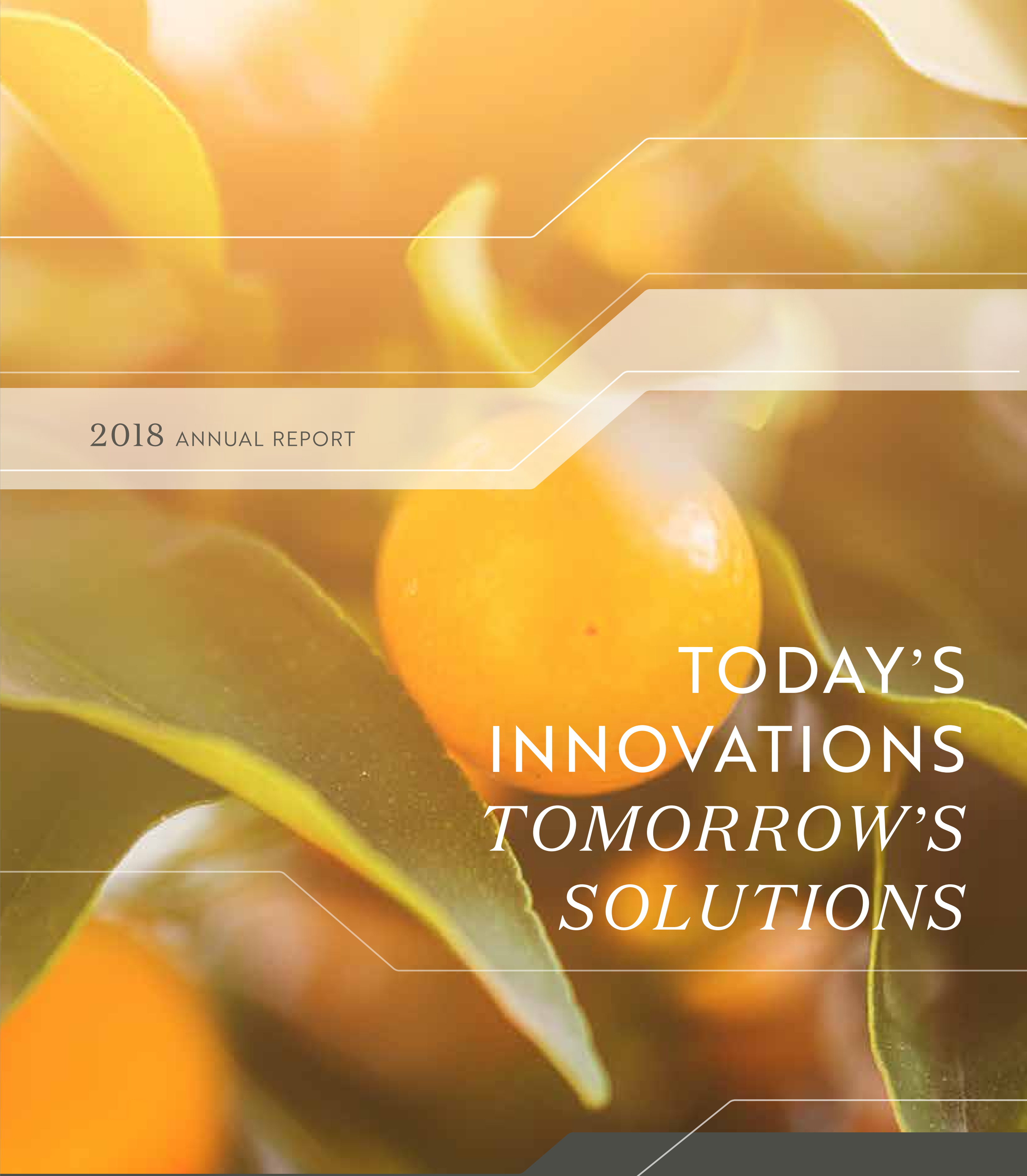


2018 ANNUAL REPORT

TODAY'S INNOVATIONS *TOMORROW'S SOLUTIONS*

Fresno Madera Farm Credit

TABLE OF *CONTENTS*

02
LETTER TO SHAREHOLDERS

07
BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT TEAM

08
YEAR IN REVIEW / FINANCIAL HIGHLIGHTS

10
REPORT OF MANAGEMENT

12
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

14
AUDIT COMMITTEE REPORT

15
FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

16
MANAGEMENT'S DISCUSSION AND ANALYSIS

31
REPORT OF INDEPENDENT AUDITORS

32
CONSOLIDATED FINANCIAL STATEMENTS

36
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

60
DISCLOSURE INFORMATION

68
YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS PROGRAM

LETTER TO *SHAREHOLDERS*

DEAR MEMBER,

It is our pleasure to present to you a summary of the financial outcomes that represented our 2018 fiscal year. We approach each year with a focus on what is necessary to serve the membership not just in the current year, but for the many years over a reasonable planning horizon. Our effort in 2018 was one that included many investments for the future—including a change in our technology provider. In addition, we experienced strong levels of growth in our loan assets as we enjoyed the strong support of our existing members, as well as growth from new relationships as we continue to serve the agriculture in our region.

CONDITIONS

The overall environment for Central Valley agriculture remained favorable to overall profitability for most of the commodities grown in our region however there were factors that indicated some weakening over the course of the year. Fresno Madera Farm Credit maintains a diverse loan portfolio which reflects the marketplace, and the farmers and ranchers that we serve. The diversity at the farm level has helped producers weather the strain experienced on a few commodities including those where prices are low relative to growers' cost of production including dairy, raisins, and certain fresh market commodities.

Foreign Trade

Agricultural commodities rely on foreign trade to keep prices stable and inventories of agricultural goods in balance. Over the course of 2018 trade with foreign partners showed resilience as the United States pursues new trade agreements with most of our key trading partners. There has been progress noted in these trade negotiations including with our key agricultural trading partners Canada and Mexico. Negotiations with China continue to progress, and there appears to be an adequate amount of 'good faith' present to keep both parties at the table until an agreement is reached.

Interest Rates

The Federal Reserve (Fed) increased short-term interest rates in the United States by increasing the target fed funds rate a total of four times over the course of 2018. There is no question that increased interest rates have a negative impact on net farm incomes, and particularly impact those farms and ranches with higher debt levels. Interest rates however are still relatively low, and long-term rates have not increased by quite the same amount as short-term rates which has flattened the yield curve perhaps creating opportunities for some of our borrowers to fix their interest rates and mitigate the risk of future rate increases from the Fed.

Members

We continue to see overall financial strength in the membership as a whole. Our members are highly diverse, and have shown strong resilience as they face the ongoing planning process for compliance with the Sustainable Groundwater Management Act, or "SGMA". The water year through early March 2019 has been very strong which has filled reservoirs and improved the outlook for strong water allocations in certain water districts located in the region. The overall financial health of the membership remains strong however, as consistent profitability has translated into strong financial health including good liquidity and balance sheet structures.

2018 FINANCIAL RESULTS

Overall our financial performance for 2018 was impacted by several factors including strong loan growth, overall stable net interest margin, higher levels of non interest income, and increased non interest expense from a change in our technology provider. Despite the presence of non-recurring expense items, the year was an overall success as a result of strong loan growth and the presence of some non interest income events. The overall success in 2018 is a clear result of continued strong support from our membership.

Earnings

Interest and Non Interest Income

Our loan volume increased considerably from 2017 as our average outstanding loans were 12.1% higher than last year, and the amount of loans outstanding at the end of 2018 were 11.8% higher than the end of 2017. As a result of the higher amount of loans outstanding, and stable net interest margin, our net interest income increased from 2017 by 10.3% to $32.2 million.

Patronage distributions from CoBank, and other Farm Credit System institutions are the primary sources of non interest income. In 2018 our non interest income increased to $9.5 million, which is 42% more than 2017 as we collected more patronage than the previous year mostly as a result of a special patronage payment from CoBank which occurred in September.

Non Interest Expense

Over the past several years, we have been undertaking significant due-diligence around our technology provider. Overall, we want to make certain that we are able to use technology to enhance our ability to serve the

OUR MISSION

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

One of the most unique aspects of FMFC is our structure as a farmer owned cooperative.

membership not only today, but well into the future and in ways that meet the evolving needs of the regulatory environment as well as the marketplace.

In early 2017, board and management determined to change technology providers in order to improve the alignment of our purchased information technology services with our strategic objectives, which include increasing our capacity to create the best-possible customer experience, as well as improving the efficiency of the processes that we use to serve our customers.

Over the course of 2018, we substantially completed the task of aligning with a new provider that provides similar services to other Farm Credit Associations that serve similar markets, and have a similar vision for how to leverage technology today and in the future. As a result of the conversion, our non interest expenses for 2018 included the non-recurring expense associated with the change in platforms.

Total non interest expense for 2018 was 31% higher, an increase of $4.8 million. Our total non interest expense for the year was $20.4 million, which compared to $15.6 million for 2017. We believe the investment to realign with a new partner sets the organization up for longterm success, and the benefits will be realized over our near and long-term future.

Provision for Loan Losses

We put aside new provisions for loan losses when we create new loan assets; the amount is based on the probability of default, along with the underlying quality of the collateral related to the loans that we make.

We recorded $1.2 million in new provisions for loan loss for 2018, which was higher than the 2017 amount of $310 thousand. The increase from last year is due to the increased loan growth which was quite strong relative to historic levels, and also as a result of some deterioration in credit quality compared to 2017.

Net Income

As a result of our increased loan volume and higher non interest income, our net income remained strong at $20.0 million for 2018, which was essentially unchanged from 2017 when it was $19.9 million. Our Return on Assets remained in the board-targeted range coming in at 1.62% for 2018. We believe that consistent and adequate earnings are an important component of strong financial performance serving as our best source of capital and a means to maintain our allowance for loan losses at an appropriate level at all times.

Patronage

One of the most unique aspects of FMFC is our structure as a farmer owned cooperative. As a result of this structure, after we address our need to maintain capital at reasonable levels, and address the need to form additional provision for loan losses, we return our remaining earnings to our member-borrowers. This year, FMFC will be distributing $10.4 million of cash patronage to the members which amounts to 0.70% of our patronage sourced average loan volume for 2018 and 46% of our patronage sourced net earnings. This patronage payment represents a slight increase from the amount distributed to members last year from our 2017

OUR VISION

To be the premier lender of choice in our region.

earnings. We strongly believe that our patronage program is an important part of our value proposition to our members. We also understand that our financial success is a direct result of your ongoing support of Fresno Madera Farm Credit!

Portfolio Quality

Portfolio strength is driven by many factors including strong operating cash flow, and cash flow derived from net farm incomes; these have remained strong overall and as a result we are pleased to report that our portfolio quality remains high. At the end of 2018, 97.11% of our total loans were classified as "Acceptable" or "OAEM" (Other Assets Especially Mentioned) which is strong overall. The Association had just 0.8% of total loan volume delinquent at the end of 2018, which was a slight increase from the same period in 2017.

Capital

Member capital increased to $267 million at the end of the fiscal year 2018; this 3.7% increase is the result of earnings that were retained after patronage was allocated. Our board of directors has established both a minimum and a target level for the amount of capital held in relationship to risk adjusted assets; our Total Capital Ratio was 17.4% at the end of 2018 which decreased slightly as a result of our higher growth levels. We also want to emphasize that in addition to the quantity of capital—the quality of our capital is high as the vast majority is comprised of retained earnings from previous years. As a result of this quantity and quality, we are comfortably in excess of all regulatory capital ratio minimums.

SUMMARY

We are proud of the level of ongoing support we receive from the membership, and take seriously our responsibility to be good stewards of the trust you place in Fresno Madera Farm Credit. The operating results of your institution were strong, and we are very pleased with the progress made toward realigning our technology capabilities so that we can continue the important work of safeguarding your information, and supporting your needs in a way that allows us to maintain your trust over the long run. On behalf of your board of directors, and the staff of Fresno Madera Farm Credit, we thank you for your ongoing support!

Jeff Jue
Chairman of the Board

Keith Hesterberg
President & Chief Executive Officer

OUR VALUES

Collaborative

Committed

Customer Focused

Excellence

Responsible

Strategic

2018 BOARD OF DIRECTORS

TOP LEFT TO RIGHT
Jeff Yribarren *(Human Capital Committee Chair)*, Allan Kantrowitz *(Risk Committee Chair)*, Ed Martinazzi, Lance Shebelut, Victor Sahatdjian

BOTTOM LEFT TO RIGHT
Steve Shafer, Denise Waite *(Audit Committee Chair)*, Jeffrey Jue *(Board Chair)*, Daniel Errotabere, Kevin Herman

KEITH HESTERBERG

President
Chief Executive Officer

DANIEL W. KIGGENS

Senior Vice President
Chief Credit Officer

JOE SOTO

Senior Vice President
Chief Financial Officer

2018 EXECUTIVE MANAGEMENT TEAM

STEPHANIE GRAHAM

Senior Vice President
Chief Administrative Officer

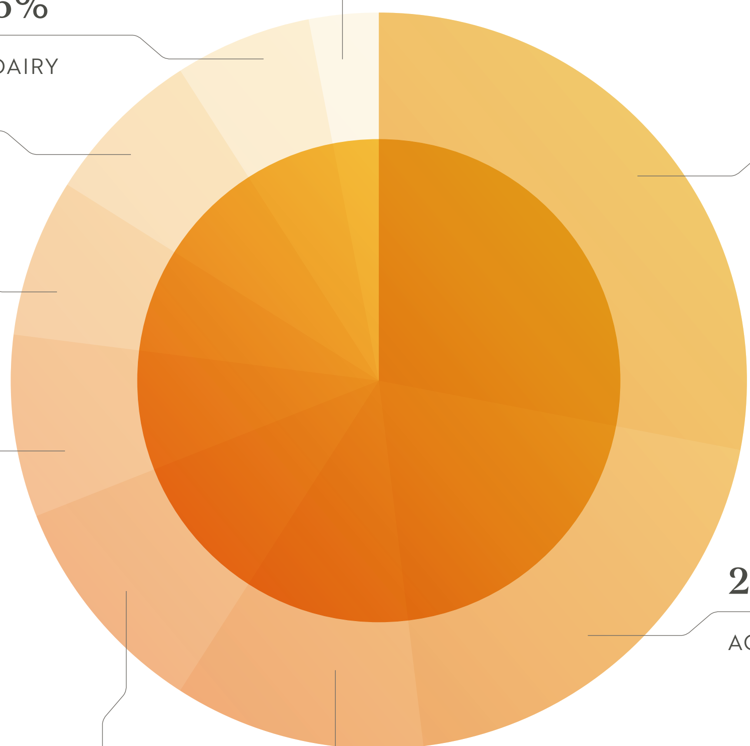
DAVID YLARREGUI

Senior Vice President
Relationship Management

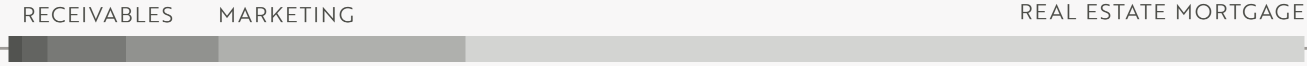
2018

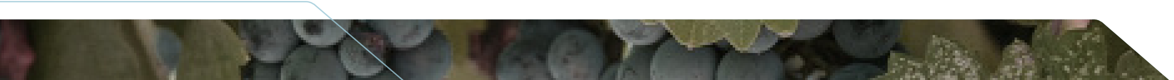
YEAR IN REVIEW

LOAN VOLUME BY COMMODITY



LOAN PRINCIPAL COMPOSITION BY TYPE





	2018	2017	2016	2015	2014
NET INCOME *Dollars in Thousands*	$19,953	$19,910	$20,377	$16,637	$15,792
TOTAL ASSETS *Dollars in Thousands*	$1,326,325	$1,174,974	$1,122,152	$1,132,087	$1,052,489
RETURN ON AVERAGE ASSETS	1.62%	1.81%	1.84%	1.60%	1.63%
EFFICIENCY RATIO	47.5	43.4	40.2	42.0	43.0
TOTAL MEMBER CAPITAL *Dollars in Thousands*	$266,958	$257,390	$247,731	$236,611	$226,270
NONACCRUAL LOANS *As % of Total Loans*	0.93%	0.00%	0.00%	0.37%	1.52%
ACCEPTABLE/OAEM VOLUME *As % of P & I*	97.11%	99.5%	100.0%	99.6%	98.1%
PERMANENT CAPITAL RATIO	16.98%*	18.25%*	18.48%	17.54%	17.48%
TOTAL CAPITAL RATIO	17.40%	18.67%	–	–	–

**Due to the new regulatory capital requirements effective January 1, 2017, the permanent capital ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.*

PATRONAGE DISTRIBUTIONS

More than $40 Million declared since 2014

REPORT OF *MANAGEMENT*

The consolidated financial statements of Fresno Madera Farm Credit, ACA (Association) are prepared and reviewed by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. In the opinion of management, the accompanying consolidated financial statements fairly present the financial condition and results of operations of the Association, in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the 2018 Annual Report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, the Association engaged Deloitte & Touche LLP to 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 auditors. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the Board of Directors has overall responsibility for the Association's system of internal control and financial reporting. The Audit Committee meets and consults regularly with management and the auditors to review the manner in which these groups are performing their responsibilities and to carry out the Board's oversight role with respect to auditing, internal controls, and financial reporting matters. The independent auditors also have direct access to the Audit Committee.

The undersigned certify that the Fresno Madera Farm Credit, ACA 2018 Annual Report has been prepared and reviewed in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

March 15, 2019

Denise Waite

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

Daniel Errotabere
Audit Committee Vice Chair
Fresno Madera Farm Credit, ACA
Fresno Madera PCA, FLCA

Kevin Herman
Audit Committee Member
Fresno Madera Farm Credit, ACA
Fresno Madera PCA, FLCA

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

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

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

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

THIS YEAR,
WE WILL BE
DISTRIBUTING
$10.4 MILLION
OF CASH
PATRONAGE.

REPORT ON *INTERNAL CONTROL OVER FINANCIAL REPORTING*

Fresno Madera Farm Credit's principal executives and principal financial officers are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

Management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2018. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013),* promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

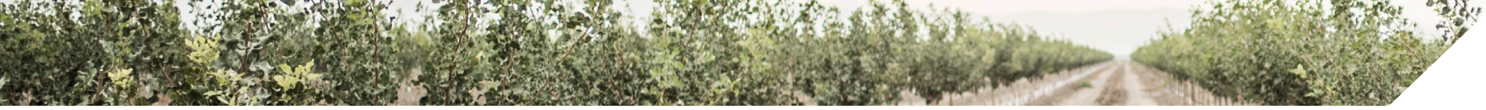
Based on the assessment performed, the Association concluded that as of December 31, 2018, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2018.

March 15, 2019

Keith H

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

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



AUDIT COMMITTEE REPORT

The Audit Committee (Committee) is comprised of four members from the Board of Directors of Fresno Madera Farm Credit, ACA (Association). In 2018, six Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Controls Policy and the Audit Committee Charter.

The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2018. The fees for professional services rendered for the Association by its independent auditor, PwC, during 2018 were $126,100 for audit services, $16,000 for tax services. The Committee reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence.

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

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2018 (the "Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2018 and for filing with the Farm Credit Administration.

March 15, 2019

Denise Waite

Denise Waite, *Audit Committee Chair*

AUDIT COMMITTEE MEMBERS

Denise Waite, *Audit Committee Chair*

Daniel Errotabere, *Audit Committee Vice Chair*

Kevin Herman, *Audit Committee Member*

Jeff Jue, *Chairman of the Board*

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(Dollars in thousands, Unaudited)

	December 31				
	2018	2017	2016	2015	2014
Consolidated Statement of Condition Data					
Loans	**$ 1,247,297**	$ 1,115,862	$ 1,056,746	$ 1,072,868	$ 1,002,109
Less allowance for loan losses	**6,787**	6,058	5,780	6,227	4,860
Net loans	**1,240,510**	1,109,804	1,050,966	1,066,641	997,249
Investment in CoBank, ACB	**36,840**	32,001	31,539	29,977	27,557
Other assets	**48,975**	33,169	39,647	35,469	27,683
Total assets	**$ 1,326,325**	$ 1,174,974	$ 1,122,152	$ 1,132,087	$ 1,052,489
Obligations with maturities of one year or less	**$ 1,058,601**	$ 916,877	$ 873,804	$ 894,887	$ 825,866
Obligations with maturities longer than one year	**443**	443	404	383	353
Reserve for unfunded commitments	**323**	264	213	206	-
Total liabilities	**1,059,367**	917,584	874,421	895,476	826,219
Capital stock and participation certificates	**774**	757	757	763	766
Unallocated retained earnings	**266,184**	256,633	246,974	235,848	225,504
Total members' equity	**266,958**	257,390	247,731	236,611	226,270
Total liabilities and members' equity	**$ 1,326,325**	$ 1,174,974	$ 1,122,152	$ 1,132,087	$ 1,052,489

	For the Year Ended December 31				
	2018	2017	2016	2015	2014
Consolidated Statement of Income Data					
Net interest income	**$ 32,157**	$ 29,163	$ 27,995	$ 24,958	$ 23,243
Patronage distribution from Farm Credit institutions	**7,869**	5,950	5,435	4,411	3,793
Provision for loan losses (Loan loss reversal)	**1,221**	310	(558)	1,387	105
Noninterest expense, net	**18,850**	14,891	12,783	11,997	11,149
Provision for (benefit from) income taxes	**2**	2	828	(652)	(10)
Net income	**$ 19,953**	$ 19,910	$ 20,377	$ 16,637	$ 15,792
Key Financial Ratios					
For the Year					
Return on average assets	**1.62%**	1.81%	1.84%	1.60%	1.63%
Return on average members' equity	**7.37%**	7.71%	8.24%	7.09%	7.08%
Net interest income as a percentage of average earning assets	**2.74%**	2.79%	2.64%	2.51%	2.51%
Net charge-offs (recoveries) as a percentage of average loans	**0.04%**	<0.01%	(0.01%)	<0.01%	<0.01%
At Year End					
Members' equity as a percentage of total assets	**20.13%**	21.91%	22.08%	20.90%	21.50%
Debt as a ratio to members' equity	**3.97:1**	3.57:1	3.53:1	3.78:1	3.65:1
Allowance for loan losses as a percentage of loans	**0.54%**	0.54%	0.55%	0.58%	0.48%
Common equity tier 1 (CET1) capital ratio	**16.90%**	18.16%	N/A	N/A	N/A
Tier 1 capital ratio	**16.90%**	18.16%	N/A	N/A	N/A
Total capital ratio	**17.40%**	18.67%	N/A	N/A	N/A
Tier 1 leverage ratio	**19.40%**	21.08%	N/A	N/A	N/A
Unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio	**20.10%**	21.81%	N/A	N/A	N/A
Permanent capital ratio	**16.98%***	18.25%*	18.48%	17.54%	17.48%
Other					
Cash patronage distributions declared	**$ 10,402**	$ 10,251	$ 9,251	$ 6,293	$ 4,570
Cash patronage distributions paid	**$ 10,251**	$ 9,251	$ 6,293	$ 4,570	$ 6,478

*Due to the new regulatory capital requirements effective January 1, 2017, the permanent capital ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

Introduction

The following discussion summarizes the financial position and results of operations of Fresno Madera Farm Credit, ACA (the Association) for the year ended December 31, 2018. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, footnotes and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

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

Our quarterly reports to members are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.fmfarmcredit.com, or upon request. We are located at 4635 West Spruce, P.O. Box 13069, Fresno, California 93794-3069 or may be contacted by calling (559) 277-7000.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

We are one of 69 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System's mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is accomplished by providing loans and financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be provided by the Association. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Members are farmers, ranchers, rural residents and agribusinesses under eligibility as prescribed in the Farm Credit Act. Members of the Association include all holders of legal title to capital stock or participation certificates of the Association. Our territory served extends across a diverse agricultural region of the San Joaquin Valley in California, specifically within Fresno and Madera counties. We provide production and intermediate-term loans for agricultural production or operating purposes and long-term real estate mortgage loans. Additionally, we provide other related services to our borrowers, such as funds held accounts, credit life insurance, multi-peril crop and crop hail insurance, lease placement and appraisal services. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

As part of the System we obtain the funding for our lending and operations from one of the four banks in the System- CoBank, ACB (CoBank). In addition to providing lines of credit, CoBank is responsible for providing oversight to insure compliance with its general financing agreements with the Association and each subsidiary.

We, along with the borrower's investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 4635 West Spruce, P.O. Box 13069, Fresno, California 93794-3069 or calling (559) 277-7000. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation of which we, along with all other AgVantis customers, are a shareholder. Our Services Agreement with AgVantis expired on December 31, 2018. In August 2017, the Association executed an agreement with Farm Credit Financial Partners, Inc. (FPI) to transition its technology services from AgVantis to FPI. Our go-live date was October 8, 2018 and since then the Association has purchased technology and operation services from FPI. Additionally, we purchase payroll and human resource services from Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions.

ECONOMIC OVERVIEW

The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law on December 20, 2018. This new Farm Bill will govern an array of federal farm and food programs, including commodity price support payments, farm credit, conservation programs, research, rural development and foreign and domestic food programs for five years through 2023. The new Farm Bill continues to provide support for crop insurance programs and commodity support programs, strengthen livestock disaster programs, and provides dairy producers with an updated voluntary margin protection program that will provide more flexibility to dairy operations. The Farm Bill also authorizes the production and marketing of industrial hemp in accord with state or federal regulations.

Many provisions of the Farm Bill will require the United States Department of Agriculture to develop rules and procedures to fully implement these authorities. The timing for the issuance of those rules is uncertain and has been impacted by the recent shutdown of portions of the Federal government.

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

Although the California agricultural economy continues to be a significant contributor to the overall California economy, it faced downward pressure from labor, transportation and trade issues in 2018. While many of the predominant commodities grown within our loan servicing area (LSA) are receiving prices that are at or above breakeven levels, select commodities have experienced some stress including dairy and fresh market fruits, vegetables & melons. Though operating margins are expected to remain tight relative to previous years, it is anticipated that most of our Members will report positive cash flow and maintain stable financial positions. The Almond industry saw stable to slightly decreasing prices that still reflect solid returns to the grower. Almond prices have been under monetary and economic pressure from several key factors including a stronger dollar and trade negotiations. Following sharp declines in 2016, Raisin prices strengthened considerably in 2018. The Dairy industry continues to experience soft milk prices, though some improvement is anticipated as California transitions to the federal pricing system and the new trade agreement with Mexico takes effect. It is expected that most dairy operations operated at or below breakeven levels in 2018, though many have diversified into more profitable crops that will improve operating results. Additional details can be found in the Portfolio Diversification section.

Water availability continues to be an ongoing concern in the San Joaquin Valley, as water users rely on a complex water distribution system to irrigate their crops. Growers typically rely on two sources of water to irrigate their crops, pumped ground water and surface water deliveries from a system of reservoirs and interconnected canals that carry water from areas that typically receive a greater amount of precipitation in the form of rain and snow. Many factors influence the amount of water that is available to farmers, including the following:

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

In 2014, California enacted legislation known as the Sustainable Groundwater Management Act (SGMA) that is designed to regulate how groundwater storage is managed, with groundwater sustainability to be achieved 20-years after adoption. The legislation has created uncertainty surrounding the long-term viability of groundwater as a source available to supplement surface water, as it is not considered feasible to reach sustainability given the level of pumping that has occurred in recent years. Implementation plans are due in January 2020 and will provide greater insight into the impact that the legislation will have on water users.

Following several years of drought conditions and cutbacks in surface water deliveries, higher than normal rainfall during the 2015-16 season was good news in California's drought-stricken state. The 2016-17 rainfall season turned out to be even wetter than the prior year with rainfall levels well above historical averages. The 2017-18 season brought concern back to the area with final precipitation totals at 64% of normal for the San Joaquin Region. However, reservoir storage was near or slightly above 100% of historical averages in the region due in large part to carryover from the wet 2016-17 season. As a result, nearly all districts had surface water to deliver to farmers within the region for the 2018 growing season.

Land values, which are strongly influenced by the profitability of the crops suitable for production, have come off record highs, though most remain well above historical averages. Areas that are dependent on groundwater are most likely to be negatively impacted by the implementation of SGMA and thus far have seen greater declines in value. Properties that have access to reliable surface water are expected to remain stable to increasing in value.

RESULT OF OPERATIONS

During 2018, we recognized net income of $19.95 million as compared to $19.91 million and $20.38 million for 2017 and 2016, respectively. The increase in net income in 2018 is primarily the result of an increase in our net interest income and noninterest income partially offset by an increase in our noninterest expense. The decrease in net income in 2017 was primarily due to an increase in noninterest expense partially offset by an increase in net interest income and a decrease in the provision for income taxes. The following table reflects key performance results as of December 31:

($ in thousands)	**2018**	2017	2016
Net income	**$ 19,953**	$ 19,910	$ 20,377
Net interest income	**$ 32,157**	$ 29,163	$ 27,995
Net interest margin	**2.74%**	2.79%	2.64%
Return on average assets	**1.62%**	1.81%	1.84%
Return on average members' equity	**7.37%**	7.71%	8.24%

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

($ in thousands)	**2018 vs 2017**	2017 vs 2016
Net income, prior year	**$ 19,910**	$ 20,377
Increase (Decrease) due to:		
Interest income	**12,188**	5,105
Interest expense	**(9,194)**	(3,937)
Net interest income	**2,994**	1,168
Provision for loan losses	**(911)**	(868)
Noninterest income	**2,798**	130
Noninterest expense	**(4,838)**	(1,723)
Provision for income tax	**-**	826
Total increase in net income	**43**	(467)
Net income, current year	**$ 19,953**	$ 19,910

Net Interest Income

Net interest income for 2018 was $32.2 million compared with $29.2 million for 2017 and $28.0 million for 2016. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. Net interest income increased $3.0 million or 10.3% from the prior year primarily due to higher average loan volume and earnings from committing portions of our loanable funds at fixed rates through CoBank. These earnings are reflected in net interest income as a reduction to interest expense.

The following table provides an analysis of the individual components of the change in net interest income during 2018 and 2017:

($ in thousands)	**2018 vs. 2017**	2017 vs. 2016
Net interest income, prior year	**$ 29,163**	$ 27,995
Increase (Decrease) due to:		
Interest rates earned	**6,334**	5,680
Interest rates paid	**(6,444)**	(4,297)
Volume of interest-bearing assets & liabilities	**3,089**	(215)
Interest income on nonaccrual loans	**15**	-
Increase in net interest income	**2,994**	1,168
Net interest income, current year	**$ 32,157**	$ 29,163

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

	2018	2017	2016
Net interest margin	**2.74%**	2.79%	2.64%
Interest rate on:			
Average loan volume	**4.61%**	4.01%	3.47%
Average debt	**2.31%**	1.54%	1.03%
Interest rate spread	**2.30%**	2.47%	2.44%

As a result of the Federal Reserve managing the Fed Funds Rate, short term interest rates have increased. The rates that are charged on loans indexed to variable rates have increased by 60 basis points which is the result of an increase in the interest rate the Association pays on the liabilities used to fund loans that are indexed to a variable rate. The impact of the increase in cost of funds is partly offset by earnings from capital which are reflected as a reduction of interest expense on average debt.

Our net interest margin decreased from previous years primarily due to the transfer to nonaccrual of two loan complexes. This was partially offset by an increase in the Association's earnings from capital. Our loan portfolio continues to be well diversified in Variable, Indexed Rate, and Fixed rate loan products.

Provision for Loan Losses

We monitor our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio. We recorded a provision for loan loss of $1.2 million in 2018, $310 thousand in 2017, and a net loan loss reversal of $558 thousand in 2016. The provision for loan loss recorded in 2018 was primarily the result of an overall increase in our exposure due to increased new loan originations as well as some migration of our portfolio as result of some deterioration of our portfolio's credit quality. The provision reflects the changes in our expense estimate for the risk of losses in our loan portfolio. Further discussion of the provision for loan losses can be found in Note 3, "Loans and Allowance for Loan Losses," of the accompanying consolidated financial statements.

Non Interest Income

During 2018, we recorded noninterest income of $9.5 million, compared with $6.7 million in 2017 and $6.5 million in 2016. Noninterest income is primarily comprised of patronage distributions, which reflect patronage income on direct borrowings from CoBank as well as loan participation activity with CoBank and other Farm Credit associations. Patronage income increased due to an increase in average volume outstanding in our participations sold portfolio. The Association also received a one-time special patronage distribution from CoBank in the current year which contributed to the increase.

Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. Patronage earned from CoBank was $6.9 million in 2018, $5.3 million in 2017 and $4.9 million in 2016. This comprises 72%, 79% and 75% of total non interest income for 2018, 2017 and 2016 respectively.

In August 2017, CoBank management announced changes to their capital plans and patronage programs for eligible customer-owners designed to address a number of marketplace challenges. The changes are intended to strengthen CoBank's long-term capacity to serve customers' borrowing needs, enhance CoBank's ability to capitalize future customer growth, and ensure equitability among different customer segments. The new target patronage levels took effect in 2018 calendar year and will be reflected in patronage distributions made in March 2019. Associations will transition to their new target patronage levels over a multi-year period ending in 2020. We have considered these changes and planned for the impact of this decrease in our corporate plan.

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

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

In 2018, noninterest income was also positively impacted by a non-recurring refund of premiums previously paid to the Farm Credit System Insurance Corporation (FCSIC) after the FCSIC board voted to return excess funds to the system.

Non Interest Expense

Noninterest expense for 2018 increased $4.8 million, or 31%, to $20.4 million compared with $15.6 million in 2017 primarily due to increases in information technology, salaries and employee benefits, and other expenses. Information technology expense increased $2.2 million primarily due to expenses related to our IT conversion from AgVantis to FPI and salaries and benefits expense is higher due to an increased number of staff and the utilization of temporary staff during our technology conversion. The increase in other expenses is due to the write-down of our $544 thousand investment in AgVantis as well as outside service provider fees. In 2018, the Association contracted with third party vendors to provide project management services and assistance in report development related to the technology conversion.

Provision for/Benefit from income taxes

We recorded a provision for income taxes of $2 thousand in 2018 and 2017, compared with an $828 thousand provision from income taxes in 2016. The fluctuations in our provision are driven primarily by changes in the pre-tax income of our Production Credit Association (PCA), and variability in the deferred tax asset mainly due to fluctuations in the provision for loan losses and nonaccrual income. The provision for income taxes in 2016 is primarily due to the need for a full valuation allowance on our net deferred tax assets under our PCA entity. In 2018, we assessed the realizability of our deferred tax assets and based on the weight of all available evidence we believe our deferred tax assets more-likely-than-not, will not be realized as of December 31, 2018. The provision for income taxes in 2018 and 2017 are franchise state taxes. For additional information refer to Note 9, "Income Taxes", of the accompanying financial statements.

Loan Portfolio

Total loans outstanding were $1.25 billion at December 31, 2018, an increase of $131.4 million, or 11.8%, from total loans at December 31, 2017 of $1.12 billion. Our loan volume increased as a result of greater new loan origination activity in the Real Estate Mortgage portfolio along with seasonal increased utilization of revolving lines of credit across multiple segments of our portfolio. The types of loans outstanding are reflected in the following table.

As of December 31	2018	2017	2016
Real estate mortgage	**65%**	64%	65%
Production and intermediate-term	**19%**	20%	18%
Agribusiness:			
Cooperatives	**6%**	6%	6%
Processing and marketing	**7%**	7%	8%
Farm related business	**0%**	0%	0%
Energy	**1%**	1%	0%
Lease receivables	**2%**	2%	3%
Total	**100%**	100%	100%

Real estate mortgage loans account for 65% of total loan volume, which represents an increase from the prior fiscal year end. This increase was driven by new business development across both the direct mortgage loan portfolio and capital markets purchased participations along with seasonal draws against revolving equity lines of credit on the existing portfolio. These long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years.

Production and intermediate-term loans increased from prior year end and account for 19% of total loan volume. The increase was driven by new business development coupled with higher seasonal utilization of our operating lines of credit across multiple segments of our portfolio. Production loans are used to finance the timing gaps that exist in the production cycle for agricultural producers which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years. There was a slight decrease as a percentage of total loan volume which is the result of more volume in real estate mortgage loans.

The agribusiness segment accounted for 13% of our total loan portfolio, which is consistent with the prior year end. However, the total loan volume in this category increased slightly. This increase in loan volume was primarily attributed to increased seasonal utilization on revolving lines of credit within the Ag Related Business segment coupled with the origination of new purchased participation loans.

We experienced an increase in average accruing loan volume of 11.7% with average volume at $1.17 billion for 2018 compared to $1.05 billion for 2017. This was driven by strong new business development across all segments of the portfolio coupled with increases in seasonal utilization of existing loan commitments. Overall new business developed in 2018 amounted to $415 million with 76% in direct loans and 24% in participations purchased.

Portfolio Diversification

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

In order to meet the growing needs of our membership, we maintain strategic relationships that allow for the purchase of loan assets to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System entities to manage risk related to individual loan concentrations and comply with regulatory and internal lending limits. We have no loans sold with recourse, retained subordinated participation interests in loans sold or interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in the loans sold. Total volume in participations purchased and sold as of December 31 follows:

($ in thousands)	**2018**	2017	2016
Purchased	**$ 294,768**	$ 242,792	$ 224,087
Sold	**$ (458,956)**	$(382,808)	$(312,027)

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

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

Counties	**2018**	2017	2016
Fresno	**48%**	47%	47%
Madera	**18%**	20%	19%
Other	**34%**	33%	34%
Total	**100%**	100%	100%

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

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

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

Commodities	**2018**	2017	2016
Almonds	**28%**	28%	27%
Agribusiness	**20%**	20%	20%
Tree fruit	**10%**	9%	8%
Raisins	**8%**	8%	8%
Wine & table grapes	**7%**	8%	7%
Dairy	**6%**	7%	8%
Vegetables & Melons	**7%**	7%	8%
Beef & livestock	**3%**	3%	3%
Other	**11%**	10%	11%
Total	**100%**	100%	100%

Overall, we maintain a well-diversified loan portfolio. Repayment ability of our borrowers is closely related to their debt leverage and to the production and profitability of the commodities they produce. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by industry economics. Our future performance may be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities impacted and the magnitude and duration of the adverse agricultural conditions to our borrowers. Our risk in commodity concentrations is reduced by the fact that many of our borrowers are diversified into multiple commodities.

Almonds comprise 28% of our loan portfolio. The almond industry has been strong for several years, as successful marketing efforts have kept supply and demand in relative balance despite continued increases in annual production. As prices have stabilized over the past few years at levels that better reflect long-term averages, so has the percentage of the loan portfolio represented by Almonds, which had been on an increasing trend.

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

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers who typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy.

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

	2018	2017	2016
($ in thousands)	**Amount outstanding**	Amount outstanding	Amount outstanding
$1 - $250	**$ 56,994**	$ 61,576	$ 64,045
$251 - $500	**105,931**	96,854	88,388
$501 - $1,000	**167,893**	145,686	134,395
$1,001 - $5,000	**632,726**	554,622	551,894
$5,001 - $25,000	**283,753**	257,124	218,024
Total	**$ 1,247,297**	$ 1,115,862	$ 1,056,746

	2018	2017	2016
($ in thousands)	**Number of loans**	Number of loans	Number of loans
$1 - $250	**588**	590	621
$251 - $500	**286**	262	237
$501 - $1,000	**234**	203	184
$1,001 - $5,000	**287**	262	253
$5,001 - $25,000	**38**	34	30
Total	**1,433**	1,351	1,325

The principal balance outstanding at December 31, 2018 for loans $500 thousand and less account for 13% of loan volume but 61% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. Loans above $5 million comprise 23% of our loan volume and are attributable to 38 loans. Due to their size, financial deterioration or the loss of volume within a combination of large loans may adversely affect the portfolio and our future operating results. As such, we closely monitor all large loans.

Through Federal Agricultural Mortgage Corporation (Farmer Mac), we have reduced the credit risk of certain long-term real estate loans by entering into agreements that provide long-term standby purchase commitments in the event of default. Under this program, we continue to hold the loans in our portfolio, and we pay commitment fees to Farmer Mac for the right to sell a loan designated in these agreements to Farmer Mac in the event the loan becomes significantly delinquent (typically four months past due). If the borrower cures the default, we must repurchase the loan and the commitment remains in place. Farmer Mac long-term standby purchase commitment agreements are further described in Note 3, "Loans and Allowance for Loan Losses". Other than the contractual obligations arising from these business transactions with Farmer Mac, Farmer Mac is not liable for any debt or obligation of ours and we are not liable for any debt or obligation of Farmer Mac. For more information on Farmer Mac, refer to their website at www.farmermac.com. The amount of loans subject to these Farmer Mac credit enhancements was $41.8 million at December 31, 2018, $48.2 million at December 31, 2017 and $57.1 million at December 31, 2016. Included in other operating expenses were fees paid for these Farmer Mac commitments totaling $183 thousand in 2018, $217 thousand in 2017 and $312 thousand in 2016.

In addition, we obtained Federal Guarantees through the Farm Service Agency and State of California Guarantees through Valley Small Business Development Corporation. In the event of default, Federal Guarantees cover a specific percent of principal and interest due on the loan while State guarantees cover a specific percent of principal and the same percentage of post-default interest (up to ninety days from the default date). Loans outstanding with credit guarantees from government agencies amounted to $6.1 million at year-end 2018, $4.1 million at year-end 2017 and $3.7 million at year-end 2016.

Credit Commitments

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

The table below summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2018.

($ in thousands)	Commitments to extend credit	Standby letters of credit	Total commitments
Less than 1 year	$ 145,370	$ 7,514	$ 152,884
1 – 3 years	91,070	-	91,070
3 – 5 years	80,250	37	80,287
Over 5 years	175,746	-	175,746
Total	$ 492,436	$ 7,551	$ 499,987

The total commitments do not necessarily represent future cash requirements since many of these commitments are expected to expire without being drawn upon. However, these credit-related financial instruments have off-balance-sheet credit risk because their contractual amounts are not reflected on the Consolidated Statements of Condition until funded or drawn upon.

The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and we apply the same credit policies to these commitments. The amount of collateral obtained, as deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments.

High Risk Assets

Nonperforming loan volume is comprised of nonaccrual loans, restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Our high risk assets are primarily comprised of nonaccrual loans. Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or interest. Comparative information regarding high risk assets (including related accrued interest) in the portfolio as of December 31 follows:

($ in thousands)	2018	2017	2016
Nonaccrual loans:			
Real estate mortgage	$ 5,762	$ 6	$ 13
Production and intermediate-term	5,860	48	-
Agribusiness	-	-	18
Total nonaccrual loans	11,622	54	31
Accruing restructured loans	-	-	-
Accruing loans 90 days past due	-	-	-
Total impaired loans	11,622	54	31
Other property owned	-	-	-
Total high risk assets	$ 11,622	$ 54	$ 31
Nonaccrual loans to total loans	0.93%	0.00%	0.00%
High risk assets to total loans	0.93%	0.00%	0.00%
High risk assets to total members' equity	4.35%	0.02%	0.00%

Total high risk assets increased $11.6 million to $11.6 million as of December 31, 2018 from $54 thousand as of December 31, 2017. High risk assets increased due to the transfer of two loan complexes to nonaccrual status during the third quarter of 2018. For the years ended December 31, 2018, 2017 and 2016 there were twelve, two and four loans classified as nonaccrual, respectively.

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

($ in thousands)	2018	2017	2016
Nonaccrual loans current	$ 5,939	$ -	$ 13
Nonaccrual loans past due	5,683	54	18
Cash basis nonaccrual loans	-	-	-
Restructured loans in nonaccrual status	-	-	-
Total nonaccrual loans	$ 11,622	$ 54	$ 31

Other property owned is real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure or other means. We had no other property owned at December 31, 2018, 2017 or 2016.

Credit Quality

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

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

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

	2018	2017	2016
Acceptable	96.39%	96.57%	99.45%
OAEM	0.72%	2.93%	0.51%
Substandard	2.89%	0.50%	0.04%
Doubtful	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%

During 2018, overall credit quality declined slightly with loans classified as "Acceptable" and "OAEM" accounting for 97.11% of volume at December 31, 2018 compared to 99.50% at December 31, 2017. The migration from "OAEM" to "Substandard" volume is attributed to increased stress resulting from normal fluctuation of economic factors related to select commodities. We had no loans classified as Doubtful or Loss in 2018, 2017, or 2016. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased to 0.4% at

December 31, 2018. Loan delinquencies equated to 0.2% at December 31, 2017 and 0.0% at December 31, 2016.

We continue to emphasize strong underwriting standards to ensure the credit quality of our loan portfolio remains strong. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. While we have experienced record high credit quality in recent years and we expect it to remain strong in 2019, softening commodity prices are expected to cause tighter operating margins, which could lead to some portfolio deterioration. Additionally, less favorable economic conditions, including challenges faced in limited water supply for farmers located in our lending territory, may result in lower credit quality than achieved in recent years. We believe our robust capital and risk funds position, as well as our effective credit administration, will allow us to successfully manage this risk.

Allowance for Loan Losses

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

The following table provides relevant information regarding the allowance for loan losses as of December 31:

($ in thousands)	**2018**	2017	2016
Balance at beginning of year	**$ 6,058**	$ 5,780	$ 6,227
Charge-offs:			
Production and intermediate-term	**566**	-	-
Agribusiness	**-**	93	915
Total Charge-offs	**566**	93	915
Recoveries:			
Agribusiness	**74**	61	1,026
Total Recoveries	**74**	61	1,026
Net charge-offs (recoveries)	**492**	32	(111)
Provision for loan losses (Loan Loss Reversal)	**1,221**	310	(558)
Balance at December 31	**$ 6,787**	$ 6,058	$ 5,780
Net charge-offs (recoveries) to average net loans	**0.04%**	<0.01%	(0.01%)

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

($ in thousands)	**2018**	2017	2016
Real estate mortgage	**$ 439**	$ 393	$ 470
Production and intermediate-term	**3,781**	3,203	2,016
Agribusiness	**1,699**	1,422	2,046
Energy	**26**	41	3
Lease receivables	**842**	999	1,245
Total	**$ 6,787**	$ 6,058	$ 5,780

The allowance for loan losses increased $0.7 million from December 31, 2017 to $6.8 million as of December 31, 2018. The increase was primarily due to an overall increase in our risk exposure due to increased loan volume as well as some heightened risk factors noted in the loan portfolio.

Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table:

	2018	2017	2016
Allowance as a percentage of:			
Total Loans	**0.54%**	0.54%	0.55%
Nonaccrual loans	**58.40%**	>1,000%	>1,000%
High Risk Loans	**58.40%**	>1,000%	>1,000%

The overall allowance as a percentage of loans has remained consistent at 0.54% at December 31, 2018 and 2017 and continues to provide an adequate and sound allowance for loan losses. Further discussion of the Allowance can be found in Note 3, "Loans and Allowance for Loan Losses," of the accompanying consolidated financial statements.

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

Credit Risk Management

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

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

- character – borrower integrity and credit history;
- capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income;
- collateral – to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- capital – ability of the operation to survive unanticipated risks; and,
- conditions – intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds and subsequent loan servicing actions are established and followed. Underwriting standards are updated periodically to reflect market and industry conditions. By regulation, loan commitments to one borrower cannot be more than 15% of our regulatory capital. To further mitigate loan concentration risks, we have established internal lending limits that are below the regulatory requirements that are based on the risk associated with individual borrowers. Exposure through loan participations are further limited by parameters based on specific business relationships.

We have established internal lending delegations to properly control the loan approval process. All approvals require a minimum of two voters, with increased voter participation required based on loan size, complexity, type and risk. Larger and more complex loans or loans perceived to have higher risk are typically approved by our loan committee with the most experienced and knowledgeable credit staff serving as members.

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

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

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

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

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

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Obligations that require liquidity include paying our note with CoBank, funding loans and other commitments, and funding operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction, and liquidate nonearning assets expeditiously. Our direct loan with CoBank, cash on hand, and loan repayments provide adequate liquidity to fund ongoing operations and other commitments.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to the Bank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank that is subject to periodic renewal in accordance with normal business practices. The annual average principal balance of the note payable to CoBank was $880.8 million in 2018, $772.0 million in 2017 and $769.0 million in 2016.

We plan to continue to fund lending operations through the utilization of our funding arrangement with CoBank, retained earnings from current and prior years, and from borrower stock investments. CoBank's primary source of funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Bank Funding Corporation (Funding Corporation).

Due to the Funding Corporation's effectiveness, this access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. The Association's continued liquidity is directly dependent upon the Farm Credit System's ability to sell debt securities at competitive rates and the Association maintaining a sound financial position and borrowing relationship with CoBank. We anticipate continuation of strong liquidity levels that will be adequate to meet our obligations.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank and allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and their asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed portions of our loanable funds at fixed rates through CoBank. These earnings are reflected in net interest income as a reduction to interest expense. This enables us to increase our earnings without significantly increasing our overall interest rate risk position.

Funds Management

We offer competitively priced variable, fixed, adjustable, Prime-based, and Libor-based rate loans to borrowers. The Association has a differential pricing model based on loan size, type, credit quality, financial condition, and risk. The Board's fiduciary responsibility is to provide our members with the most competitive pricing possible while maintaining the short and long term fiscal integrity of the Association. Our Asset Liability Management Committee, under the direction of our Board of Directors, determines the interest rate charged based on the following factors: 1) the interest rate charged by CoBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability and capital objectives.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cyclical nature of agriculture. We have been able to build capital primarily through net income retained after patronage.

Members' equity at December 31, 2018 totaled $267.0 million, compared with $257.4 million at December 31, 2017 and $247.7 million at December 31, 2016. Members equity includes stock purchased by our members and retained earnings accumulated through net income less patronage distributed to members. Refer to Note 7, "Members' Equity", of the accompanying consolidated financial statements for additional information related to our capital and related requirements and restrictions.

Our capital position is reflected in the following ratio comparisons:

	2018	2017	2016
Debt to members' equity	**3.97:1**	3.57:1	3.53:1
Members' equity as a % of net loans	**21.52%**	23.19%	23.57%
Members' equity as a % of total assets	**20.13%**	21.91%	22.08%

Retained Earnings

Our retained earnings increased $9.6 million to $266.2 million at December 31, 2018 from $256.6 million at December 31, 2017. The increase was a result of net income of $19.95 million partially offset by a $10.4 million patronage distribution declared.

Patronage Program

We have a patronage program that allows us to distribute a portion of our net earnings to our members. This program provides for the allocation of net earnings in the manner described in our Bylaws. When determining the amount and method of patronage to be distributed, the Board considers the setting aside of funds to increase retained earnings in order to (1) meet capital adequacy standards established by Farm Credit regulations, (2) meet our internal capital adequacy standards to support competitive pricing at targeted earnings levels, and (3) maintain reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of $10.3 million in 2018, $9.3 million in 2017, and $6.3 million in 2016. During 2018, we declared patronage distributions of $10.4 million to be paid in April 2019.

Stock

Our total stock and participation certificates increased $17 thousand to $774 thousand at December 31, 2018 from $757 thousand at December 31, 2017. We require a one thousand dollar stock investment for each borrower.

Capital Plan and Regulatory Requirements

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors.

FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance

sheet liabilities and other conditions warranting additional capital.

In 2016, the FCA approved new rules ("New Capital Regulations") relating to regulatory capital requirements for System Banks and Associations. The New Capital Regulations became effective January 1, 2017. The stated objectives of the New Capital Regulations are as follows:

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

The New Capital Regulations, among other things, replaced existing core surplus and total surplus requirements with common equity tier 1 ("CET1"), tier 1 and total capital (tier 1 plus tier 2) risk-based capital ratio requirements. The New Capital Regulations also added a tier 1 leverage ratio for all System institutions, which replaced the existing net collateral ratio for System Banks. In addition, the New Capital Regulations established a capital conservation buffer and a leverage buffer and enhanced the sensitivity of risk weightings. The revisions to the risk weightings included alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

The New Capital Regulations set the following minimum risk-based requirements:

- A CET1 capital ratio of 4.5 percent;
- A tier 1 capital ratio (CET1 capital plus additional tier 1 capital) of 6 percent; and
- A total capital ratio (tier 1 plus tier 2) of 8 percent.

The New Capital Regulations also set a minimum tier 1 leverage ratio (tier 1 divided by total assets) of 4 percent, of which at least 1.5 percent must consist of unallocated retained earnings ("URE") and URE equivalents, which are nonqualified allocated equities with certain characteristics of URE.p

The New Capital Regulations established a capital cushion (capital conservation buffer) of 2.5 percent above the risk-based CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations established a leverage capital cushion (leverage buffer) of 1 percent above the tier 1 leverage ratio requirement. If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The New Capital Regulations established a three-year phase-in of the capital conservation buffer, which began on January 1, 2017. There will be no phase-in of the leverage buffer.

As shown in the following table, at December 31, 2018, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions and retire equities.

	December 31, 2018	Regulatory Minumums	Capital Conservation Buffer	Total
Risk Adjusted:				
Common equity tier 1 ratio	**16.90%**	4.50%	2.5%*	7.00%
Tier 1 capital ratio	**16.90%**	6.00%	2.5%*	8.50%
Total capital ratio	**17.40%**	8.00%	2.5%*	10.50%
Permanent capital ratio	**16.98%**	7.00%	–	7.00%
Non-risk-adjusted:				
Tier 1 leverage ratio	**19.40%**	4.00%	1.00%	5.00%
Unallocated retained earnings and equivalents leverage ratio	**20.10%**	1.50%	–	1.50%

* The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years under the FCA capital requirements. Amounts shown reflect the full capital conservation buffer.

As shown in the table above, the Association exceeded the minimum regulatory requirements. The 2018 capital ratios also exceed the minimum targets established by the Board.

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

REGULATORY MATTERS

As of December 31, 2018, we had no enforcement actions in effect and FCA took no enforcement actions during the year.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses

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

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

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

FORWARD-LOOKING STATEMENTS

Our discussion contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," and "will," or other variations of these terms are intended to identify forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. Actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to: political, legal, regulatory and economic conditions and developments in the United States and abroad; economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors; weather, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income; changes in United States government support of the agricultural industry and/or the Farm Credit System; and, actions taken by the Federal Reserve System in implementing monetary policy.

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Fresno-Madera Farm Credit, ACA and its subsidiaries (the Association), which comprise the consolidated statements of condition as of December 31, 2018, 2017 and 2016, and the related consolidated statements of income, of changes in members' equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fresno-Madera Farm Credit, ACA and its subsidiaries as of December 31, 2018, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 15, 2019

PricewaterhouseCoopers LLP, 909 Poydras Street, Suite 3100, *New Orleans, LA 70112*
T: (504) 558 8200, F: (504) 558 8960, www.pwc.com/us

CONSOLIDATED STATEMENTS OF CONDITION

(Dollars in thousands)

	December 31		
	2018	2017	2016
ASSETS			
Loans	**$1,247,297**	$ 1,115,862	$ 1,056,746
Less allowance for loan losses	**6,787**	6,058	5,780
Net loans	**1,240,510**	1,109,804	1,050,966
Cash	**10,530**	6,708	15,793
Accrued interest receivable	**22,191**	13,466	11,183
Investment in CoBank, ACB	**36,840**	32,001	31,539
Premises and equipment, net	**5,991**	4,304	4,239
Other assets	**10,263**	8,691	8,432
Total assets	**$1,326,325**	$ 1,174,974	$ 1,122,152
LIABILITIES			
Note payable to CoBank, ACB	**$ 976,151**	$ 839,695	$ 788,651
Funds held	**65,931**	60,675	70,738
Accrued interest payable	**1,769**	1,365	962
Patronage distributions payable	**10,402**	10,251	9,251
Other liabilities	**5,114**	5,598	4,819
Total liabilities	**1,059,367**	917,584	874,421
Commitments and Contingencies (See Note 13)			
MEMBERS' EQUITY			
Capital stock and participation certificates	**774**	757	757
Unallocated retained earnings	**266,184**	256,633	246,974
Total members' equity	**266,958**	257,390	247,731
Total liabilities and members' equity	**$1,326,325**	$ 1,174,974	$ 1,122,152

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

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands)

	For the Year Ended December 31		
	2018	2017	2016
INTEREST INCOME			
Loans	**$ 54,124**	$ 41,936	$ 36,831
INTEREST EXPENSE			
Note payable to CoBank, ACB	**20,743**	12,111	8,193
Funds held	**1,224**	662	643
Total interest expense	**21,967**	12,773	8,836
Net interest income	**32,157**	29,163	27,995
Provision for loan losses (Loan loss reversal)	**1,221**	310	(558)
Net interest income after provision for loan losses	**30,936**	28,853	28,553
NONINTEREST INCOME			
Financially related services income	**256**	233	320
Loan fees	**476**	350	323
Patronage distribution from Farm Credit institutions	**7,869**	5,950	5,435
Farm Credit Insurance Fund rebate	**673**	-	-
Other noninterest income	**179**	122	447
Total noninterest income	**9,453**	6,655	6,525
NONINTEREST EXPENSE			
Salaries and employee benefits	**9,539**	7,997	8,062
Occupancy and equipment	**578**	508	535
Farm Credit Insurance Fund premium	**755**	1,083	1,237
Information technology	**5,123**	2,894	1,352
Supervisory and examination costs	**415**	412	382
Other noninterest expense	**4,024**	2,702	2,305
Total noninterest expense	**20,434**	15,596	13,873
Income before income taxes	**19,955**	19,912	21,205
Provision for income taxes	**2**	2	828
Net income	**$ 19,953**	$ 19,910	$ 20,377

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(Dollars in thousands)

	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Total Members' Equity
Balance at December 31, 2015	$ 763	$ 235,848	$ 236,611
Net income		20,377	20,377
Capital stock and participation certificates issued	58		58
Capital stock and participation certificates retired	(64)		(64)
Patronage Distributions: Cash		(9,251)	(9,251)
Balance at December 31, 2016	$ 757	$ 246,974	$ 247,731
Net income		19,910	19,910
Capital stock and participation certificates issued	62		62
Capital stock and participation certificates retired	(62)		(62)
Patronage Distributions: Cash		(10,251)	(10,251)
Balance at December 31, 2017	$ 757	$ 256,633	$ 257,390
Net income		**19,953**	**19,953**
Capital stock and participation certificates issued	**69**		**69**
Capital stock and participation certificates retired	**(52)**		**(52)**
Patronage Distributions: Cash		**(10,402)**	**(10,402)**
Balance at December 31, 2018	**$ 774**	**$ 266,184**	**$ 266,958**

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

Consolidated Statements of Cash Flows

(Dollars in thousands)

	For the Year Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 19,953**	$ 19,910	$ 20,377
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	**308**	252	246
Provision for loan losses (Loan loss reversal)	**1,221**	310	(558)
Stock patronage from CoBank, ACB	**(494)**	(445)	(356)
Allocated patronage from AgVantis	**-**	-	(158)
Write-down of investment in AgVantis	**544**	-	-
Loss (gain) on disposal of premises and equipment	**67**	(1)	(56)
Deferred tax provision	**-**	-	1,005
Change in assets and liabilities:			
Increase in accrued interest receivable	**(8,725)**	(2,283)	(2,918)
Increase in other assets	**(2,067)**	(170)	(726)
Increase in accrued interest payable	**404**	403	189
(Decrease) increase in other liabilities	**(484)**	779	(1,108)
Total adjustments	**(9,226)**	(1,155)	(4,440)
Net cash provided by operating activities	**10,727**	18,755	15,937
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net (increase) decrease in loans	**(131,927)**	(59,148)	16,233
Increase stock in CoBank, ACB	**(4,394)**	(106)	(1,334)
Proceeds from sale of premises and equipment	**-**	1	70
Purchase of premises and equipment	**(2,062)**	(317)	(88)
Net cash (used in) provided by investing activities	**(138,383)**	(59,570)	14,881
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on (repayment of) note payable to CoBank, ACB	**136,456**	51,044	(19,569)
Net increase (decrease) in funds held	**5,256**	(10,063)	(3,525)
Capital stock and participation certificates retired	**(52)**	(62)	(64)
Capital stock and participation certificates issued	**69**	62	58
Cash patronage distributions paid	**(10,251)**	(9,251)	(6,293)
Net cash provided by (used in) financing activities	**131,478**	31,730	(29,393)
Net increase (decrease) in cash	**3,822**	(9,085)	1,425
Cash at beginning of year	**6,708**	15,793	14,368
Cash at end of year	**$ 10,530**	$ 6,708	$ 15,793
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	**$ 21,563**	$ 12,370	$ 8,647
Income taxes	**$ 2**	$ 2	$ 2
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:			
Cash patronage distributions payable	**$ 10,402**	$ 10,251	$ 9,251

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

1. ORGANIZATION AND OPERATIONS

Organization

Fresno Madera Farm Credit, ACA and its wholly-owned subsidiaries, Fresno Madera Federal Land Bank Association, FLCA (FLCA), and Fresno Madera Production Credit Association (PCA) (collectively called, the Association), are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/members for qualified agricultural purposes in the counties of Fresno and Madera in the state of California.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The System is comprised of three Farm Credit Banks (FCBs), one Agricultural Credit Bank and 69 associations.

CoBank, ACB (funding bank or the "Bank"), its related associations (including Fresno Madera Farm Credit, ACA) and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations. The CoBank District consists of CoBank, 22 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA), and AgVantis.

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

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

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

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

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

Operations

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

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

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting the Association at 4635 W. Spruce, P.O. Box 13069, Fresno, California 93794-3069 or by calling (559) 277-7000. Upon request, Association members will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of the Bank's and District's financial condition, changes in financial condition, and results of operations.

2. Summary of Significant Accounting Policies

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

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

Recently Issued Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities that are not U.S. Securities and Exchange commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. In July 2018, the FASB issued an update entitled "Leases – Targeted Improvements," which provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. An entity that elects this additional transition method must provide the required disclosures of the now current standard for all prior periods presented. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association determined the effect was not material to our financial condition or results of operations.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of the Association's contracts are excluded from the scope of this new guidance. The guidance sets forth the requirement for new and enhanced disclosures. The Association adopted the new standard effective January 1, 2018. As the majority of the Association's revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial position, results of operations, equity or cash flows.

Loans and Allowance for Loan Losses

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

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

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

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

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

If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first applied against accrued interest receivable and then the remainder is recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

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

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

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

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

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

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

Cash

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

Investment in CoBank

The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.00 percent of the prior year's average direct loan volume. The investment in CoBank is comprised of patronage based stock and purchased stock.

Premises and Equipment

Land is carried at cost and premises and equipment are carried at cost less accumulated depreciation. We capitalize software meeting certain criteria and carry these assets at cost less accumulated amortization. Depreciation and amortization is determined principally by the straight-line method over the estimated useful lives of the assets. Estimated useful lives for buildings are 40 years and range from 3 to 7 years for furniture, equipment, and automobiles. Estimated useful life for software ranges from 3 to 5 years. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed and improvements above certain thresholds are capitalized.

Other Assets and Other Liabilities

Other assets are comprised primarily of accounts receivable, prepaid expenses, and investments in Farm Credit institutions other than CoBank. Other liabilities primarily include Insurance Fund premiums payable, accounts payable, employee benefits, and reserve for unfunded commitments.

Funds Held

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

Employee Benefit Plans

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

The Defined Benefit Plan is a noncontributory multi-employer defined benefit retirement plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Defined Benefit Plan was closed to employees hired after December 31, 1997.

The Defined Contribution Plan has two components. Employees who do not participate in the Defined Benefit Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions.

Employees hired on or after January 1, 1998 are eligible to participate only in the Defined Contribution plan and Salary Deferral plan. All defined contribution costs are expensed in the same period that participants earn employer contributions.

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

Further discussion of the Employee Benefit Plans can be found in Note 10, "Employee Benefit Plans".

Patronage Distribution from CoBank

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

Income Taxes

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

The Association elected to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage distributions.

Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on Management's estimate, the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

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

Advertising Costs

The Association expenses advertising costs as they are incurred. For the years ended December 31, 2018, 2017, and 2016, advertising costs included in other noninterest expense were $89, $90, and $112, respectively.

Fair Value Measurement

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

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

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

Level 3 - Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about factors that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets include certain impaired loans and loans acquired in an acquisition or merger and other property owned. The fair value disclosures are reported in Note 14, "Fair Value Measurements".

Off-Balance-Sheet Credit Exposures

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | (Dollars in Thousands, Except as Noted)

3. Loans and Allowance for Loan Losses

A summary of loans follows:

As of December 31	2018	2017	2016
Real estate mortgage	**$ 803,992**	$ 714,765	$ 684,815
Production and intermediate-term	**239,756**	218,455	193,562
Agribusiness:			
Cooperatives	**78,673**	66,224	67,084
Processing and marketing	**84,830**	78,580	81,272
Farm-related business	**2,708**	1,069	1,295
Energy	**6,374**	6,533	1,385
Lease receivables	**30,964**	30,236	27,333
Total loans	**$ 1,247,297**	$ 1,115,862	$ 1,056,746

Unamortized deferred loan fees and costs totaled $4.6 million, $4.5 million, and $4.7 million as of December 31, 2018, 2017, and 2016, respectively.

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. We account for these transfers of financial assets as sales when control over the transferred financial assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from us, (2) the transferee has the right to pledge or exchange the assets (or beneficial interests) it received, free of conditions that constrain it from taking advantage of that right, and (3) we do not maintain effective control over the transferred financial assets or third-party beneficial interest related to those transferred assets. No gain or loss has been recognized by us on the sale of these participation interests. The following table presents information regarding participations purchased and sold as of December 31, 2018:

	Other Farm Credit Institutions		**Non-Farm Credit Institutions**		**Total**	
	Purchased	**Sold**	**Purchased**	**Sold**	**Purchased**	**Sold**
Real estate mortgage	$ 103,322	$ 236,828	$ -	$ -	$ 103,322	$ 236,828
Production and intermediate-term	14,325	174,021	-	-	14,325	174,021
Agribusiness	140,215	48,107	-	-	140,215	48,107
Energy	6,374	-	-	-	6,374	-
Lease receivables	30,532	-	-	-	30,532	-
Total loans	$ 294,768	$ 458,956	$ -	$ -	$ 294,768	$ 458,956

A substantial portion of the Association's loans are collateralized. Accordingly, the Association's exposure to credit loss associated with lending activities is considerably less than the recorded loan balances. An estimate of the Association's current loss exposure is indicated in the consolidated financial statements in the allowance for loan losses.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

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

The Association has obtained credit enhancements by entering into Standby Commitment to Purchase Agreements (Agreements) with the Federal Agricultural Mortgage Corporation (Farmer Mac), covering loans with principal balance outstanding of $41.8 million, $48.2 million and $57.1 million at December 31, 2018, 2017, and 2016, respectively. Under the Agreements, Farmer Mac agrees to purchase loans from the Association in the event of default (typically four months past due), subject to certain conditions, thereby mitigating the risk of loss from covered loans. In return, the Association pays Farmer Mac commitment fees based on the outstanding balance of loans covered by the Agreements. Such fees, totaling $183 for 2018, $217 in 2017 and $312 in 2016 are reflected in noninterest expense.

In addition, the Association obtains Federal Guarantees through the Farm Service Agency and State of California Guarantees through Valley Small Business Development Corporation. In the event of default, Federal Guarantees cover a specific percent of principal and interest due on the loan while State guarantees cover a specific percent of principal and the same percentage of post-default interest (up to ninety days from the default date). The Association had credit enhancements with government agencies outstanding of $6.1 million, $4.1 million, and $3.7 million at December 31, 2018, 2017, and 2016, respectively.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | (Dollars in Thousands, Except as Noted)

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

As of December 31	**2018**	2017	2016
Real estate mortgage			
Acceptable	**97.91%**	97.88%	99.65%
OAEM	**0.60%**	1.52%	0.30%
Substandard	**1.49%**	0.60%	0.05%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**91.89%**	90.91%	98.24%
OAEM	**1.70%**	8.63%	1.76%
Substandard	**6.41%**	0.46%	0.00%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**96.55%**	97.82%	99.99%
OAEM	**0.00%**	1.97%	0.00%
Substandard	**3.45%**	0.21%	0.01%
Total	**100.00%**	100.00%	100.00%
Energy			
Acceptable	**100.00%**	100.00%	100.00%
	100.00%	100.00%	100.00%
Lease receivables			
Acceptable	**89.76%**	99.69%	99.99%
OAEM	**0.37%**	0.31%	0.01%
Substandard	**9.87%**	0.00%	0.00%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**96.39%**	96.57%	99.45%
OAEM	**0.72%**	2.93%	0.51%
Substandard	**2.89%**	0.50%	0.04%
Total	**100.00%**	100.00%	100.00%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | (Dollars in Thousands, Except as Noted)

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

As of December 31	2018	2017	2016
Nonaccrual loans:			
Current as to principal and interest	$ 5,939	$ -	$ 13
Past due	5,683	54	18
Total impaired loans	$11,622	$ 54	$ 31

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

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

	2018	2017	2016
Nonaccrual loans:			
Real estate mortgage	$ 5,762	$ 6	$ 13
Production and intermediate-term	5,860	48	-
Agribusiness	-	-	18
Total non-accrual loans	11,622	54	31
Accruing restructured loans	-	-	-
Accruing loans 90 days past due	-	-	-
Total impaired loans	11,622	54	31
Other property owned	-	-	-
Total high risk assets	$11,622	$ 54	$ 31

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The Association recorded no troubled debt restructurings during 2018, 2017, and 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | (Dollars in Thousands, Except as Noted)

Additional impaired loan information is as follows:

December 31, 2018	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 5,762	$ 5,762	$ -	$ 1,973	$ -
Production and intermediate-term	5,860	6,426	-	1,994	-
Total Impaired Loans	$ 11,622	$ 12,188	$ -	$ 3,967	$ -

December 31, 2017	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 6	$ 34	$ -	$ 9	$ -
Production and intermediate-term	48	52	-	53	-
Total Impaired Loans	$ 54	$ 86	$ -	$ 62	$ -

December 31, 2016	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with related allowance for credit losses:					
Agribusiness					
Process and marketing	$ 18	$ 824	$ 18	$ 1,552	$ -
Total	$ 18	$ 824	$ 18	$ 1,552	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 13	$ 38	$ -	$ 27	$ 1
Total	$ 13	$ 38	$ -	$ 27	$ 1
Total Impaired Loans	$ 31	$ 862	$ 18	$ 1,579	$ 1

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2018, 2017, and 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | (Dollars in Thousands, Except as Noted)

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

For the Year Ended December 31	**2018**	2017	2016
Interest income recognized on:			
Nonaccrual loans	**$ 15**	$ -	$ -
Accrual loans 90 days or more past due	**18**	2	1
Interest income recognized on impaired loans	**$ 33**	$ 2	$ 1

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

For the Year Ended December 31	**2018**	2017	2016
Interest income which would have been recognized under the original loan terms	**$ 622**	$ 8	$ 258
Less: interest income recognized	**(15)**	-	(1)
Foregone interest income	**$ 607**	$ 8	$ 257

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

December 31, 2018	**Current Loans**	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Loans Outstanding**	**Accrual loans 90 days or More Past Due**
Real estate mortgage	$ 820,989	$ 1,204	$ -	$ 822,193	$ -
Production and intermediate-term	234,182	3,021	5,683	242,886	-
Agribusiness	166,576	236	-	166,812	-
Energy	6,381	-	-	6,381	-
Lease receivables	30,973	243	-	31,216	-
Total	$ 1,259,101	$ 4,704	$ 5,683	$ 1,269,488	$ -

December 31, 2017	Current Loans	30-89 Days Past Due	90 Days or More Past Due	Total Loans Outstanding	Accrual loans 90 days or More Past Due
Real estate mortgage	$ 725,625	$ -	$ 6	$ 725,631	$ -
Production and intermediate-term	217,998	2,390	48	220,436	-
Agribusiness	146,344	-	-	146,344	-
Energy	6,536	-	-	6,536	-
Lease receivables	30,381	-	-	30,381	-
Total	$ 1,126,884	$ 2,390	$ 54	$ 1,129,328	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | (Dollars in Thousands, Except as Noted)

December 31, 2016	Current Loans	30-89 Days Past Due	90 Days or More Past Due	Total Loans Outstanding	Accrual loans 90 days or More Past Due
Real estate mortgage	$ 694,172	$ -	$ -	$ 694,172	$ -
Production and intermediate-term	194,783	-	-	194,783	-
Agribusiness	150,099	-	18	150,117	-
Energy	1,387	-	-	1,387	-
Lease receivables	27,470	-	-	27,470	-
Total	$ 1,067,911	$ -	$ 18	$ 1,067,929	$ -

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

	Real estate mortgage	Production and intermediate-term	Agribusiness	Energy	Lease receivables	Total
Allowance for Credit Losses:						
Balance at December 31, 2017	$ 393	$ 3,203	$ 1,422	$ 41	$ 999	$ 6,058
Charge-offs	-	(566)	-	-	-	(566)
Recoveries	-	-	74	-	-	74
(Loan loss reversal) provision for loan losses	46	1,144	203	(15)	(157)	1,221
Balance at December 31, 2018	$ 439	$ 3,781	$ 1,699	$ 26	$ 842	$ 6,787
Ending balance: Allowance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: Allowance collectively evaluated for impairment	439	3,781	1,699	26	842	6,787
Balance at December 31, 2018	$ 439	$ 3,781	$ 1,699	$ 26	$ 842	$ 6,787
Recorded Investments in Loans Outstanding:						
Ending balance: Loans individually evaluated for impairment	$ 5,762	$ 5,860	$ -	$ -	$ -	$ 11,622
Ending balance: Loans collectively evaluated for impairment	816,431	237,026	166,812	6,381	31,216	1,257,866
Balance at December 31, 2018	$ 822,193	$ 242,886	$ 166,812	$ 6,381	$ 31,216	$ 1,269,488

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | (Dollars in Thousands, Except as Noted)

	Real estate mortgage	Production and intermediate-term	Agribusiness	Energy	Lease receivables	Total
Allowance for Credit Losses:						
Balance at December 31, 2016	$ 470	$ 2,016	$ 2,046	$ 3	$ 1,245	$ 5,780
Charge-offs	-	-	(93)	-	-	(93)
Recoveries	-	-	61	-	-	61
(Loan loss reversal) provision for loan losses	(77)	1,187	(592)	38	(246)	310
Balance at December 31, 2017	$ 393	$ 3,203	$ 1,422	$ 41	$ 999	$ 6,058
Ending balance: Allowance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: Allowance collectively evaluated for impairment	393	3,203	1,422	41	999	6,058
Balance at December 31, 2017	$ 393	$ 3,203	$ 1,422	$ 41	$ 999	$ 6,058
Recorded Investments in Loans Outstanding:						
Ending balance: Loans individually evaluated for impairment	$ 6	$ 48	$ -	$ -	$ -	$ 54
Ending balance: Loans collectively evaluated for impairment	725,625	220,388	146,344	6,536	30,381	1,129,274
Balance at December 31, 2017	$ 725,631	$ 220,436	$ 146,344	$ 6,536	$ 30,381	$ 1,129,328

	Real estate mortgage	Production and intermediate-term	Agribusiness	Energy	Lease receivables	Total
Allowance for Credit Losses:						
Balance at December 31, 2015	$ 306	$ 1,306	$ 3,720	$ -	$ 895	$ 6,227
Charge-offs	-	-	(915)	-	-	(915)
Recoveries	-	-	1,026	-	-	1,026
Provision for Loan Losses (Loan loss reversal)	164	710	(1,785)	3	350	(558)
Balance at December 31, 2016	$ 470	$ 2,016	$ 2,046	$ 3	$ 1,245	$ 5,780
Ending balance: Allowance individually evaluated for impairment	$ -	$ -	$ 18	$ -	$ -	$ 18
Ending balance: Allowance collectively evaluated for impairment	470	2,016	2,028	3	1,245	5,762
Balance at December 31, 2016	$ 470	$ 2,016	$ 2,046	$ 3	$ 1,245	$ 5,780
Recorded Investments in Loans Outstanding:						
Ending balance: Loans individually evaluated for impairment	$ 13	$ -	$ 18	$ -	$ -	$ 31
Ending balance: Loans collectively evaluated for impairment	694,159	194,783	150,099	1,387	27,470	1,067,898
Balance at December 31, 2016	$ 694,172	$ 194,783	$ 150,117	$ 1,387	$ 27,470	$ 1,067,929

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | (Dollars in Thousands, Except as Noted)

4. INVESTMENT IN COBANK

At December 31, 2018, the Association's investment in CoBank is in the form of Class A stock with a par value of $100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.00 percent of the Association's prior year average direct loan balance. Under the current CoBank capital plan applicable to such participations sold, patronage from CoBank related to these participation sold is paid 75 percent cash and 25 percent Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

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

5. PREMISES AND EQUIPMENT

Premises and equipment consist of land, buildings, leasehold improvements, furniture, fixtures, equipment, and software. The following table presents the major components of premises and equipment:

As of December 31	2018	2017	2016
Land, buildings and improvements	**$ 5,863**	$ 5,863	$ 5,820
Furniture and equipment	**1,997**	1,944	1,735
Software	**2,324**	515	467
Automobiles	**56**	57	42
	10,240	8,379	8,064
Less: accumulated depreciation and amortization	**(4,249)**	(4,075)	(3,825)
Total	**$ 5,991**	$ 4,304	$ 4,239

The Association is obligated for rental payments under certain non-cancelable operating leases. Rental payments for the years ended December 31, 2018, 2017, and 2016 totaled $65 $64, and $33, respectively. Future minimum lease payments on all non-cancelable operating leases with initial or remaining terms in excess of one year are as follows:

As of December 31,	
2019	$ 66
2020	67
2021	52
2022	30
2023	30
Thereafter	90
Total	$ 335

6. NOTE PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA) which provides for an open-ended revolving line of credit. The GFA and promissory note are subject to periodic renewals in the normal course of business. The GFA matures on December 31, 2022. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2018.

Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing. The weighted average interest rate was 2.36 percent for the year ended December 31, 2018, compared with 1.57 percent for the year ended December 31, 2017, and 1.06 percent at December 31, 2016.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | (Dollars in Thousands, Except as Noted)

The committed funds as of December 31 are as follows:

	2018	2017	2016
Committed funds	**$272,567**	$ 271,809	$ 264,340
Average rates	**1.11%**	1.09%	0.59%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2018, the Association's note payable is within the specified limitations.

7. MEMBERS' EQUITY

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

Capital Stock and Participation Certificates

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

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or two (2) to ten (10) percent of the member's collective loan or commitment balance. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. Currently the Association has a stock requirement of one thousand dollars per customer.

Regulatory Capitalization Requirements and Restrictions

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. Effective January 1, 2017, new regulatory capital requirements for Banks and Associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System Banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the Banks and Associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2018:

	December 31, 2018	Regulatory Minumums	Capital Conservation Buffer	Total
Risk Adjusted:				
Common equity tier 1 ratio	**16.90%**	4.50%	2.5%*	7.00%
Tier 1 capital ratio	**16.90%**	6.00%	2.5%*	8.50%
Total capital ratio	**17.40%**	8.00%	2.5%*	10.50%
Permanent capital ratio	**16.98%**	7.00%	–	7.00%
Non-risk-adjusted:				
Tier 1 leverage ratio	**19.40%**	4.00%	1.00%	5.00%
Unallocated retained earnings and equivalents leverage ratio	**20.10%**	1.50%	–	1.50%

* The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years under the FCA capital requirements. Amounts shown reflect the full capital conservation buffer.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | (Dollars in Thousands, Except as Noted)

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, 2018, the Association had the following classes of equity outstanding, all at a par value of $5 per share/unit.

Class	Number of Shares	Voting	Protected
C - common stock	153,400	yes	no
F - participation certificate	1,400	no	no

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

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

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

Patronage Program
In 2011 the Board of Directors approved the adoption of a Patronage Program that allows the Association to distribute available net earnings to its members. At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the patronage-sourced net income to its members by declaring a cash patronage distribution. For 2018, the Association allocated 46 percent of its patronage sourced net income to its patrons. In accordance with Subchapter T of the Internal Revenue Code, the portion of patronage-sourced net income not distributed in cash may also be allocated to members in the form of nonqualified written notices of allocation. The Board of Directors considers these nonqualified allocations as retained earnings to be permanently invested in the Association. As such, there is no current plan to revolve or redeem these amounts. No express or implied right to have such capital retired or revolved at any time is granted.

8. Patronage Distribution from Farm Credit Institutions

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

As of December 31	**2018**	2017	2016
CoBank	**$ 6,870**	$ 5,253	$ 4,884
AgVantis	**-**	-	197
Farm Credit Foundations	**9**	10	13
District Associations	**990**	687	341
Total	**$ 7,869**	$ 5,950	$ 5,435

Patronage distributed from CoBank was in cash and stock. The amount earned in 2018 was accrued and will be paid by CoBank in March 2019. The amount earned and accrued in 2017 was paid by CoBank in March 2018. The amount earned and accrued in 2016 was paid by CoBank in March 2017.

Patronage distribution from AgVantis in 2016 was in the form of a Notice of Allocation; 20 percent was distributed in cash with the balance of the allocation recorded as an investment in AgVantis which is recorded in other assets in the year received.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | (Dollars in Thousands, Except as Noted)

9. INCOME TAXES

The provision for (benefit from) income taxes follows:

As of December 31	2018	2017	2016
Current			
Federal	**$ -**	$ -	$ (179)
State	**2**	2	2
Deferred			
Federal	**-**	-	1,005
State	**-**	-	-
Provision for income taxes	**$ 2**	$ 2	$ 828

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

	2018		2017		2016	
As of December 31	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Federal tax at statutory rate	**$ 4,190**	**21%**	$ 6,770	34%	$ 7,210	34%
State tax, net	**1**	**-**	1	-	1	-
Effect of non-taxable FLCA income	**(4,987)**	**-25%**	(7,291)	-37%	(7,312)	-34%
Adjustments to valuation allowance	**798**	**4%**	(63)	-	921	4%
Change in tax law/rates	**-**	**-**	584	3%	-	-
Other	**-**	**-**	1	-	8	-
Provision for (benefit from) income taxes	**$ 2**	**0%**	$ 2	0%	$ 828	4%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | (Dollars in Thousands, Except as Noted)

Deferred tax assets and liabilities are comprised of the following:

As of December 31	**2018**	2017	2016
Gross deferred tax asset:			
Allowance for loan losses	**$ 1,257**	$ 1,122	$ 1,714
Nonaccrual loan interest	**64**	1	6
Net loss carryforward	**982**	637	570
Gross deferred tax asset	**2,303**	1,760	2,290
Less: valuation allowance	**(1,742)**	(944)	(1,007)
Deferred tax assets, net of valuation allowance	**561**	816	1,283
Gross deferred tax liability:			
Bank patronage allocations	**-**	(255)	(374)
Stock patronage distributions from System banks	**(561)**	(561)	(909)
Gross deferred tax liability	**(561)**	(816)	(1,283)
Net deferred tax asset	**$ -**	$ -	$ -

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

The Association recorded a valuation allowance of $1,742 in 2018, $944 in 2017, and $1,007 in 2016. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. Due to tax reform, the federal and state net operating loss recorded in 2018 of $345 has an indefinite carryforward period. At December 31, 2017, the Association had federal net operating loss carryforwards of $637 that expire between 2032 and 2037.

In 2017, the Association incurred a $584 net deferred tax adjustment, resulting from the enactment of federal tax legislation in late December 2017 which, among other changes, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. In accordance with GAAP, the change to the lower corporate tax rate led to a revaluation of the Association's deferred tax assets and deferred tax liabilities in the period of enactment (2017).

The Association has no uncertain tax positions as of December 31, 2018, 2017, or 2016. The Association accounts for income taxes in accordance with Accounting Standards Codification (ASC) 740, which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements.

ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Association's tax returns to determine whether the tax positions are more-likely-than-not of being sustained upon examination by the applicable tax authority, based on the technical merits of the tax position, and then measuring the tax benefit that is more-likely-than-not to be realized. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current reporting period. The tax years that remain open for federal and major state income tax jurisdictions are 2015 and forward.

10. EMPLOYEE BENEFIT PLANS

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

The Defined Benefit Plan reflects an unfunded liability totaling $61.9 million at December 31, 2018. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the plan was $253.9 million at December 31, 2018, $271.1 million at December 31, 2017, and $257.9 million at December 31, 2016. The fair value of the plan assets was $192.0 million at December 31, 2018, $200.7 million at December 31, 2017 and $172.2 million at December 31, 2016. The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $1.9 million in 2018, $3.6 million in 2017, and $5.9 million in 2016. The Association's allocated share of plan expenses included in salaries and employee benefits was $168 for 2018, $262 for 2017, and $277 for 2016. Participating employers contributed $16.0 million in 2018, $16.0 million in 2017, and $17.5 million in 2016 to the plan. The Association's allocated share of these pension contributions was $1.4 million in 2018, $1.2 million in 2017, and $1.1 million in 2016. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants.

The amount of the total employer contributions expected to be paid into the pension plans during 2019 is $16 million. The Association's allocated share of these pension contributions is expected to be $1.3 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are also provided through the Farm Credit Foundations Retiree Medical and Retiree Life Plans to eligible current and retired employees of the Association. Benefits provided are determined on a graduated scale, based on years of service. The anticipated costs of these benefits are accrued during the period of the employee's active service. Postretirement benefits expense (primarily health care benefits and life insurance) included in salaries and employee benefits were $5 in 2018, $28 in 2017, and $20 in 2016. These expenses are equal to the Association's cash contributions for each year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | (Dollars in Thousands, Except as Noted)

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan (Contribution Plan). The Contribution Plan has two components. Employees who do not participate in the Defined Benefit Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employer contributions to the Contribution Plan were $803 in 2018, $643 in 2017, and $663 in 2016.

11. Related Party Transactions

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

The Association has a policy that loans to directors must be maintained at an Acceptable or Other Assets Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within 30 days. If not, the director must resign from the Board of Directors.

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

As of December 31	2018	2017	2016
Beginning balance	**$ 59,706**	$ 44,731	$ 55,049
New Loans	**57,340**	52,856	59,806
Repayments	**(36,528)**	(37,881)	(70,124)
Reclassifications [1]	**(47,185)**	-	-
Ending balance	**$ 33,333**	$ 59,706	$ 44,731

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

In the opinion of Management, none of the loans outstanding to directors at December 31, 2018, involved more than a normal risk of collectability.

The Association also has business relationships with certain other System entities. On October 8, 2018, the Association transitioned its technology services from AgVantis to Farm Credit Financial Partners, Inc. (FPI). The Association is not a shareholder of FPI. The Association paid $1,212 in 2018, $1,098 in 2017, and $1,192 in 2016 to AgVantis for technology services including offboarding costs in 2018. The Association paid $126 in 2018, $149 in 2017, and $155 in 2016 to Foundations for human resource services.

During 2016, the Association entered into an operating lease agreement with Farm Credit Leasing Services (FCL) which is a wholly-owned subsidiary of CoBank, for the construction of a solar power system. During the construction of the solar equipment, the Association entered into an Interim Funding Agreement with FCL and paid interim funding interest expense of $0 in 2018, $2 in 2017, and $10 in 2016. In December 2016, the solar equipment was placed into service and the lease agreement commenced with rental payments beginning in January 2017. The Association paid rental payments of $30 to CoBank in 2018 and 2017. Future rental payments associated with the above operating lease are detailed in Note 5, "Premises and Equipment".

12. Regulatory Enforcement Matters

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

13. Commitments and Contingencies

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

Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2018, $492.4 million of commitments to extend credit were outstanding.

As commitments may expire before being fully drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statements of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and Management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on Management's credit evaluation of the borrower.

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2018, the Association had $7.6 million of standby letters of credit outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2019 to 2024. The maximum potential amount of future payments the Association is required to make under the guarantees is $7.6 million.

The Association has set aside a reserve for unfunded commitments in the amount of $323 at December 31, 2018, which is included in other liabilities on the Consolidated Statements of Condition. The adequacy of the reserve is evaluated regularly to determine if any increase or decrease to the reserve is warranted and, when necessary, the provision expense is recorded in other noninterest expense in the Consolidated Statements of Income.

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

14. Fair Value Measurements

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2, "Summary of Significant Accounting Policies" for additional information. The Association has no assets or liabilities measured at fair value on a recurring or non-recurring basis as of the years ended December 31, 2018, 2017, and 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | (Dollars in Thousands, Except as Noted)

15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2018, 2017, and 2016, follow:

	2018				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 7,782**	**$ 8,181**	**$ 8,026**	**$ 8,168**	**$ 32,157**
Provision for loan losses	**561**	**135**	**384**	**141**	**1,221**
Noninterest expense, net	**828**	**2,424**	**2,594**	**5,137**	**10,983**
Net income	**$ 6,393**	**$ 5,622**	**$ 5,048**	**$ 2,890**	**$ 19,953**

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 7,020	$ 7,207	$ 7,471	$ 7,465	$ 29,163
Provision for loan losses (loan loss reversal)	68	170	123	(51)	310
Noninterest expense, net	1,308	1,887	2,076	3,672	8,943
Net income	$ 5,644	$ 5,150	$ 5,272	$ 3,844	$ 19,910

	2016				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,580	$ 7,039	$ 7,293	$ 7,083	$ 27,995
Provision for loan losses (loan loss reversal)	140	(545)	(110)	(43)	(558)
Noninterest expense, net	1,499	1,618	1,975	3,084	8,176
Net income	$ 4,941	$ 5,966	$ 5,428	$ 4,042	$ 20,377

16. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 15, 2019, which is the date the consolidated financial statements were issued and no material subsequent events were identified.

Description of Business

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

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from "Management's Discussion and Analysis" (MD&A) included in this annual report to shareholders.

Description of Property

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

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

Legal Proceedings and Enforcement Actions

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

Description of Capital Structure

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

Description of Liabilities

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

The description of funds held is incorporated herein by reference to Note 2 to the financial statements, "Summary of Significant Accounting Policies," included in this annual report to shareholders.

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

Selected Financial Data

The selected financial data for the five years ended December 31, 2018, required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Consolidated Financial Data," included in this annual report to shareholders.

Management's Discussion and Analysis

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

Governance

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

The Board of Directors meets regularly to perform the following functions, among others:

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

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

The elected directors, as borrowers, have a vested interest in ensuring our Association remains strong and successful. A borrowing relationship with a director could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established disclosure reporting requirements to ensure that a loan relationship does not compromise the independence of our Board.

Annually, the independence of each Board member is reviewed and determined.

Audit Committee
The Audit Committee's responsibilities include, but are not limited to:

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

The Audit Committee Report published on page 14 of this report describes the Committee's activities during 2018.

Human Capital Committee
The Human Capital Committee is composed of three members and is responsible for:

- the oversight of employee and director compensation;
- annually reviewing and evaluating the compensation policies, programs, and plans for senior officers, employees and directors;
- annually performing the CEO evaluation process and providing a recommendation to the Board on the overall compensation program for the CEO;
- reviewing and approving the overall compensation program for senior officers (including the CEO); and,
- monitoring the Association's human capital plan.

Risk Committee
The Risk Committee is composed of three members and is responsible for overseeing the risk management practices of the Association surrounding capital, credit, interest rate, liquidity, environmental, market, technology, operational, reputational, and legal and compliance risks. The committee creates a transparent environment of open communication between management and the Board to effectively manage Association risk.

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

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

Directors and Senior Officers

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

Directors

Jeff Jue, Chairman
Term of Office: 2016 – 2019
Committees: CoBank Association Leadership Committee, Farm Credit Council Representative, and serves as ex-officio member of the Board's Audit, Human Capital, and Risk Committees.
Board or Officer Experience: Fresno Madera Farm Credit Director since 2007 with designation as a Financial Expert since 2008 and Board Chairman since 2012; Jue, LLC (Member and Manager); Jeff and Velvet Jue Family Trust (Trustee); SunMaid Raisin Growers of California (Chairman and Member-Owner); Raisin Administrative Committee (Director and Treasurer); and Sequoia Walnut Growers (Member-Owner and Past Director).

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

Victor Sahatdjian, Vice-Chairman
Term of Office: 2017 - 2020
Committees: Human Capital, Alternate Representative for CoBank Association Leadership Committee, and Farm Credit Council Representative.
Board or Officer Experience: Fresno Madera Farm Credit Director since 2011 and Vice-Chairman since May 2016; Victor Packing, Inc. (President and Owner); Raisin Administrative Committee (Member); Raisin Marketing Sales Subcommittee of the Raisin Administrative Committee (Vice Chairman); California Raisin Marketing Board (Board Member); The R.K.R.K. 1998 Irrevocable Trust (Trustee); Liberty Farms (Partner); Liberty Farms II (Partner); S & S Farms (Partner); Garin Farms (Partner); B & V Farms (Partner); Oro Valley Investments, LLC (Member); Sahatdjian Brothers Farms (Partner); Woodset Partners, LLC (Member); Nustar Energy, LP (Partner); Victor and Arlyne Sahatdjian Family Trust (Trustee), and VSA, LP (Partner).

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

Daniel Errotabere, Director
Term of Office: 2017 - 2020
Committees: Audit (Vice Chair)
Board or Officer Experience: Fresno Madera Farm Credit Director since 2014; Errotabere Ranches (General Partner); El Dorado Almonds (Shareholder); Errotabere Exports, Inc. (Stockholder); Errotabere Westside Trust (Trustee); Jean Errotabere Family Trust (Co-Trustee), Testamentary Trust of Jean Errotabere, Deceased (Co-Trustee), Crescent Canal Company (Shareholder); Westlands Water District (Vice President & Board Member); Family Farm Alliance (Treasurer & Board Member); Fresno County Farm Bureau (Board Member; and CSUF Agriculture Foundation (Treasurer & Board Member). Past affiliations with Summit Vista Farms (General Partner) and Setter Farms (General Partner).

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

Kevin Herman, Director
Term of Office: 2018 – 2021
Committees: Audit
Board or Officer Experience: Fresno Madera Farm Credit Director since 2018; 53 Pistachio Ranch, LP (General Partner); California Fig Advisory Board (Board Member); California Fresno Fig Commission (Chairman); California Fresh Fruit Association (Vice Chairman); Herman 2008 Revocable Trust (Co-Trustee); Herman Family Exports (President); Kevin Herman Ranches (Owner); Madera Compact (Chairman); Madera Subbasin Groundwater Advisory Committee (Board Member); State Center Community Foundation (Vice Chairman); The Growers Fig Company (Director); The Specialty Crop Company (President); and Woodset Partners, LLC (Member).

Mr. Herman is a third generation farmer and farms almonds, citrus, figs, kiwi, persimmons, pistachios, pomegranates, and walnuts.

Allan Kantrowitz, Outside Appointed Director
Term of Office: 2017 – 2020
Committees: Risk (Chair)
Board or Officer Experience: Fresno Madera Farm Credit Appointed Director since 2017; and Hangar Lofts (Director).

Mr. Kantrowitz is retired from a 38-year legal career in the Farm Credit System. During that time, he served as General Counsel for CoBank for almost 15 years with primary responsibility to provide all legal services, together with an effective team of lawyers and paralegals, to further the bank's objectives through regulatory interpretations, loan transactions and legal training for employees, directors and customers.

Edward Martinazzi, Director
Term of Office: 2016 – 2019
Committees: Risk (Vice Chair)
Board or Officer Experience: Fresno Madera Farm Credit Director since 2013; Bonita Inc. (President and Stockholder); Berenda Creek Farms (Partner); E & B Farms, Inc. (President); Edward & Susan Martinazzi Living Trust (Trustee); Martinazzi Inc. (President and Stockholder); and Nolo Farms II, LLC (Member and Manager).

Mr. Martinazzi is a fourth generation farmer and farms almonds.

Steve Schafer, Director
Term of Office: 2016 – 2019
Committees: Human Capital (Vice Chair)
Board or Officer Experience: Fresno Madera Farm Credit Director since 2004; Schafer Ranch, Inc. (Officer); Almond Tree Hulling, Inc. (Stockholder); Nolo Farms II, LLC (Member); MSM Airport Ranch, LLC (Member); Schafer & Schafer (Partner); San Joaquin Wine Co. Inc. (Owner); Wine Institute (Board Member); and Madera Community Hospital Governing Board (Member).

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

Lance Shebelut, Director
Term of Office: 2017 - 2020
Committees: Risk
Board or Officer Experience: Fresno Madera Farm Credit Director since 2014; Del Shebelut Farms (General Partner); El Lancer Farms (Partner); LSW Farming, Inc. (Stockholder); S & W Farming, Inc. (Stockholder); Hat Trick Farming, Inc. (Stockholder); Trinity Packing Company (Stockholder); and California Apple Commission (Board Member); S & W Pom Partners (Partner); The Orchards LLC (Member), and XI River Ranch (Partner).

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

Denise Waite, Outside Appointed Director
Term of Office: 2016 – 2019
Committees: Audit (Chair)
Board or Officer Experience: Fresno Madera Farm Credit Appointed Director with designation as a Financial Expert since 2013; Dritsas Groom McCormick LLP (Partner); and Hinds Hospice (Audit Committee).
Mrs. Waite is a Certified Public Accountant in the State of California and has significant experience with audit and assurance engagements. Her areas of expertise include: audit, review and compilation services,

controllership services, and tax planning and preparation services for a broad range of businesses, including agriculture, construction and non-profit entities.

Jeff Yribarren, Director
Term of Office: 2018 – 2021
Committees: Human Capital (Chair)
Board or Officer Experience: Fresno Madera Farm Credit Director since 2012 and Second Vice Chairman from May 2014 to April 2016; J. Yribarren Farms, Inc. (Owner and President); Jeffrey & Wendy Yribarren Family Trust (Trustee); Yribarren Winery, Inc. (Owner and President); Riverbend West, LLC (Member); Western Custom Ag, LLC (Member).

Mr. Yribarren is a fourth generation farmer and farms alfalfa seed, almonds, grapes (raisins), organic tomatoes, organic watermelons, and wheat hay. Mr. Yribarren is also a vintner. Mr. Yribarren does not presently serve on any other board of directors.

COMPENSATION OF DIRECTORS

During 2018 directors were compensated based on an annual retainer paid monthly. The rates are based on position to accommodate those with additional time requirements and responsibilities. If a director falls into two position categories, the higher retainer is paid. The retainer amount paid to a director is adjusted for any position changes during the year. The annual retainers are as follows:

Position	Retainer
Board Chair	$ 42,750
Vice Chair	$ 29,250
Committee Chairs	$ 20,800
Appointed Director & Financial or IT Expert	$ 32,000
Appointed Director	$ 24,000
All Other Directors	$ 9,000

The following table reflects the days served at board meetings and other official activities (including committee meetings not held in conjunction with a board meeting), and total compensation paid to each director for the year ended December 31, 2018.

Name of Director	Number of Days Served at Board Meetings	Number of Days Served in Other Official Activities	Compensation Paid During 2018
Jeff Jue	8	19	$ 42,750
Victor Sahatdjian	7	7	29,250
Daniel Errotabere	7	11	9,000
Kevin Herman(1)	5	7	6,000
Allan Kantrowitz(2)	7	15	24,000
Edward Martinazzi	7	4	17,850
Steve Schafer	6	7	9,000
Lance Shebelut	8	2	9,000
Denise Waite	8	14	32,000
Jeff Yribarren	8	7	20,800
Fred Fagundes(3)	3	2	3,000
Total Compensation	**74**	**95**	**$ 202,650**

(1) Mr. Herman was elected to the Board during 2018.
(2) Mr. Kantrowitz was named Chair of the Risk Committee during 2018.
(3) Mr. Fagundes retired from the Board during 2018.

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 2018, as outlined above, amounted to $202,650. The Association has adopted a policy concerning travel, subsistence and other related expenses as they apply to directors and senior officers. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to all directors as a group for travel, subsistence and other related expenses were $7,101 in 2018, $4,634 in 2017, $10,190 in 2016.

COMPENSATION OF SENIOR OFFICERS

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

Keith Hesterberg, President and Chief Executive Officer
Mr. Hesterberg was hired on June 13, 2013 and serves as President and Chief Executive Officer. He has 26 years of experience working in the Farm Credit System. Prior to joining Fresno Madera Farm Credit, he worked for CoBank, ACB for 14 years primarily based in Denver, Colorado and Sacramento, California. Hesterberg's CoBank experience included management of credit administration teams in Denver and Sacramento, and also portfolio management, including managing two regional banking centers serving 14 states in the West,

Midwest, and Southeastern U.S. Mr. Hesterberg began his Farm Credit service in Illinois in various roles including Branch Manager, and Vice President of Commercial Lending.

Dan Kiggens, Senior Vice President and Chief Credit Officer
Mr. Kiggens serves as ACA Senior Vice President and Chief Credit Officer and has 22 years of Farm Credit experience. Mr. Kiggens manages the credit administration function of the Association, including ensuring loans are properly structured, documented and are in compliance with applicable laws and regulations prior to closing. He is also responsible for ensuring that the Association's lending policies and guidelines are in compliance with FCA regulations and Board approved policies, as well as overseeing the operations of the loan documentation department. He was hired in October 1996 and has served in various capacities including Loan Officer, Portfolio Manager, Fresno Branch Manager and Portfolio Manager, and Assistant Chief Credit Officer. He has served in his current capacity since November 1, 2012. Mr. Kiggens Farm Credit experience includes complex direct lending, branch management, credit administration, development of supervisory controls and loan approvals.

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

Stephanie Graham, Senior Vice President and Chief Administrative Officer
Ms. Graham serves as ACA Senior Vice President, Chief Administrative Officer and Information Security Officer and has 21 years of Farm Credit Experience. Ms. Graham directs administrative operations including human resources, training and staff programs, marketing, insurance risk management, and the facilities and fleet operations. Additionally, she has oversight responsibilities of the Association's loan accounting operations. She was hired in January, 1998 and has served in various capacities within the organization including Loan Accounting Manager and Administrative Services/HR Manager. She has served in her current capacity as Chief Administrative Officer since March 15, 2012. Prior to joining Fresno Madera Farm Credit, Ms. Graham worked in public accounting.

David Ylarregui, Senior Vice President, Relationship Management
Mr. Ylarregui serves as ACA Senior Vice President, Relationship Management and has 28 years of Farm Credit experience. Mr. Ylarregui is responsible for loan origination and servicing, branch management, and achieving individual and branch portfolio credit quality standards and profitability. He was hired in September 1990 and has served in various capacities including Loan Officer, Portfolio Manager, and Madera Branch Manager. He has served in his current capacity since February 1, 2014.

Frank Seelye, Senior Vice President and Chief Risk Officer
Mr. Seelye serves as ACA Senior Vice President, Chief Risk Officer and the Standards of Conduct Official, with 14 years of Farm Credit Experience. Mr. Seelye is responsible for ensuring the Association's lending and loan quality objectives are met and compliance to the Association's credit standards, quality control programs and policies and procedures. Mr. Seelye was hired in September 2011 and has served in various capacities including the Manager of Legal, Loan Documentation & Closing, Assistant Chief Credit Officer, and Interim Chief Financial Officer. He has

served in his current capacity as Chief Risk Officer since July 1, 2015 and Standards of Conduct Official since September 1, 2014. Mr. Seelye's prior experience includes 27 years as a Controller for cooperative and private companies dealing in agricultural lending and all phases of mortgage banking and 7 years as President of a regional cooperative agricultural finance association serving 20 states. His Farm Credit experience includes supervision, regulatory compliance, credit administration, accounting, fiscal, complex direct lending, loan approvals, loan documentation and closing, audit and review at the Association, District Bank and Regional level.

Ken Brown, Senior Vice President and Appraisal Program Manager

Mr. Brown serves as ACA Senior Vice President and Appraisal Program Manager and has 28 years of Farm Credit experience. Mr. Brown is responsible for the operation of the real estate and chattel appraisal department and ensures the delivery of credible, accurate and timely appraisals which are developed independently from credit delivery operations to mitigate risk. He was hired in April1991 and has held his current position as Appraisal Program Manager since August 16, 1999. He is a Certified General Real Estate appraiser and is designated as an Accredited Rural Appraiser (ARA). Prior to joining Fresno Madera Farm Credit, Mr. Brown worked for Farmers Home Administration in agricultural lending and appraisal as an Assistant County Supervisor.

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

Transactions with Senior Officers and Directors

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

Involvement of Senior Officers and Directors in Certain legal Proceedings

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

Relationship with CoBank

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

The Association's statutory obligation to borrow from CoBank is discussed in Note 6 to the financial statements, "Note Payable to CoBank." Association requirement to invest in CoBank and CoBank's ability to access capital of the Association is discussed in Note 4, "Investment in CoBank." CoBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section on Liquidity.

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

Relationship with Independent Auditors

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

Borrower Privacy

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

FINANCIAL STATEMENTS

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 15, 2019 and the Report of Management, appearing as part of this Annual Report to Shareholders, are incorporated herein by reference.

COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

We, along with the borrower's investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 4635 West Spruce, P.O. Box 13069, Fresno, California 93794-3069 or calling (559) 277-7000. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

Overview

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

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

YBS Mission

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

Program Definitions

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

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

Education and Financial Literacy

FMFC staff engages the marketplace through active participation in local and state events making contacts and interacting with others in the industry to provide knowledge and information. Staff has been encouraged to speak to groups ranging from Ag Youth Organizations to UC Davis's Sustainable Agriculture Research and Education Program (SAREP). We also attend and participate in numerous local conference such as the California Certified Organic Farms and National Small Farm Resource and Organic Fertilizer Association of California to gain greater insight and understand possible opportunities to meet market demand with alternative food marketing groups. We utilize these opportunities to educate and create greater awareness for the Farm Credit System. To assist in our efforts in this area, we also have the following partnership in place:

Valley Small Business Development Corporation (VSBDC) is a nonprofit, public benefit, small business development corporation and has been in existence since 1981. Their mission is to provide small businesses and family farms with increased access to capital and is 100% focused on agriculture in the central valley, including FMFC's full loan service area. Their staff include many experienced lenders, including several that are performing outreach in YBS and alternative food production areas. VSBDC continually conducts, co-sponsors, and participates in workshops and events that benefit growers as well as Ag-related and rural businesses. In partnership with CoBank, Golden State Farm Credit, and Farm Credit West, FMFC allocated funds to support the establishment of the Center for Agriculture, Dairy, and Rural Development by VSBDC. The project included funds for a mobile resource that is utilized to create a regional presence that provides support to our rural communities in the valley whether through access to loans to finance small farming operations, or local and personal access to people that can provide insight regarding how to complete a budget or undertake a process to apply for a loan.

Agricultural Youth Programs Participation

FMFC has a commitment to support agricultural education programs that inspire, educate, and cultivate future generations of farmers, agricultural leaders and natural resource stewards. We are proud to sponsor programs like the Center for Land-Based Learning, 4-H and FFA as they provide important tools for helping young people grow. Below are some of the positive results:

- Fair Participation - FMFC has allocated budget funds to contribute to 4-H and FFA livestock purchases at fairs throughout the Central Valley. During 2018, in addition to fair sponsorships, awarding belt buckles, and animal purchases; FMFC staff members volunteered countless hours as Ag Youth leaders, judging fair events, preparing and cooking meals for fair participants and assisting and coordinating livestock auctions. Fairs included the Madera County Fair in Chowchilla, Fresno Fair, Madera District Fair, Caruthers Fair, Tulare Fair, and the California State Fair.
- Grants - At our springtime Annual Meeting we award three to five $500 grants to the Ag programs associated with the high schools or 4-H programs located in our loan servicing area (LSA). The awards are based upon activities completed by the group for the betterment of their community and the best efforts by a group or individual within the program at the state or national level. We awarded five grants in 2018 and will continue this for the planning period.
- Awards - Each year, FMFC sponsors the banking and finance competition for FFA's California West Central Section and East Fresno Madera Section. The competition is directed toward agriculture and finance. The winners receive $500 from FMFC for future college expenses.

YBS Outreach Program

The purpose of the YBS Outreach Program is to assist and increase FMFC's capacity to fulfill our mission responsibilities of providing credit to YBS farmers and ranchers who might be declined for credit under the Association's traditional loan underwriting standards and lending guidelines. The program allows for approval of credit under specialized loan underwriting standards that are tailored to meet the unique characteristics of YBS farmers and ranchers. While the program is open to both new and existing members, the primary applicant/borrower must meet at least two of the three criteria for a YBS farmers to be eligible for the program.

Guarantee and Participation Programs

Federal and State government guarantees will continue to be utilized as appropriate to increase our capacity to meet the market demands of these segments. FMFC also coordinates credit with other Farm Credit institution lenders for participation in loans that benefit young and beginning farmers and ranchers.

YBS Advisory Council

The YBS Advisory Council of FMFC is established by and reports to the Board of Directors to assist the Board in fulfilling its intention to attract YBS farmers and ranchers. The YBS Advisory Council will be utilized to gain insight from attendees regarding the needs of our YBS farmers and ranchers. The insight will be utilized to create alignment between the needs of these categories with program features.

Demographics

The following table outlines our percentage of YBS loans as a percentage of our loan portfolio (by number) as of December 31. The USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2012 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

	USDA	**2018**	2017	2016
Young	11.24%	**11.75%**	11.03%	12.48%
Beginning	27.57%	**17.39%**	15.60%	16.62%
Small	71.60%	**19.14%**	16.58%	17.62%

Note that several differences exist in definitions between USDA statistics and our data due to our use of FCA definitions.

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

Goals and Results

Efforts to increase our market penetration in this area are ongoing as we look to provide all services to all customers within our LSA. Based on our market information, efforts and historical results, we have included growth in loan numbers and volume for all segments for the three year planning period. In addition to specific growth targets for each of the segments, development of an outreach program to further educate and promote the Farm Credit System will be a focus. Periodic reports are provided to our Board of Directors detailing the number, volume and credit quality of our YBS customers. We have developed quantitative targets to monitor our progress. The following chart outlines our 2018 goals and results:

	Goal Number	Actual Number	Percent of Plan
Young	193	181	94%
Beginning	264	268	102%
Small	288	295	102%

	Goal Volume	Actual Volume	Percent of Plan Volume
Young	$ 184,369	$ 181,699	99%
Beginning	$ 168,951	$ 181,338	107%
Small	$ 53,545	$ 61,159	114%

We have established 2019 minimum goals based on our market information, efforts and historical results, we have included 3% growth in loan numbers and volume for all segments for the three year planning period. We will continue to seek opportunities to enhance YBS programs in an effort to enable YBS farmers in our LSA to begin, grow, and remain in agriculture production as well as to facilitate the transfer of agricultural operations from one generation to the next.

FRESNO

4635 West Spruce
Fresno, CA 93722
559.277.7000

MADERA

305 North "I" Street
Madera, CA 93637
559.674.2437

KINGSBURG

1698 Draper Street
Kingsburg, CA 93631
559.419.5411

fmfarmcredit.com

Fresno Madera Farm Credit