be solely at the discretion of the Board of Directors at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

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, 2004, the Association had the following classes of equity outstanding, all at a par value of \$5.00 per share/unit.

Class	Number of Shares	Voting	Protected
C - common stock	192,460	yes	no
F - participation certificates	3,200	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.

Dividends

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

Regulatory Capitalization Requirements and Restrictions

FCA's capital adequacy regulations require the Association to achieve permanent capital of 7% of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the 7% capital 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 financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of risk-adjusted assets of 7% and of core surplus (generally unallocated surplus) as a percentage of risk-adjusted assets of 3.5%. The Association's permanent capital, total surplus and core surplus ratios at December 31, 2004, were 19.21%, 19.04% and 18.58%, respectively.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

Other Comprehensive Income (Loss)

The Association reports other comprehensive income (loss) in its Statement of Changes in Members' Equity. As more fully described in Note 11, for the years ended December 31, 2004, 2003 and 2002, other comprehensive loss results from a minimum pension liability adjustment as a result of the funded status of the underlying plan.

9. Patronage Distribution from AgBank

For the year ended December 31, 2004, the Association recorded \$1.1 million in patronage distribution from AgBank, which consisted of \$808 thousand in cash and \$284 thousand in stock.

For the year ended December 31, 2003, the Association recorded its share of patronage refund from AgBank by recognizing noninterest income of \$765 thousand in the form of \$515 thousand in cash and \$250 thousand in stock.

For the year ended December 31, 2002, the Association recorded \$865 thousand in patronage refunds from Western Bank. The distribution was in the form of stock.

10. Income Taxes

The provision for (benefit from) income taxes follows at December 31 (dollars in thousands):

	2004	2003	2002
Current tax benefit	\$ (833)	\$ (3)	\$ (175)
Deferred tax provision	205	(256)	95
Benefit from income taxes	<u>\$ (628)</u>	<u>\$ (259)</u>	<u>\$ (80)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 at December 31 as follows (dollars in thousands):

	<u>2004</u>		<u>2003</u>		<u>2002</u>	
Federal tax at statutory rate	\$ 5,284	34 %	\$ 2,407	34 %	\$ 1,776	34 %
State tax, net	1	0	1	0	1	0
Tax exempt income	(5,078)	(33)	(2,664)	(38)	(1,950)	(37)
Federal income tax refunds	(835)	(5)				
Other	-	0	(3)	0	93	2
Benefit from income taxes	<u>\$ (628)</u>	<u>(4)%</u>	<u>\$ (259)</u>	<u>(4)%</u>	<u>\$ (80)</u>	<u>(1)%</u>

Deferred tax assets and liabilities result from the following at December 31 (dollars in thousands):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Gross deferred tax asset:			
Allowance for loan losses	\$ 768	\$ 1,198	\$ 1,210
Non-accrual loans	-	-	6
Net operating loss carryforward	<u>681</u>	<u>359</u>	<u>-</u>
Gross deferred tax asset	1,449	1,557	1,216
Gross deferred tax liability:			
Patronage refunds from the Bank	<u>(571)</u>	<u>(474)</u>	<u>(389)</u>
Gross deferred tax liability	(571)	(474)	(389)
Net deferred tax asset	<u>\$ 878</u>	<u>\$ 1,083</u>	<u>\$ 827</u>

The Association has not recorded a deferred tax asset valuation allowance since management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets.

11. Employee Benefit Plans

The Association participates in the Eleventh Farm Credit District Employees' Retirement Plan (Plan). The assets, liabilities and costs of the plan are not segregated by participating entities but are allocated among the participating entities. Pension costs (or credits if applicable) are allocated by multiplying the participating entities' net pension expense (credit if applicable) by the Association's prior year salary expense as a percentage of the participating entities' prior year salary expense. Pension expense included in salaries and employee benefits was \$289 thousand, \$357 thousand and \$276 thousand for 2004, 2003 and 2002, respectively. Additional financial information for the Plan may be found in the District's Annual Report.

At December 31, 2004, 2003 and 2002, the Accumulated Benefit Obligation (ABO) of the District's defined benefit plan exceeded the fair value of plan assets. In accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pensions", the recognition of a minimum liability in the amount of the difference between the ABO and fair value of plan assets is required. The Association's allocated amount of minimum liability recognized was \$884 thousand at

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2004, \$804 thousand at December 31, 2003, and \$1.3 million at December 31, 2002. In conjunction with the minimum liability, other comprehensive loss of \$119 thousand and an intangible asset of \$38 thousand were recorded in December 2004. In 2003, other comprehensive loss of \$440 thousand and an intangible asset of \$96 thousand were recorded. In 2002, other comprehensive loss of \$1.1 million and intangible asset of \$204 thousand were recorded.

The measurement date for determining pension and postretirement obligations, assets and income statement effects changed from December 31 to September 30 during 2004. The change was made as part of a Systemwide effort for all Farm Credit entities to use a common measurement date.

The Association also participates in the Farm Credit Consolidated Benefit Plan – 401(k) and Employee Contribution Plan, a defined contribution retirement plan which has two components. The Salary Deferred Plan component of the defined contribution plan requires the Association to match 100% of the participant's pre-tax basis and/or post-tax contributions, up to 2% of compensation, and 50% of the participants' pre-tax and/or post-tax contributions, for the next 4% of compensation. In the Money Purchase Plan component, the Association provides a monthly contribution based on a defined percentage of the employee's compensation. Employer contributions charged to expense were \$337 thousand, \$309 thousand and \$260 thousand for 2004, 2003 and 2002, respectively.

The Eleventh District has a contributory plan providing certain benefits (primarily healthcare) to eligible current and retired employees. The Association's charges to this plan are an allocation of District charges based on the Association's proportional share of total District salary expenses. Expenses related to the plan totaled \$392 thousand, \$347 thousand and \$342 thousand for 2004, 2003 and 2002, respectively.

During 2002, the Association initiated a supplemental executive retirement plan (SERP) to provide additional compensation to the chief executive officer as a deferred compensation arrangement. In its sole discretion, the Association may make contributions to the trust in amounts and at times to be determined by the Board of Directors; however, the Association shall not be obligated to make any further contributions except as provided in any outstanding employment agreements.

12. Intra-System Financial Assistance and Insurance Fund

The Financial Assistance Corporation was established in 1988 primarily to provide capital to institutions of the System experiencing financial difficulty. Such assistance was funded through the Financial Assistance Corporation's issuance of \$1.26 billion of 15-year U.S. Treasury-guaranteed debt. Interest rates on these issuances range from 8.80% to 9.45%. The repayment of this debt and related interest is the responsibility of System banks. The expenses relating to the obligation to repay principal and interest have been apportioned among AgBank and the associations based on each institution's proportion of District accruing loan volume. At December 31, 2004, only \$325 million of Financial Assistance Corporation debt remains outstanding with a maturity date of June 2005. All other debt has either matured or was called and redeemed. The expense to the Association was \$255 thousand, \$546 thousand, and \$628 thousand in 2004, 2003 and 2002, respectively.

As explained in Note 1, each System Bank is required to pay premiums into the Insurance Fund based on its annual average loan principal outstanding. AgBank, in turn, assesses the Association for insurance premiums based on the average annual principal outstanding of accrual and nonaccrual loans of the Association. The assessment to the Association was \$252 thousand, \$572 thousand and \$139 thousand in 2004, 2003 and 2002, respectively. At December 31, 2004, the assets in the Insurance Fund aggregated \$2.16 billion. However, due to the other authorized uses of the Insurance

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Fund, there is no assurance that Fund assets will be available or sufficient to ensure the payment of principal of, or interest on, insured debt securities in the event of a default by any System Bank having primary liability thereon.

13. Related Party Transactions

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

Total loans to such persons at December 31, 2004, amounted to \$15.5 million. During 2004, \$10.7 million of new loans were made and repayments totaled \$8.8 million. In the opinion of management, none of these loans outstanding at December 31, 2004, involved more than a normal risk of collectibility.

14. Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities. In addition, actions are pending against the Association in which claims for money damages are asserted. Based on current information, management and legal counsel are of the opinion that the ultimate liability, if any resulting there from, would not be material in relation to the financial position of the Association.

15. Financial Instruments with Off-Balance-Sheet Risk

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments include commitments to extend credit which involve, to varying degrees, elements of credit risk in excess of the amount recognized in the 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. At December 31, 2004, \$230 million of commitments to extend credit were outstanding.

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

The Association writes adjustable rate loan contracts with embedded interest rate caps and floors in order to manage its interest rate exposure. These embedded interest rate caps and floors enable both borrowers and the Association to transfer, modify, or reduce their interest rate risk.

16. Disclosures About Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2004, 2003 and 2002. The fair value of a financial instrument generally is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Quoted market prices are generally not available for certain System financial instruments as described below. Accordingly fair values are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments are as follows at December 31 (dollars in thousands):

	2004		2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Cash	\$ 8	\$ 8	\$ 8	\$ 8	\$ 6	\$ 6
Investment in AgBank	\$ 9,692	\$ -	\$ 9,412	\$ -	\$ 9,162	\$ -
Loans, net of allowance	\$ 506,079	\$ 502,934	\$ 485,808	\$ 495,859	\$ 451,060	\$ 461,449
Financial liabilities:						
Notes payable to AgBank	\$ 407,080	\$ 407,104	\$ 404,246	\$ 404,420	\$ 368,224	\$ 368,406
Advance conditional payments	\$ 2,553	2,553	\$ 1,863	\$ 1,863	\$ 3,435	\$ 3,435

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

Cash

The carrying value is a reasonable estimate of fair value.

Investment in AgBank

Estimating the fair value of the Association's investment in AgBank is not practicable. As described in Note 5, the investment is a requirement of borrowing from AgBank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheet. The Association owns 2.10% of the issued stock of AgBank as of December 31, 2004. As of that date, AgBank's assets totaled \$16.4 billion and members' equity totaled \$944 million. AgBank's earnings were \$73.5 million during 2004.

Loans

Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Association's

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

loan rates as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

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

For loans in a non-accrual status that are current as to principal and interest and non-current non-accrual loans that are adequately collateralized (acquisition of the collateral is not anticipated), fair value is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For the remainder of non-accrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of the net realizable value.

The carrying value of accrued interest approximates its fair value.

Notes Payable to AgBank

The notes payable are segregated into pricing pools according to the types and terms of the loans which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. Anticipated cash flows are estimated in a method comparable to the Association's loans.

The carrying value of accrued interest approximates its fair value.

Advance Conditional Payments

The carrying value is a reasonable estimate of fair value as all advance conditional payments fluctuate with changes in market rates.

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 to Note 1 to the financial statements, "Organization and Operations" included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conduct of the business, seasonal characteristics and concentrations of assets, if any, required to be disclosed in this section is incorporated herein by reference to Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report to shareholders.

DESCRIPTION OF PROPERTY

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

<u>LOCATION</u>	<u>DESCRIPTION</u>
4635 W. Spruce Fresno, California	Corporate Headquarters and Credit Delivery Office Building and Land Owned Facilities
305 North "I" Street Madera, California	Credit Delivery – Madera Office Office Building and Land Owned Facilities

DESCRIPTION OF CAPITAL STRUCTURE

Information required to be disclosed in this section is incorporated herein by reference from Note 8 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 7 to the financial statements, "Notes Payable to AgBank", included in this Annual Report to shareholders.

The description of contingent liabilities and intra-system financial assistance rights and obligations required to be disclosed in this section is incorporated herein by reference from Note 12 to the financial statements, "Insurance Fund and Intra-System Financial Assistance", included in this Annual Report to shareholders.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2004, required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Financial Data" included on page 1 of this Annual Report to shareholders.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations", which appears on pages 2 through 12 of this Annual Report to shareholders and is required to be disclosed in this section, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

Farm Credit Administration (FCA) regulations require the disclosure of directors' business experience for the last five years, other entities on whose board the director serves, compensation received as an Association director, and certain other information. Effective December 31, 2000, the existing directors of the Fresno Madera Production Credit Association (PCA) and the Fresno Madera Federal Land Bank Association, FLCA (FLCA), became the consolidated Board of the Fresno Madera Farm Credit, ACA (ACA). The following represents these disclosures for the directors of the Fresno Madera Farm Credit, ACA and its subsidiaries:

Allen Cosyns, Director and Chairman

Term of Office: 2003 - 2006

For the past five years, Mr. Cosyns has been self-employed as a diversified farmer. Presently, he does not serve on any other board of directors. Mr. Cosyns served 9 days at Board meetings and 21 days in other official activities on the Board's behalf for which he was compensated \$10,500.

John W. Simpson, Director and Vice-Chairman

Term of Office: 2002 - 2005

In addition to being a grape grower, Mr. Simpson has been a self-employed winery operator for the past five years. Presently, he serves on the board of directors of the Wine Institute and is President of the Madera Winegrowers Association and Vice-President of the Madera Vintners Association. Mr. Simpson served 10 days at Board meetings and 3 days in other official activities on the Board's behalf for which he was compensated \$3,950.

Robert Carstens, Director

Term of Office: 2002 - 2005

Mr. Carstens is a retired farmer and for the last five years has been a raisin grower in the Easton area. Mr. Carstens served 8 days at Board meetings and 3 days in other official activities on the Board's behalf for which he was compensated \$2,750.

William M. Urrutia, Director

Term of Office: 2004- 2007

During the last five years, Mr. Urrutia has continued as a farmer and a cattle rancher in the Friant area. He also serves on the board of the Tri-State Credit Corporation Loan Company. Mr. Urrutia has served 9 days at Board meetings and 5 days in other official activities on the Board's behalf for which he was compensated \$3,500.

Brian Pacheco, Director

Term of Office: 2003 – 2006

During the last five years, Mr. Pacheco has been a dairyman in the Kerman area, holding the office of Vice-President of Pacheco Dairy, Inc. and serving as a general partner of Pacheco Partnership. He serves on the Boards of Pacheco Dairy, Inc., the Fresno Dairy Herd Improvement Association and the 21st District Agricultural Association—The Big Fresno Fair. He also is a trustee of the Kerman Unified School District. During 2003, he served 10 days at Board meetings and 6 days in other official activities on the Board's behalf for which he was compensated \$4,000.

Marvin Caprelian, Director

Term of Office: 2002 -2005

Mr. Caprelian owns and operates Caprelian Farms and has been the Farm Manager for Chooljian Enterprises during the last five years. He does not presently serve on any other boards. Mr. Caprelian served 10 days at Board meetings and 2 days in other official activities on the Board's behalf for which he was compensated \$3,000.

Matthew Abercrombie, Director

Term of Office: 2004 -2007

Elected to replace retiring Director Philip Martin, Mr. Abercrombie began serving as a director in May 2002. During the past five years, he has been farming alfalfa hay, cotton, raisin grapes, and almonds. He does not presently serve on any other boards. Mr. Abercrombie served 10 days at Board meetings and 3 days in other official activities on the Board's behalf for which he was compensated \$3,250.

Richard Braddy, Outside Director

Term of Office: 2003 - 2006

Mr. Braddy was appointed by the Board of Directors as an Outside Director and attended his first meeting on April 22, 2003. For the past five years, Mr. Braddy has worked on a per diem basis for local Madera certified public accountants and has also developed and marketed commercial property in the Oakhurst area. He does not presently serve on any other boards. Mr. Braddy served 9 days at Board meetings and 12 days in other official activities on the Board's behalf for which he was compensated \$5,250.

Steve Schafer, Director

Term of Office: 2004 - 2007

Mr. Schafer was elected to the Board of Directors at the Annual Meeting in May 2004. For the past five years, Mr. Schafer has been farming almonds and wine grapes. He is a board member and past chairman of the California Association Winegrape Growers and also serves on the Boards of Almond Tree Hulling, Nolo Farms, MSM Airport Ranch and Schafer and Schafer. Mr. Schafer served 6 days at Board meetings and 2 days in other official activities on the Board's behalf for which he was compensated \$2,000.

Directors are compensated for their services based on a daily honorarium of \$250, though the Chairman and Vice-Chairman are paid \$350 and \$300, respectively per day due to the demands of these offices. 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 2004, as outlined above and including compensation to outgoing directors, amounted to \$38,200. The Association has adopted a policy concerning travel, subsistence and other related expenses as they apply to directors and senior officers. A copy of this policy is available to shareholders upon request.

Reimbursement for travel, subsistence and related expenses for all directors as a group amounted to \$9,507 in 2004, \$6,103 in 2003, and \$5,615 in 2002.

DISCLOSURE INFORMATION – UNAUDITED – (CONTINUED)

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

Thomas E. Brown

Initially hired effective January 1, 1999 as President and CEO of the PCA and FLCA. Mr. Brown became President and CEO of the ACA when it was formed on December 31, 2000. He also serves as CEO of the PCA and FLCA subsidiaries. Prior to joining Fresno Madera Farm Credit Mr. Brown served the Farm Credit System in executive capacities in Association, District, and National capacities for fifteen years. He has also been employed as a Regional Sr. Vice President and Commercial Bank President for 1st Bank System. In 1988 Mr. Brown became President and partner of Western Farm Mortgage which was a mortgage loan company based in Visalia, California. Western Farm Mortgage originated long-term real estate loans and services mortgage loans for major insurance companies throughout California, Arizona and Nevada. The Company also served as a Consultant for the Farm Credit System

Steven R. Edmonston

Mr. Edmonston currently serves as the ACA Senior Vice-President and Chief Credit Officer, a key position dealing with the Association's growth and complexity. He was initially hired effective September 1, 1999, by the then jointly managed PCA and FLCA as Vice-President and Chief Credit Officer. Then, effective December 31, 2000, with the formation of the ACA, Mr. Edmonston began serving as Senior Vice-President and Chief Credit Officer for the consolidated entities. Prior to joining Fresno Madera Farm Credit, Mr. Edmonston was an employee of Sanwa Bank where he held the position of Vice President and Commercial Lending Officer for over 8 years. Additionally, he worked a total of 13 years for Wells Fargo, 6 years as a commercial loan officer and 7 years as a supervisory loan examiner.

Sheree L. Gayer

Ms. Gayer was initially hired by the PCA effective January 17, 1974, and became a joint employee of the FLCA effective April 1, 1993, serving as Vice-President, Secretary-Treasurer and Chief Financial Officer. With the formation of the ACA, Ms. Gayer began serving as Senior Vice-President, Secretary-Treasurer and Chief Financial Officer for the consolidated entities.

Paul Thaxter

Paul Thaxter, formerly with Wells Fargo, joined FMFC on July 1, 2004, as Sr. Vice President and Director of Credit Operations (DCO). Mr. Thaxter began his banking career fourteen years ago with Wells Fargo Bank. He worked in the Wells Fargo Tulare Branch in general ag and dairy production credit and then transferred to their commercial banking office in Fresno as Vice President. During his tenure with Wells Fargo, Mr. Thaxter managed many large commercial, agribusiness and ag production accounts.

Timothy Leach

Effective December 31, 2000, with the formation of the ACA, Mr. Leach began serving as Senior Vice-President and Director of Marketing and Training for the consolidated entities. Additionally, he concurrently serves as Director of Retail Sales. Originally hired by the PCA and the FLCA on January 1, 1994, Mr. Leach has served in various capacities for the Associations, including Assistant Branch Manager and Branch Manager of the Madera Branch. He was previously employed with Wells Fargo for 20 years.

COMPENSATION

Summary Compensation Table
(\$ in thousands)

(\$ in thousands)	Year	Salary	Bonus	Deferred/ Perquisite	Total
Chief Executive Officer Thomas A. Brown	2004	207		263	470
	2003	192		80	272
	2002	182	65	185	432
Aggregate Number of Senior Officers					
Five	2003	523	70		593
Four	2002	441	58		499
Four	2001	446	57		503

The aggregate annual salaries during the fiscal year 2004 of the five most highly paid officers/employees amounted to \$800 thousand. Disclosure of the total compensation paid during the last fiscal year to any senior officer, or to any other employee included in the aggregate whose compensation exceeds \$50 thousand is available to shareholders upon request.

During 2002, the Association initiated a supplemental executive retirement plan (SERP) to provide supplemental retirement compensation to the chief executive officer. The initial funding of \$185 thousand was contributed into a trust as a deferred compensation arrangement. In its sole discretion, the Association may make additional contributions to the trust in amounts and at times to be determined by the Board of Directors, however, the Association shall not be obligated to make any further contributions except as provided in any outstanding employment agreements. The Board of Directors elected to make additional contributions into the trust in the amounts of \$200 thousand and \$15 thousand for the years 2004 and 2003, respectively. Payout of the amounts in trust are subject to specific performance parameters and may be forfeited for non-performance. Under the SERP agreement the CEO is allowed to make personal contributions to the fund. In 2004, the CEO deferred his bonus and contributed \$63 thousand to the fund.

Based on their discretion, the Association Directors have granted bonuses to staff. These discretionary distributions have been based upon the strong performance of certain financial indicators during the calendar year, and do not imply or guarantee future distributions. When they have occurred, the distributions have taken place at year-end. Additionally, an incentive bonus for originating leases is in place and returns 50 percent of the origination fee to employees with half of the bonus to the individual originating employee, and half to a pool shared by all qualifying employees. Origination fees are paid to the employee monthly. The pooled share is distributed annually in December.

The Association also utilizes an Employee Recognition Program designed to recognize outstanding job performance and productivity. There are three levels related to marketing to new and existing members as well as an award category for excellence. Each category includes a monetary award in addition to peer recognition. Performance is assessed and awarded each quarter with annual top producer awards.

DISCLOSURE INFORMATION – UNAUDITED – (CONTINUED)

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

The Association's policies on loans to and transactions with its' senior officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 13 to the financial statements, "Related Party Transactions," included in this Annual Report to shareholders. In the opinion of management, no loans to directors or senior officers, their immediate families, and affiliated organizations at December 31, 2004, involved more than a normal risk of collectibility during 2004.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

Actions are pending against the Association in which claims for money damages are asserted. Based on current information, management and legal counsel are of the opinion that the ultimate liability, if any resulting there from, would not be material in relation to the financial position of the Association.

RELATIONSHIP WITH INDEPENDENT ACCOUNTANTS

There were no changes nor were there any material disagreements with our independent accountants on any matter of accounting principles or financial statement disclosures during this period.

BORROWER PRIVACY

Your privacy is important to us. We want you to know that we hold your financial and other personal information in strict confidence. Since 1972, Farm Credit Administration regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without your consent. We do not sell or trade our customers' personal information to marketing companies or information brokers.

FCA rules allow us to disclose customer information to others only in these situations:

- We may give it to another Farm Credit institution that you do business with.
- We can be a credit reference for you with other lenders and provide information to a credit bureau or other consumer reporting agency.
- We can provide information in certain types of legal or law enforcement proceedings.
- We may provide information to auditors for the purpose of confirming loan balances and terms.
- FCA and other third-party examiners may review loan files during regular examinations of our association.
- If one of our employees applies to become a licensed real estate appraiser, we may give copies of real estate appraisal reports to the State agency that licenses appraisers when required. We will first remove as much personal information from the appraisal report as possible.

As a member/owner of this institution, your privacy and the security of your personal information are vital to our continued ability to serve your ongoing credit needs.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon, of PricewaterhouseCoopers LLP dated March 25, 2005, appearing on page 13 of this Annual Report to shareholders are incorporated herein by reference.