

# ON SOLID GROUND

2019 Annual Report



Fresno Madera Farm Credit











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DEAR MEMBER

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# Letter to Shareholders

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*It is our pleasure to present to you the results of our operations from the fiscal year 2019.* We understand that our results are the direct result of the ongoing support that we receive from our member-borrowers, and this support led to strong results for the year.

Overall, our members experienced continued success over the course of 2019; however, the overall environment continues to feature challenges that require ongoing attention and effort to overcome.

## OVERALL CONDITIONS

Regulation and the availability of water and farm labor are consistent risk factors that have an impact each year on our farmers, ranchers, processors, and marketers.

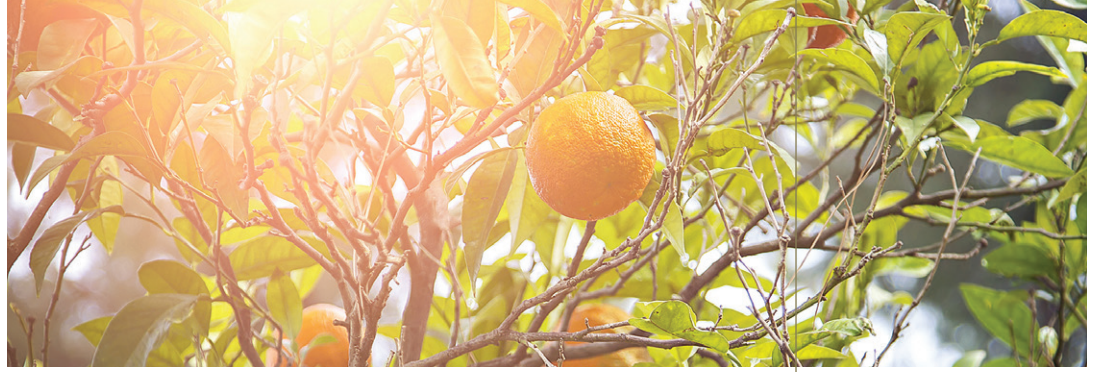
Over the course of 2019, most commodities indicated resilience to our overall risk environment, with certain commodities indicating more vulnerabilities than others to certain risk factors. We observed some deterioration in select commodities, such as select fresh market fruits and vegetables, as well as some dried fruits, including raisins. Wine grapes also indicated a level of oversupply for some varieties.

### Foreign Trade

Although statistics vary, nearly one half of the agricultural products produced in California are exported, which is the highest proportion of exported farm production compared to any other state in the U.S. This fact underscores our reliance on free access to unprotected foreign markets and stable foreign exchange rates.







Over the past few years, there has been a clear elevation of trade uncertainty; in some cases, tariffs have been put in place to create negotiating leverage. The persistence of the negotiating process has had an impact on our growers, however, we have also seen a fair amount of resilience in overall demand for California-grown products in the marketplace at prices that clear most break-even levels for profitability.

#### **Interest Rates**

Over the course of 2019, the Federal Reserve (Fed) managed short-term interest rates to lower levels through three reductions of the fed funds rate. At the end of 2019, 80% of our loans were indexed to variable (short-term) rate indexes so that many of our members found immediate relief with the lower rates. Long-term rates also decreased overall as world economic conditions remained tepid and inflation in the U.S. remained below the level targeted by the Fed.

While lower interest rates in 2019 contributed to the profitability of our members, the low interest rate environment reduced the amount of interest we expected to earn on our members' capital.

#### **Members**

Overall membership profitability has been under pressure as some commodity prices were negatively impacted by supply imbalances and ongoing trade uncertainty, while costs have continued to increase overall, despite partial relief from decreasing interest rates. Crop diversity and the continued overall stability in tree nuts have offset some of the overall negative impacts to member profitability and protected their overall strong liquidity positions.

## **2019 FINANCIAL RESULTS**

We noted an overall improvement to our financial results in 2019 compared to the previous year; the improvement results primarily from the absence of the non-recurring technology conversion expenses we experienced in 2018. We experienced improvement in every area of our earnings statement as we experienced increases in net interest and non interest income combined with decreased non interest expense and provisions for loan loss. The combination of these factors drove a 17% increase in net income from 2018; we understand this level of financial success is the direct result of the support of our member-borrowers.

#### **Earnings**

##### *Interest and Non Interest Income*

Our financial results are driven by collecting interest on loans that we have made to our membership. Over the course of 2019, our average loans outstanding increased by 3.5% from 2018. Early in the year, we experienced an increase in earnings on our capital as we experienced the full benefit of the rate increases imposed by the Fed in 2018. As a result of our increased loans outstanding, combined with increased earnings on capital, our net interest income increased by \$869,000, or 3%, over 2018.

Our non interest income decreased by 3.2% from 2018 as a result of a decrease in the level of patronage paid by our funding bank, CoBank. The lower patronage from our funding bank is primarily the result of the persistence of overall low interest rates. The impact of the lower patronage was offset by increases in patronage paid by other Farm Credit institutions with whom we share loan participations.



#### *Non Interest Expense*

Our non interest expense decreased from 2019 as a general result of the conclusion of our technology conversion to a new provider. Overall, our expenses were 8.5% lower than in 2018, which equated to a \$1.73 million decrease. Our move to align with a new provider creates a clear path for us to provide services to our members that will enhance the way they experience our service, whether through more efficient loan processes, increased visibility into the status of their loan requests, or through expanded online banking choices.

#### *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 \$204 thousand in new provisions for loan loss for 2019, which was lower than the 2018 amount of \$1.2 million. The decrease from last year is due to the decreased loan growth which was quite strong relative to historic levels, and also as a result of some deterioration in credit quality compared to 2018.

#### *Net Income*

As a result of our increased loan volume and higher non interest income, our net income results were strong at \$23.3 million for 2019, which was a 17% increase from 2018 when it was \$20.0 million. Our Return on Assets remained in the board-targeted range, coming in at 1.82% for 2019. 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 \$12.5 million of cash patronage to the members, which amounts to 0.80% of our patronage-sourced average loan volume for 2019 and 56% of our patronage-sourced net earnings. This patronage payment represents an increase from the amount distributed to members last year from our 2018 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 FMFC!

This year, we will  
be distributing  
\$12.5 million of  
cash patronage.



### 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 2019, 97.17% of our total loans were classified as “Acceptable” or “OAEM” (Other Assets Especially Mentioned). The Association had just 0.4% of total loan volume delinquent at the end of 2019, which was a slight decrease from the same period in 2018.

### Capital

Member capital increased to \$277.7 million at the end of the fiscal year 2019; this 4% 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 17.36% at the end of 2019, 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 composed 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

Our staff take tremendous pride in the trust that you place in us to provide you with the capital that you need to meet the needs of your farming operation, as well as your long-term goals as stewards of our nation’s food system. In addition, the board and management team of FMFC carry a deep sense of responsibility to make certain that we operate each day in a way that gives us access to the right tomorrow. Thank you for your ongoing support.



Jeff Jue  
*Chairman of the Board*

Keith Hesterberg  
*President & Chief Executive Officer*

## 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.

## OUR VISION

To be the premier lender of choice in our region.

## OUR VALUES

Collaborative. Committed. Customer Focused.  
Excellence. Responsible. Strategic.







## 2019 Board of Directors

### Top Left to Right

Wayne Carstens, Jeff Jue (*Board Chair*), Victor Sahatdjian,  
Allan Kantrowitz (*Risk Committee Chair*), Lance Shebelut

### Bottom Left to Right

Steve Shafer, Denise Waite (*Audit Committee Chair*), Daniel Errotabere,  
Kevin Herman, Jeff Yribarren (*Human Capital Committee Chair*)

## 2019 Senior Management Team



**Keith Hesterberg**  
*President  
Chief Executive Officer*



**Dan Kiggins**  
*Senior Vice President  
Chief Credit Officer*



**Joe Soto**  
*Senior Vice President  
Chief Financial Officer*



**Patrick Luis**  
*Senior Vice President  
Chief Risk Officer*



**Stephanie Graham**  
*Senior Vice President  
Chief Administrative Officer*



**David Ylarregui**  
*Senior Vice President  
Relationship Management*

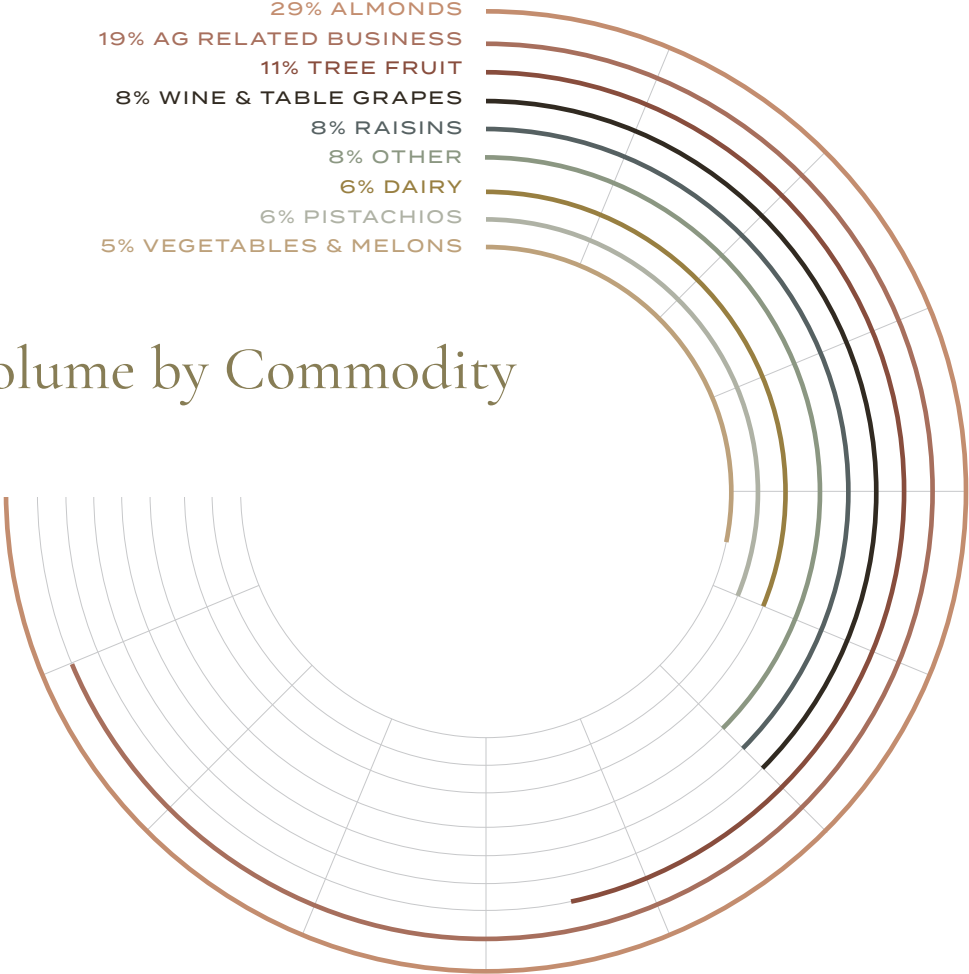


**Ken Brown**  
*Senior Vice President  
Appraisal Program Manager*

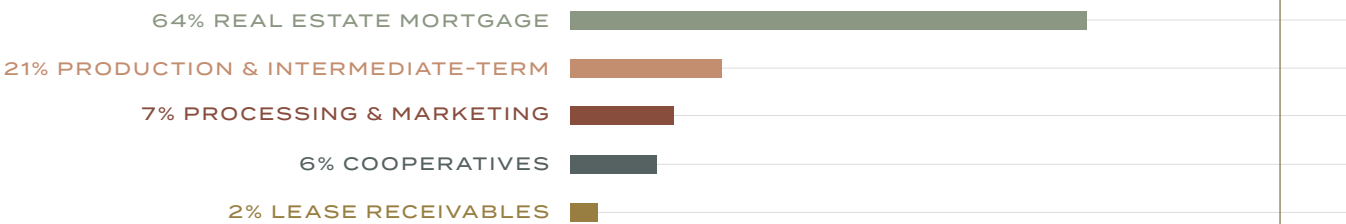
# 2019 Year in Review

29% ALMONDS  
19% AG RELATED BUSINESS  
11% TREE FRUIT  
8% WINE & TABLE GRAPES  
8% RAISINS  
8% OTHER  
6% DAIRY  
6% PISTACHIOS  
5% VEGETABLES & MELONS

Loan Volume by Commodity



Loan Principal Composition by Type



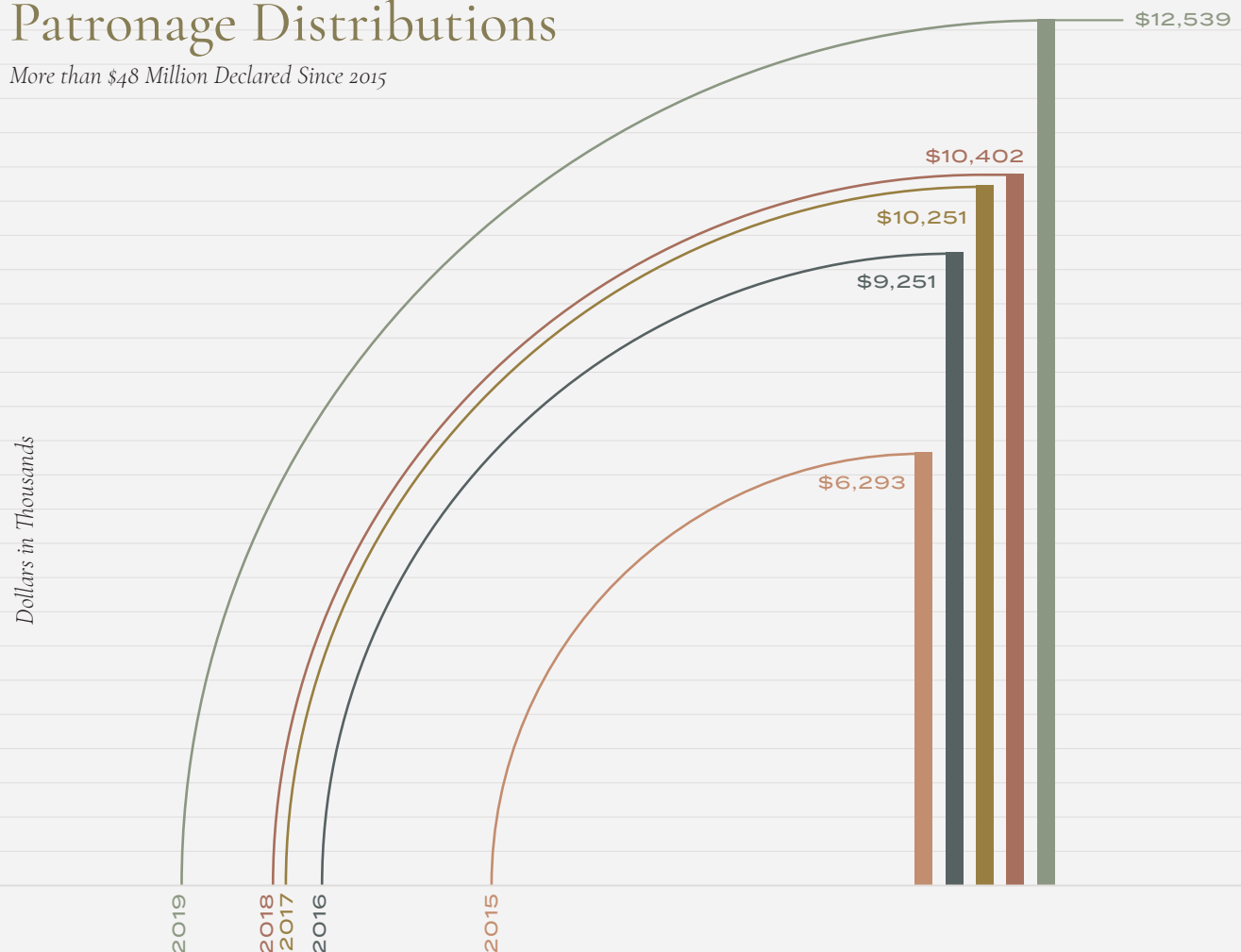


	2019	2018	2017	2016	2015
Net Income <i>Dollars in Thousands</i>	\$23,266	\$19,953	\$19,910	\$20,377	\$16,637
Total Assets <i>Dollars in Thousands</i>	\$1,305,935	\$1,326,325	\$1,174,974	\$1,122,152	\$1,132,087
Return on Average Assets	1.82%	1.62%	1.81%	1.84%	1.60%
Efficiency Ratio	44.3	47.5	43.4	40.2	42.0
Total Member Capital <i>Dollars in Thousands</i>	\$277,666	\$266,958	\$257,390	\$247,731	\$236,611
Nonaccrual Loans <i>As % of Total Loans</i>	1.16%	0.93%	0.00%	0.00%	0.37%
Acceptable/OAEM Volume <i>As % of P &amp; I</i>	97.17%	97.11%	99.5%	100.0%	99.6%
Permanent Capital Ratio	16.94%*	16.98%*	18.25%*	18.48%	17.54%
Total Capital Ratio	17.36%	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 \$48 Million Declared Since 2015





# myFMFC

## Your All-in-One Account Portal

Your most precious commodity? Time. That's why we created myFMFC, providing convenient tools to make banking simpler, quicker, and much more user friendly; innovations that free up time for your real job and your real life.

### KEY BENEFITS

***One Stop Convenience*** — Summary of all accounts in one place, providing principal and interest balances at a glance.

***No Waiting*** — Immediate online access to your monthly and annual transaction statements, bills, and tax documents. We post online a day before mailing so you don't have to wait!

***Our Hours Are Your Hours*** — View anytime that is convenient for you, day or night.

***View Historical Documents*** — Easily view past bills and statements; great for budgeting and for tax preparation.

***You Are in Control*** — Download and save statements right to your computer so you always know where everything is.

***Connect with Us*** — Reach out to your Relationship Manager anytime, anywhere with our secure messaging system. You can also send large, confidential files securely to protect your personal information.

***Access Even More*** — Link to online banking services for transaction histories.

And we're not stopping there. The world of agriculture is changing fast, which means we will adapt and adjust to whatever challenges come our way and take advantage of advances in technology and communication. We strive to provide superior customer service and peerless expertise in agricultural finance to help your farm or ranch thrive in good times, challenging times and everything in between.

You're more than an account to us; you're our partner in the future of agriculture.



## ONE STOP CONVENIENCE

No Waiting

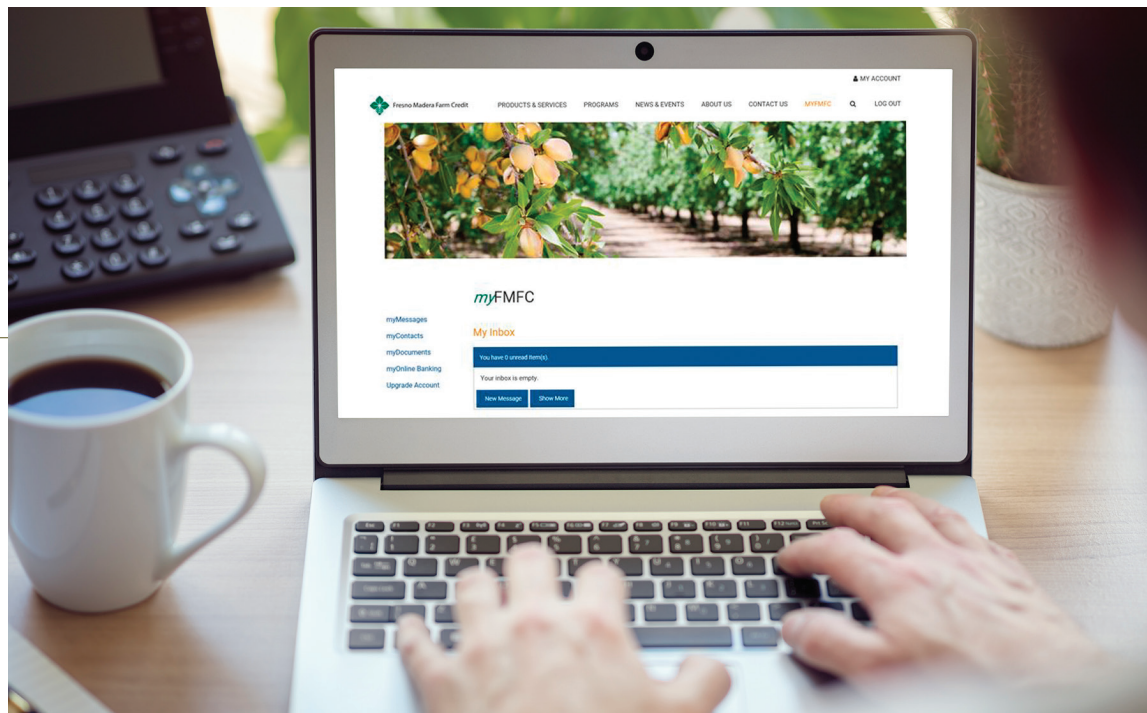
Our Hours Are Your Hours

View Historical Documents

You Are in Control

Connect with Us

Access Even More



**SECURE  
MESSAGING**



**TIMELY  
STATEMENTS**



**ONLINE  
BANKING**

MARCH 13, 2020

# 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 2019 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 2019 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.



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



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



Wayne Carstens  
*Audit Committee Member*  
Fresno Madera Farm Credit, ACA  
Fresno Madera PCA, FLCA



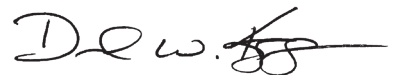
Jeff Jue  
*Chairman of the Board*  
Fresno Madera Farm Credit, ACA  
Fresno Madera PCA, FLCA



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. Kiggins  
*Senior Vice President & Chief Credit Officer*  
Fresno Madera Farm Credit, ACA  
Fresno Madera PCA, FLCA



MARCH 13, 2020

# Report on Internal Control Over Financial Reporting

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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

*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, 2019. 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, 2019, 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, 2019.



MARCH 13, 2020

# 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 2019, five 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 2019. The fees for professional services rendered for the Association by its independent auditor, PwC, during 2019 were \$162,400 for audit services, \$16,800 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, 2019 (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, 2019 and for filing with the Farm Credit Administration.

*Denise Waite*

Denise Waite  
*Audit Committee Chair*

**Audit Committee Members**

Denise Waite, *Audit Committee Chair*  
Daniel Errotabere, *Audit Committee Vice Chair*  
Wayne Carstens, *Audit Committee Member*  
Jeff Jue, *Chairman of the Board*

## FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(Dollars in thousands, Unaudited)

	December 31				
	2019	2018	2017	2016	2015
<b>Consolidated Statement of Condition Data</b>					
Loans	\$ 1,225,675	\$ 1,247,297	\$ 1,115,862	\$ 1,056,746	\$ 1,072,868
Less allowance for loan losses	6,927	6,787	6,058	5,780	6,227
Net loans	1,218,748	1,240,510	1,109,804	1,050,966	1,066,641
Investment in CoBank, ACB	38,703	36,840	32,001	31,539	29,977
Other assets	48,484	48,975	33,169	39,647	35,469
<b>Total assets</b>	<b>\$ 1,305,935</b>	<b>\$ 1,326,325</b>	<b>\$ 1,174,974</b>	<b>\$ 1,122,152</b>	<b>\$ 1,132,087</b>
Obligations with maturities of one year or less	\$ 1,027,519	\$ 1,058,601	\$ 916,877	\$ 873,804	\$ 894,887
Obligations with maturities longer than one year	459	443	443	404	383
Reserve for unfunded commitments	291	323	264	213	206
<b>Total liabilities</b>	<b>1,028,269</b>	<b>1,059,367</b>	<b>917,584</b>	<b>874,421</b>	<b>895,476</b>
Capital stock and participation certificates	755	774	757	757	763
Unallocated retained earnings	276,911	266,184	256,633	246,974	235,848
<b>Total members' equity</b>	<b>277,666</b>	<b>266,958</b>	<b>257,390</b>	<b>247,731</b>	<b>236,611</b>
<b>Total liabilities and members' equity</b>	<b>\$ 1,305,935</b>	<b>\$ 1,326,325</b>	<b>\$ 1,174,974</b>	<b>\$ 1,122,152</b>	<b>\$ 1,132,087</b>
<b>For the Year Ended December 31</b>					
	2019	2018	2017	2016	2015
<b>Consolidated Statement of Income Data</b>					
Net interest income	\$ 33,026	\$ 32,157	\$ 29,163	\$ 27,995	\$ 24,958
Patronage distribution from Farm Credit institutions	7,888	7,869	5,950	5,435	4,411
Provision for loan losses (Loan loss reversal)	204	1,221	310	(558)	1,387
Noninterest expense, net	17,442	18,850	14,891	12,783	11,997
Provision for (benefit from) income taxes	2	2	2	828	(652)
<b>Net income</b>	<b>\$ 23,266</b>	<b>\$ 19,953</b>	<b>\$ 19,910</b>	<b>\$ 20,377</b>	<b>\$ 16,637</b>
<b>Key Financial Ratios</b>					
<b>For the Year</b>					
Return on average assets	1.82%	1.62%	1.81%	1.84%	1.60%
Return on average members' equity	8.28%	7.37%	7.71%	8.24%	7.09%
Net interest income as a percentage of average earning assets	2.72%	2.74%	2.79%	2.64%	2.51%
Net charge-offs (recoveries) as a percentage of average loans	0.01%	0.04%	<0.01%	(0.01%)	<0.01%
<b>At Year End</b>					
Members' equity as a percentage of total assets	21.26%	20.13%	21.91%	22.08%	20.90%
Debt as a ratio to members' equity	3.70:1	3.97:1	3.57:1	3.53:1	3.78:1
Allowance for loan losses as a percentage of loans	0.57%	0.54%	0.54%	0.55%	0.58%
Common equity tier 1 (CET1) capital ratio	16.85%	16.90%	18.16%	N/A	N/A
Tier 1 capital ratio	16.85%	16.90%	18.16%	N/A	N/A
Total capital ratio	17.36%	17.40%	18.67%	N/A	N/A
Tier 1 leverage ratio	19.79%	19.40%	21.08%	N/A	N/A
Unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio	20.86%	20.10%	21.81%	N/A	N/A
Permanent capital ratio	16.94%*	16.98%*	18.25%*	18.48%	17.54%
<b>Other</b>					
Cash patronage distributions declared	\$ 12,539	\$ 10,402	\$ 10,251	\$ 9,251	\$ 6,293
Cash patronage distributions paid	\$ 10,402	\$ 10,251	\$ 9,251	\$ 6,293	\$ 4,570

\*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, 2019. 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](http://www.fmfarmcredit.com), or upon request. We are located at 4635 West Spruce, P.O. Box 13069, Fresno, California 93794-3069 or may be contacted by calling (559) 277-7000.

## **BUSINESS OVERVIEW**

### **Farm Credit System Structure and Mission**

We are one of 68 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](http://www.cobank.com), or may be obtained at no charge by contacting us at 4635 West Spruce, P.O. Box 13069, Fresno, California 93794-3069 or calling (559) 277-7000. Annual reports are available within 75 days



after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from Financial Partners, Inc. (FPI), which is a technology service corporation. Our Services Agreement with FPI expires on October 8, 2023. 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 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 clarifies the Insurance Corporation's authority, role and procedures for acting as a conservator or receiver of a troubled System institution. The Farm Bill provides a range of statutory options to the Insurance Corporation including, but not limited to, marshalling and liquidating assets, satisfying claims of creditors and using interim devices such as bridge banks.

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.

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 labor and water, rising market interest rates, adverse weather conditions, unfavorable trade 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 continued to face downward pressure from labor, transportation and trade issues in 2019. 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 including wine and raisin grapes along with fresh market fruits faced reduced pricing for their products. Current pricing indications on raisins is estimated to be below breakeven for this commodity. Though operating margins are expected to remain tight, it is anticipated that most of our Members will report positive cash flow and maintain stable financial positions. The Almond industry saw stable 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. The Dairy industry has experienced modest price increases in 2019 partially as a result of the benefit from California's transition to the federal pricing system. Most dairy operations are expected to have operated at or slightly above breakeven levels in 2019 with many dairy farmers diversifying into more profitable crops that will further 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.

The 2018/2019 season was above average and as a result the water district deliveries were typical of an average year, as storage reservoirs were above average levels for the season. Management views the risks associated with drought conditions and regulations related to the implementation of the Sustainable Groundwater Management Act ("SGMA") as risks that could lead to the deterioration of the loan portfolio. The full effects of the legislation will not be known for several years but will be monitored closely as implementation plans are submitted in 2020.

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 2019, we recognized net income of \$23.3 million as compared to \$19.95 million and \$19.91 million for 2018 and 2017, respectively. The increase in net income in 2019 is primarily the result of an decrease in our provision for loan losses and noninterest expense. The increase in net income in 2018 was primarily due to an increase in our net interest income and noninterest income partially offset by an increase in our noninterest expense. The following table reflects key performance results as of December 31:

(\$ in thousands)	2019	2018	2017
Net income	<b>\$ 23,266</b>	\$ 19,953	\$ 19,910
Net interest income	<b>\$ 33,026</b>	\$ 32,157	\$ 29,163
Net interest margin	<b>2.72%</b>	2.74%	2.79%
Return on average assets	<b>1.82%</b>	1.62%	1.81%
Return on average members' equity	<b>8.28%</b>	7.37%	7.71%

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

(\$ in thousands)	2019 vs 2018	2018 vs 2017
Net income, prior year	<b>\$ 19,953</b>	\$ 19,910
Increase (Decrease) due to:		
Interest income	<b>5,595</b>	12,188
Interest expense	<b>(4,726)</b>	(9,194)
Net interest income	<b>869</b>	2,994
Provision for loan losses	<b>1,017</b>	(911)
Noninterest income	<b>(304)</b>	2,798
Noninterest expense	<b>1,731</b>	(4,838)
Provision for income tax	-	-
Total increase in net income	<b>3,313</b>	43
Net income, current year	<b>\$ 23,266</b>	\$ 19,953

## Net Interest Income

Net interest income for 2019 was \$33.0 million compared with \$32.2 million for 2018 and \$29.2 million for 2017. 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 \$0.9 million or 2.7% 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 2019 and 2018:

(\$ in thousands)	2019 vs. 2018	2018 vs. 2017
Net interest income, prior year	<b>\$ 32,157</b>	\$ 29,163
Increase (Decrease) due to:		
Interest rates earned	<b>3,340</b>	6,334
Interest rates paid	<b>(3,617)</b>	(6,444)
Volume of interest-bearing assets & liabilities	<b>936</b>	3,089
Interest income on nonaccrual loans	<b>210</b>	15
Increase in net interest income	<b>869</b>	2,994
Net interest income, current year	<b>\$ 33,026</b>	\$ 32,157

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.

	2019	2018	2017
Net interest margin	<b>2.72%</b>	2.74%	2.79%
Interest rate on:			
Average loan volume	<b>4.92%</b>	4.61%	4.01%
Average debt	<b>2.69%</b>	2.31%	1.54%
Interest rate spread	<b>2.23%</b>	2.30%	2.47%

As a result of the Federal Reserve managing the Fed Funds Rate, short term interest rates decreased in 2019. Fluctuations in the Fed Funds Rate can have an indirect impact on our cost of funds.

The rates the Association charges on loans indexed to variable rates decreased in the third and fourth quarters of 2019 consistent with the decrease in our variable cost of funds. Our net interest margin decreased from previous years primarily due to loan transfers to nonaccrual. 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 \$204 thousand in 2019, \$1.2 million in 2018, and \$310 thousand in 2017. The provision for loan loss recorded in 2019 was primarily the result of an overall increase in our exposure coupled with some deterioration of our portfolio's credit quality resulting from commodity price volatility and stress in specific industries. 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 2019, we recorded noninterest income of \$9.1 million, compared with \$9.5 million in 2018 and \$6.7 million in 2017. 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 remained consistent compared to 2018.

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 \$5.9 million in 2019, \$6.9 million in 2018 and \$5.3 million in 2017. This comprises 64%, 72% and 79% of total non interest income for 2019, 2018 and 2017 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 were 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 2019 and 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 2019 decreased \$1.7 million, or 8.5%, to \$18.7 million compared with \$20.4 million in 2018 primarily due to decreases in information technology and other expenses. Information technology expense decreased \$1.4 million primarily due to expenses related to our IT conversion from AgVantis to FPI in the prior year. The decrease in other expenses is due to the write-down of our \$544 thousand investment in AgVantis as well as outside service provider fees paid in the prior year. 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 2019, 2018, and 2017. The provision for income taxes in these years are franchise state taxes. For additional information refer to Note 9, "Income Taxes", of the accompanying financial statements.

### Loan Portfolio

Total loans outstanding were \$1.23 billion at December 31, 2019, a decrease of \$21.6 million, or 1.7%, from total loans at December 31, 2018 of \$1.25 billion. Our loan volume decrease was primarily attributed to unscheduled loan payoffs partially offset by 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	2019	2018	2017
Real estate mortgage	64%	65%	64%
Production and intermediate-term	21%	19%	20%
Agribusiness:			
Cooperatives	6%	6%	6%
Processing and marketing	7%	7%	7%
Farm related business	0%	0%	0%
Energy	0%	1%	1%
Lease receivables	2%	2%	2%
Total	100%	100%	100%

Real estate mortgage loans account for 64% of total loan volume, which represents a decrease from the prior fiscal year end. This decrease was mainly attributed to unscheduled loan payoffs mainly in the direct mortgage loan 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 21% 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.

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 decreased slightly due to unscheduled payoffs in the purchased participation segment.

We experienced an increase in average accruing loan volume of 3.1% with average volume at \$1.2 billion for 2019 compared to \$1.17 billion for 2018. This was driven by solid new business within the direct loan portfolio along with increased seasonal utilization of existing loan commitments offset by unscheduled loan payoffs. Overall new business developed in 2019 amounted to \$276 million with 87% in direct loans and 13% 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)	2019	2018	2017
Purchased	\$ 305,482	\$ 294,768	\$ 242,792
Sold	\$ (439,362)	\$ (458,956)	\$ (382,808)

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	2019	2018	2017
Fresno	47%	48%	47%
Madera	19%	18%	20%
Other	34%	34%	33%
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	2019	2018	2017
Almonds	29%	28%	28%
Agribusiness	19%	20%	20%
Tree fruit	11%	10%	9%
Raisins	8%	8%	8%
Wine & table grapes	8%	7%	8%
Dairy	6%	6%	7%
Pistachios	6%	5%	3%
Vegetables & Melons	5%	7%	7%
Other	8%	9%	10%
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 29% 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 19% 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.

Tree Fruit represents 11% of our total portfolio, which is a slight increase from prior year-end. The tree fruit industry can be volatile from year-to-year, with returns to growers being below average the past two years as prices have been negatively impacted by ongoing trade negotiations.

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.

	2019	2018	2017
	Amount	Amount	Amount
(\$ in thousands)	outstanding	outstanding	outstanding
\$1 - \$250	\$ 57,550	\$ 56,994	\$ 61,576
\$251 - \$500	99,405	105,931	96,854
\$501 - \$1,000	156,193	167,893	145,686
\$1,001 - \$5,000	605,888	632,726	554,622
\$5,001 - \$25,000	306,639	283,753	257,124
Total	\$ 1,225,675	\$ 1,247,297	\$ 1,115,862

	2019	2018	2017
	Number of	Number of	Number of
(\$ in thousands)	loans	loans	loans
\$1 - \$250	573	588	590
\$251 - \$500	273	286	262
\$501 - \$1,000	218	234	203
\$1,001 - \$5,000	288	287	262
\$5,001 - \$25,000	42	38	34
Total	1,394	1,433	1,351

The principal balance outstanding at December 31, 2019 for loans \$500 thousand and less account for 12.8% 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 25% of our loan volume and are attributable to 42 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](http://www.farmermac.com). The amount of loans subject to these Farmer Mac credit enhancements was \$16.8 million at December 31, 2019, \$41.8 million at December 31, 2018 and \$48.2 million at December 31, 2017. The decrease in 2019 is primarily due to paydowns on loans subject to Farmer Mac credit enhancements. Included in other operating expenses were fees paid for these Farmer Mac commitments totaling \$97 thousand in 2019, \$183 thousand in 2018 and \$217 thousand in 2017.

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). The Association had guaranteed volume with government agencies outstanding of \$5.0 million at year-end 2019, \$6.1 million at year-end 2018 and \$4.1 million at year-end 2017.

### 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, 2019.

(\$ in thousands)	Commitments to extend credit	Standby letters of credit	Total commitments
Less than 1 year	\$ 114,155	\$ 7,140	\$ 121,295
1 – 3 years	150,144	31	150,175
3 – 5 years	71,536	-	71,536
Over 5 years	189,694	-	189,694
Total	\$ 525,529	\$ 7,171	\$ 532,700

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)	2019	2018	2017
Nonaccrual loans:			
Real estate mortgage	\$ 7,159	\$ 5,762	\$ 6
Production and intermediate-term	3,895	5,860	48
Agribusiness	3,155	-	-
Total nonaccrual loans	14,209	11,622	54
Accruing restructured loans	-	-	-
Accruing loans 90 days past due	-	-	-
Total impaired loans	14,209	11,622	54
Other property owned	-	-	-
Total high risk assets	\$ 14,209	\$ 11,622	\$ 54
Nonaccrual loans to total loans	1.16%	0.93%	0.00%
High risk assets to total loans	1.16%	0.93%	0.00%
High risk assets to total members' equity	5.12%	4.35%	0.02%

Total high risk assets increased \$2.6 million to \$14.2 million as of December 31, 2019 from \$11.6 million as of December 31, 2018. High risk assets increased due to the transfer of three loan complexes to nonaccrual status during the 2019. For the years ended December 31, 2019, 2018 and 2017 there were sixteen, twelve and two loans classified as nonaccrual, respectively.

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

(\$ in thousands)	2019	2018	2017
Nonaccrual loans current	\$ 2,991	\$ 5,939	\$ -
Nonaccrual loans past due	4,880	5,683	54
Cash basis nonaccrual loans	6,338	-	-
Restructured loans in nonaccrual status	-	-	-

Other property owned is real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure or other means. We had no other property owned at December 31, 2019, 2018 or 2017.

### 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:

	2019	2018	2017
Acceptable	94.61%	96.39%	96.57%
OAEM	2.56%	0.72%	2.93%
Substandard	2.83%	2.89%	0.50%
Doubtful	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%

During 2019, overall credit quality increased slightly with loans classified as "Acceptable" and "OAEM" accounting for 97.17% of volume at December 31, 2019 compared to 97.11% at December 31, 2018. The migration from "Acceptable" to "OAEM" 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 2019, 2018, or 2017. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased to 0.0% at December 31, 2019. Loan delinquencies equated to 0.4% at December 31, 2018 and 0.2% at December 31, 2017.

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)	2019	2018	2017
Balance at beginning of year	\$ 6,787	\$ 6,058	\$ 5,780
Charge-offs:			
Real estate mortgage	32	-	-
Production and intermediate-term	33	566	-
Agribusiness	-	-	93
Total Charge-offs	65	566	93
Recoveries:			
Production and intermediate-term	1	-	-
Agribusiness	-	74	61
Total Recoveries	1	74	61
Net charge-offs (recoveries)	64	492	32
Provision for loan losses	204	1,221	310
Balance at December 31	\$ 6,927	\$ 6,787	\$ 6,058
Net charge-offs (recoveries) to average net loans	0.01%	0.04%	<0.01%

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

(\$ in thousands)	2019	2018	2017
Real estate mortgage	\$ 410	\$ 439	\$ 393
Production and intermediate-term	3,919	3,781	3,203
Agribusiness	1,311	1,699	1,422
Energy	87	26	41
Lease receivables	1,200	842	999
Total	\$ 6,927	\$ 6,787	\$ 6,058

The allowance for loan losses increased \$140 thousand from December 31, 2018 to \$6.9 million as of December 31, 2019. 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:

	2019	2018	2017
Allowance as a percentage of:			
Total Loans	0.57%	0.54%	0.54%
Nonaccrual loans	48.75%	58.40%	>1,000%
High Risk Loans	48.75%	58.40%	>1,000%

The overall allowance as a percentage of loans has increased slightly to 0.57% at December 31, 2019 compared to 0.54% at December 31, 2018 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 \$914.3 million in 2019, \$880.8 million in 2018 and \$772.0 million in 2017.

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 Banks 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, 2019 totaled \$277.7 million, compared with \$267.0 million at December 31, 2018 and \$257.4 million at December 31, 2017. 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:

	2019	2018	2017
Debt to members' equity	<b>3.70:1</b>	3.97:1	3.57:1
Members' equity as a % of net loans	<b>22.78%</b>	21.52%	23.19%
Members' equity as a % of total assets	<b>21.26%</b>	20.13%	21.91%

## Retained Earnings

Our retained earnings increased \$10.7 million to \$276.9 million at December 31, 2019 from \$266.2 million at December 31, 2018. The increase was a result of net income of \$23.3 million partially offset by a \$12.5 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 \$10.4 million in 2019, \$10.3 million in 2018, and \$9.3 million in 2017. During 2019, we declared patronage distributions of \$12.5 million to be paid in April 2020.

## Stock

Our total stock and participation certificates decreased \$19 thousand to \$755 thousand at December 31, 2019 from \$774 thousand at December 31, 2018. 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.

As shown in the following table, at December 31, 2019, 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, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
<b>Risk Adjusted:</b>				
Common equity tier 1 ratio	<b>16.85%</b>	4.50%	2.5%*	7.00%
Tier 1 capital ratio	<b>16.85%</b>	6.00%	2.5%*	8.50%
Total capital ratio	<b>17.36%</b>	8.00%	2.5%*	10.50%
Permanent capital ratio	<b>16.94%</b>	7.00%	–	7.00%
<b>Non-risk-adjusted:</b>				
Tier 1 leverage ratio	<b>19.79%</b>	4.00%	1.00%	5.00%
Unallocated retained earnings and equivalents leverage ratio	<b>20.86%</b>	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 2019 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, 2019, 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, 2019, 2018 and 2017, 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, 2019, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in dark ink, appearing to read "PricewaterhouseCoopers LLP".

Fort Lauderdale, Florida  
March 13, 2020

## **CONSOLIDATED STATEMENTS OF CONDITION**

(Dollars in thousands)

	<b>December 31</b>		
	<b>2019</b>	2018	2017
<b>ASSETS</b>			
Loans	<b>\$1,225,675</b>	\$ 1,247,297	\$ 1,115,862
Less allowance for loan losses	<b>6,927</b>	6,787	6,058
Net loans	<b>1,218,748</b>	1,240,510	1,109,804
Cash	<b>10,137</b>	10,530	6,708
Accrued interest receivable	<b>20,872</b>	22,191	13,466
Investment in CoBank, ACB	<b>38,703</b>	36,840	32,001
Premises and equipment, net	<b>5,596</b>	5,991	4,304
Other assets	<b>11,879</b>	10,263	8,691
<b>Total assets</b>	<b>\$1,305,935</b>	\$ 1,326,325	\$ 1,174,974
<b>LIABILITIES</b>			
Note payable to CoBank, ACB	<b>\$ 946,569</b>	\$ 976,151	\$ 839,695
Funds held	<b>64,260</b>	65,931	60,675
Accrued interest payable	<b>1,334</b>	1,769	1,365
Patronage distributions payable	<b>12,539</b>	10,402	10,251
Other liabilities	<b>3,567</b>	5,114	5,598
<b>Total liabilities</b>	<b>1,028,269</b>	1,059,367	917,584
<b>Commitments and Contingencies (See Note 13)</b>			
<b>MEMBERS' EQUITY</b>			
Capital stock and participation certificates	<b>755</b>	774	757
Unallocated retained earnings	<b>276,911</b>	266,184	256,633
<b>Total members' equity</b>	<b>277,666</b>	266,958	257,390
<b>Total liabilities and members' equity</b>	<b>\$1,305,935</b>	\$ 1,326,325	\$ 1,174,974

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

## **CONSOLIDATED STATEMENTS OF INCOME**

(Dollars in thousands)

	<b>For the Year Ended December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>INTEREST INCOME</b>			
Loans	<b>\$ 59,719</b>	\$ 54,124	\$ 41,936
<b>INTEREST EXPENSE</b>			
Note payable to CoBank, ACB	<b>24,962</b>	20,743	12,111
Funds held	<b>1,731</b>	1,224	662
<b>Total interest expense</b>	<b>26,693</b>	21,967	12,773
Net interest income	<b>33,026</b>	32,157	29,163
Provision for loan losses	<b>204</b>	1,221	310
Net interest income after provision for loan losses	<b>32,822</b>	30,936	28,853
<b>NONINTEREST INCOME</b>			
Financially related services income	<b>334</b>	256	233
Loan fees	<b>500</b>	476	350
Patronage distribution from Farm Credit institutions	<b>7,888</b>	7,869	5,950
Farm Credit Insurance Fund rebate	<b>272</b>	673	-
Other noninterest income	<b>155</b>	179	122
<b>Total noninterest income</b>	<b>9,149</b>	9,453	6,655
<b>NONINTEREST EXPENSE</b>			
Salaries and employee benefits	<b>10,491</b>	9,539	7,997
Occupancy and equipment	<b>501</b>	578	508
Farm Credit Insurance Fund premium	<b>788</b>	755	1,083
Information technology	<b>3,698</b>	5,123	2,894
Supervisory and examination costs	<b>453</b>	415	412
Other noninterest expense	<b>2,772</b>	4,024	2,702
<b>Total noninterest expense</b>	<b>18,703</b>	20,434	15,596
Income before income taxes	<b>23,268</b>	19,955	19,912
Provision for income taxes	<b>2</b>	2	2
<b>Net income</b>	<b>\$ 23,266</b>	<b>\$ 19,953</b>	<b>\$ 19,910</b>

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

## **CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY**

(Dollars in thousands)

	<b>Capital Stock and Participation Certificates</b>	<b>Unallocated Retained Earnings</b>	<b>Total Members' Equity</b>
<b>Balance at December 31, 2016</b>	\$ 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)
<b>Balance at December 31, 2017</b>	\$ 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)
<b>Balance at December 31, 2018</b>	\$ 774	\$ 266,184	\$ 266,958
Net income		<b>23,266</b>	<b>23,266</b>
Capital stock and participation certificates issued	<b>56</b>		<b>56</b>
Capital stock and participation certificates retired	<b>(75)</b>		<b>(75)</b>
Patronage Distributions: Cash		<b>(12,539)</b>	<b>(12,539)</b>
<b>Balance at December 31, 2019</b>	<b>\$ 755</b>	<b>\$ 276,911</b>	<b>\$ 277,666</b>

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



## **CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

	<b>For the Year Ended December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	<b>\$ 23,266</b>	<b>\$ 19,953</b>	<b>\$ 19,910</b>
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	<b>632</b>	308	252
Provision for loan losses	<b>204</b>	1,221	310
Stock patronage from CoBank, ACB	<b>(492)</b>	(494)	(445)
Write-down of investment in AgVantis	<b>-</b>	544	-
(Gain) loss on disposal of premises and equipment	<b>(8)</b>	67	(1)
Change in assets and liabilities:			
Decrease (increase) in accrued interest receivable	<b>1,319</b>	(8,725)	(2,283)
Increase in other assets	<b>(1,618)</b>	(2,067)	(170)
(Decrease) increase in accrued interest payable	<b>(435)</b>	404	403
(Decrease) increase in other liabilities	<b>(1,547)</b>	(484)	779
Total adjustments	<b>(1,945)</b>	(9,226)	(1,155)
Net cash provided by operating activities	<b>21,321</b>	10,727	18,755
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net decrease (increase) in loans	<b>21,558</b>	(131,927)	(59,148)
Increase stock in CoBank, ACB	<b>(1,369)</b>	(4,394)	(106)
Proceeds from sale of premises and equipment	<b>8</b>	-	1
Purchase of premises and equipment	<b>(237)</b>	(2,062)	(317)
Net cash provided by (used in) investing activities	<b>19,960</b>	(138,383)	(59,570)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net (repayment of) draw on note payable to CoBank, ACB	<b>(29,582)</b>	136,456	51,044
Net (decrease) increase in funds held	<b>(1,671)</b>	5,256	(10,063)
Capital stock and participation certificates retired	<b>(75)</b>	(52)	(62)
Capital stock and participation certificates issued	<b>56</b>	69	62
Cash patronage distributions paid	<b>(10,402)</b>	(10,251)	(9,251)
Net cash (used in) provided by financing activities	<b>(41,674)</b>	131,478	31,730
Net (decrease) increase in cash	<b>(393)</b>	3,822	(9,085)
Cash at beginning of year	<b>10,530</b>	6,708	15,793
Cash at end of year	<b>\$ 10,137</b>	<b>\$ 10,530</b>	<b>\$ 6,708</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Cash paid during the year for:			
Interest	<b>\$ 27,128</b>	<b>\$ 21,563</b>	<b>\$ 12,370</b>
Income taxes	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ 2</b>
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:</b>			
Cash patronage distributions payable	<b>\$ 12,539</b>	<b>\$ 10,402</b>	<b>\$ 10,251</b>

*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 68 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, 21 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). 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 to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0% of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums as necessary to maintain the Insurance Fund at the 2.0% 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.

### Operations

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

The Association serves as an intermediary in offering related services to our borrowers, such as credit life insurance and multi-peril crop insurance, and providing additional services to borrower such as

funds held accounts, lease placement and appraisal services.

In addition, the Farm Credit Council acts as a full-service federated trade association, which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

Upon request, stockholders of the Association will be provided with a CoBank Annual Report to Stockholders, which includes the combined financial statements of the Bank and its related Associations. The Association's financial condition may be impacted by factors that affect the Bank. The CoBank Annual Report discusses the material aspects of the District's financial condition, changes in financial condition, and results of operations. In addition, the CoBank Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation.

The CoBank Annual Report is available free of charge on CoBank's website, [www.cobank.com](http://www.cobank.com); or may be obtained at no charge by contacting the Association at 4635 W. Spruce, P.O. Box 13069, Fresno, California 93794-3069 or by calling (559) 277-7000. Upon request, Association members will be provided with a copy of the CoBank Annual Report. 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 reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements. Actual results may differ from these estimates. Significant estimates are discussed in these footnotes as applicable.

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. Management 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. On October 16, 2019, the FASB approved deferral of the effective date for certain entities for this guidance by two years, which will result in the new credit loss standard becoming effective for interim and annual reporting periods beginning after December 15, 2022. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the System’s 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. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance in 2019 did not materially impact the Association’s financial condition or its results of operations.

### **Loans and Allowance for Loan Losses**

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

Impaired loans are loans for which it is probable that principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in

accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan contract is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred is collected or otherwise discharged in full.

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. A concession is generally granted in order to minimize the Association’s economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan classified as a trouble debt restructuring is considered an impaired loan.

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. Fixed assets under construction represent construction in progress and are recorded in a similar named account. They remain in such an account until the assets are put in service, at which time the costs of these assets are transferred into their respective property, plant and equipment accounts to be depreciated.

### **Other Assets and Other Liabilities**

Other assets are comprised primarily of accounts receivable, prepaid expenses, pension assets, 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, 2019, 2018, and 2017, advertising costs included in other noninterest expense were \$101, \$89, and \$90, 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".



### 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows:

<b>As of December 31</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Real estate mortgage	\$ 783,124	\$ 803,992	\$ 714,765
Production and intermediate-term	254,647	239,756	218,455
Agribusiness:			
Cooperatives	72,807	78,673	66,224
Processing and marketing	82,234	84,830	78,580
Farm-related business	2,251	2,708	1,069
Energy	5,311	6,374	6,533
Lease receivables	25,301	30,964	30,236
<b>Total loans</b>	<b>\$ 1,225,675</b>	<b>\$ 1,247,297</b>	<b>\$ 1,115,862</b>

Unamortized deferred loan fees and costs totaled \$3.8 million, \$4.6 million, and \$4.5 million as of December 31, 2019, 2018, and 2017, 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, 2019:

	<b>Other Farm Credit Institutions</b>		<b>Non-Farm Credit Institutions</b>		<b>Total</b>	
	<b>Purchased</b>	<b>Sold</b>	<b>Purchased</b>	<b>Sold</b>	<b>Purchased</b>	<b>Sold</b>
Real estate mortgage	\$ 122,646	\$ 194,749	\$ -	\$ -	\$ 122,646	\$ 194,749
Production and intermediate-term	14,124	225,747	-	-	14,124	225,747
Agribusiness	138,100	18,866	-	-	138,100	18,866
Energy	5,311	-	-	-	5,311	-
Lease receivables	25,301	-	-	-	25,301	-
<b>Total loans</b>	<b>\$ 305,482</b>	<b>\$ 439,362</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 305,482</b>	<b>\$ 439,362</b>

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 \$16.8 million, \$41.8 million and \$48.2 million at December 31, 2019, 2018, and 2017, respectively. The decrease in 2019 is primarily due to paydowns on loans subject to Farmer Mac credit enhancements. 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 \$97 for 2019, \$183 in 2018 and \$217 in 2017 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 guaranteed volume with government agencies outstanding of \$5.0 million, \$6.1 million, and \$4.1 million at December 31, 2019, 2018, and 2017, 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.

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

<b>As of December 31</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Real estate mortgage			
Acceptable	<b>96.17%</b>	97.91%	97.88%
OAEM	<b>1.41%</b>	0.60%	1.52%
Substandard	<b>2.42%</b>	1.49%	0.60%
Total	<b>100.00%</b>	100.00%	100.00%
Production and intermediate-term			
Acceptable	<b>91.37%</b>	91.89%	90.91%
OAEM	<b>4.40%</b>	1.70%	8.63%
Substandard	<b>4.23%</b>	6.41%	0.46%
Total	<b>100.00%</b>	100.00%	100.00%
Agribusiness			
Acceptable	<b>95.30%</b>	96.55%	97.82%
OAEM	<b>2.55%</b>	0.00%	1.97%
Substandard	<b>2.15%</b>	3.45%	0.21%
Total	<b>100.00%</b>	100.00%	100.00%
Energy			
Acceptable	<b>0.00%</b>	100.00%	100.00%
OAEM	<b>100.00%</b>	0.00%	0.00%
Total	<b>100.00%</b>	100.00%	100.00%
Lease receivables			
Acceptable	<b>93.63%</b>	89.76%	99.69%
OAEM	<b>0.00%</b>	0.37%	0.31%
Substandard	<b>6.37%</b>	9.87%	0.00%
Total	<b>100.00%</b>	100.00%	100.00%
Total Loans			
Acceptable	<b>94.61%</b>	96.39%	96.57%
OAEM	<b>2.56%</b>	0.72%	2.93%
Substandard	<b>2.83%</b>	2.89%	0.50%
Total	<b>100.00%</b>	100.00%	100.00%

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

As of December 31	2019	2018	2017
Nonaccrual loans:			
Current as to principal and interest	\$ 9,329	\$ 5,939	\$ -
Past due	4,880	5,683	54
Total impaired loans	\$14,209	\$ 11,622	\$ 54

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:

	2019	2018	2017
Nonaccrual loans:			
Real estate mortgage	\$ 7,159	\$ 5,762	\$ 6
Production and intermediate-term	3,895	5,860	48
Agribusiness	3,155	-	-
Total nonaccrual loans	14,209	11,622	54
Accruing restructured loans	-	-	-
Accruing loans 90 days past due	-	-	-
Total impaired loans	14,209	11,622	54
Other property owned	-	-	-
Total high risk assets	\$14,209	\$ 11,622	\$ 54

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 2019, 2018, and 2017.



Additional impaired loan information is as follows:

	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Impaired Loans</b>	<b>Interest Income Recognized</b>
<b>December 31, 2019</b>					
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 7,159	\$ 7,448	\$ -	\$ 5,499	\$ 46
Production and intermediate-term	3,895	4,606	-	3,864	164
Agribusiness:					
Processing and marketing	3,155	3,155	-	259	-
<b>Total Impaired Loans</b>	<b>\$ 14,209</b>	<b>\$ 15,209</b>	<b>\$ -</b>	<b>\$ 9,622</b>	<b>\$ 210</b>

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

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2019, 2018, and 2017.

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.

<b>For the Year Ended December 31</b>	<b>2019</b>	2018	2017
Interest income recognized on:			
Nonaccrual loans	\$ 210	\$ 15	\$ -
Accrual loans 90 days or more past due	163	18	2
Interest income recognized on impaired loans	\$ 373	\$ 33	\$ 2

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

<b>For the Year Ended December 31</b>	<b>2019</b>	2018	2017
Interest income which would have been recognized under the original loan terms	\$ 924	\$ 622	\$ 8
Less: interest income recognized	(210)	(15)	-
Foregone interest income	\$ 714	\$ 607	\$ 8

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

	<b>Current Loans</b>	<b>30-89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Loans Outstanding</b>	<b>Accrual loans 90 days or More Past Due</b>
<b>December 31, 2019</b>					
Real estate mortgage	\$ 798,431	\$ 56	\$ 2,082	\$ 800,569	\$ -
Production and intermediate-term	255,017	41	2,150	257,208	-
Agribusiness	157,154	650	-	157,804	-
Energy	5,315	-	-	5,315	-
Lease receivables	25,651	-	-	25,651	-
Total	\$ 1,241,568	\$ 747	\$ 4,232	\$ 1,246,547	\$ -

	Current Loans	30-89 Days Past Due	90 Days or More Past Due	Total Loans Outstanding	Accrual loans 90 days or More Past Due
December 31, 2018					
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	\$ -

	Current Loans	30-89 Days Past Due	90 Days or More Past Due	Total Loans Outstanding	Accrual loans 90 days or More Past Due
December 31, 2017					
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	\$ -

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
<b>Allowance for Credit Losses:</b>						
Balance at December 31, 2018	\$ 439	\$ 3,781	\$ 1,699	\$ 26	\$ 842	\$ 6,787
Charge-offs	(32)	(33)	-	-	-	(65)
Recoveries	-	1	-	-	-	1
Provision for loan losses (loan loss reversal)	3	170	(388)	61	358	204
Balance at December 31, 2019	\$ 410	\$ 3,919	\$ 1,311	\$ 87	\$ 1,200	\$ 6,927
Ending balance: Allowance individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending balance: Allowance collectively evaluated for impairment	410	3,919	1,311	87	1,200	6,927
Balance at December 31, 2019	\$ 410	\$ 3,919	\$ 1,311	\$ 87	\$ 1,200	\$ 6,927
<b>Recorded Investments in Loans Outstanding:</b>						
Ending balance: Loans individually evaluated for impairment	\$ 7,159	\$ 3,895	\$ 3,155	\$ -	\$ -	\$ 14,209
Ending balance: Loans collectively evaluated for impairment	793,410	253,313	154,649	5,315	25,651	1,232,338
Balance at December 31, 2019	\$ 800,569	\$ 257,208	\$ 157,804	\$ 5,315	\$ 25,651	\$ 1,246,547

	Real estate mortgage	Production and intermediate- term	Agribusiness	Energy	Lease receivables	Total
<b>Allowance for Credit Losses:</b>						
Balance at December 31, 2017	\$ 393	\$ 3,203	\$ 1,422	\$ 41	\$ 999	\$ 6,058
Charge-offs	-	(566)	-	-	-	(566)
Recoveries	-	-	74	-	-	74
Provision for loan losses (loan loss reversal)	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
<b>Recorded Investments in Loans Outstanding:</b>						
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

	Real estate mortgage	Production and intermediate- term	Agribusiness	Energy	Lease receivables	Total
<b>Allowance for Credit Losses:</b>						
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
<b>Recorded Investments in Loans Outstanding:</b>						
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



#### 4. INVESTMENT IN COBANK

At December 31, 2019, 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	2019	2018	2017
Land, buildings and improvements	\$ 5,863	\$ 5,863	\$ 5,863
Furniture and equipment	2,044	1,997	1,944
Software	2,324	2,324	515
Automobiles	68	56	57
Constuction in Progress	140	-	-
	<b>10,439</b>	10,240	8,379
Less: accumulated depreciation and amortization	(4,843)	(4,249)	(4,075)
Total	<b>\$ 5,596</b>	\$ 5,991	\$ 4,304

The Association is obligated for rental payments under certain non-cancelable operating leases. Rental payments for the years ended December 31, 2019, 2018, and 2017 totaled \$66, \$65, and \$64,

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,

2020	\$ 67
2021	52
2022	30
2023	30
2024	30
Thereafter	60
Total	<b>\$ 269</b>

#### 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, 2019.

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 2.73 percent for the year ended December 31, 2019, compared with 2.36 percent for the year ended December 31, 2018, and 1.57 percent at December 31, 2017.

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

The committed funds as of December 31 are as follows:

	2019	2018	2017
Committed funds	<b>\$274,511</b>	\$ 272,567	\$ 271,809
Average rates	<b>1.87%</b>	1.11%	1.09%

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, 2019, 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, 2019:

	December 31, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
<b>Risk Adjusted:</b>				
Common equity tier 1 ratio	<b>16.85%</b>	4.50%	2.5% <sup>*</sup>	7.00%
Tier 1 capital ratio	<b>16.85%</b>	6.00%	2.5% <sup>*</sup>	8.50%
Total capital ratio	<b>17.36%</b>	8.00%	2.5% <sup>*</sup>	10.50%
Permanent capital ratio	<b>16.94%</b>	7.00%	–	7.00%
<b>Non-risk-adjusted:</b>				
Tier 1 leverage ratio	<b>19.79%</b>	4.00%	1.00%	5.00%
Unallocated retained earnings and equivalents leverage ratio	<b>20.86%</b>	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 FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. This regulation has not been utilized to date. The Association has not been called upon to

initiate any transfers and is not aware of any proposed action under this regulation.

### Description of Equities

Each owner of class C capital stock is entitled to a single vote. Other classes of borrower equities do not provide voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock.

At December 31, 2019, 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	149,800	yes	no
F - participation certificate	1,200	no	no

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

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

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

### 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 2019, the Association allocated 56 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	2019	2018	2017
CoBank	\$ 5,881	\$ 6,870	\$ 5,253
Farm Credit Foundations	10	9	10
District Associations	1,997	990	687
Total	\$ 7,888	\$ 7,869	\$ 5,950

Patronage distributed from CoBank was in cash and stock. The amount earned in 2019 was accrued and will be paid by CoBank in March 2020. The amount earned and accrued in 2018 was paid by CoBank in March 2019. The amount earned and accrued in 2017 was paid by CoBank in March 2018.

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

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

**9. INCOME TAXES**

The provision for income taxes follows:

<b>As of December 31</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Current			
Federal	\$ -	\$ -	\$ -
State	2	2	2
Deferred			
Federal	-	-	-
State	-	-	-
Provision for income taxes	\$ 2	\$ 2	\$ 2

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

<b>As of December 31</b>	<b>2019</b>		<b>2018</b>		<b>2017</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Federal tax at statutory rate	\$ 4,887	21%	\$ 4,190	21%	\$ 6,770	34%
State tax, net	1	-	1	-	1	-
Effect of non-taxable FLCA income	(5,137)	-22%	(4,987)	-25%	(7,291)	-37%
Adjustments to valuation allowance	251	1%	798	4%	(63)	-
Change in tax law/rates	-	-	-	-	584	3%
Other	-	-	-	-	1	-
Provision for income taxes	\$ 2	0%	\$ 2	0%	\$ 2	0%



Deferred tax assets and liabilities are comprised of the following:

<b>As of December 31</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Gross deferred tax asset:			
Allowance for loan losses	\$ 1,285	\$ 1,257	\$ 1,122
Nonaccrual loan interest	100	64	1
Net loss carryforward	1,439	982	637
Gross deferred tax asset	2,824	2,303	1,760
Less: valuation allowance	(1,993)	(1,742)	(944)
Deferred tax assets, net of valuation allowance	831	561	816
Gross deferred tax liability:			
Bank patronage allocations	(270)	-	(255)
Stock patronage distributions from System banks	(561)	(561)	(561)
Gross deferred tax liability	(831)	(561)	(816)
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 \$1,993 in 2019, \$1,742 in 2018, and \$944 in 2017. 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 losses recorded in years after December 31, 2017 of \$802 have 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, 2019, 2018, or 2017. 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 2016 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 \$70.9 million at December 31, 2019. 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 \$299.3 million at December 31, 2019, \$253.9 million at December 31,

2018, and \$271.1 million at December 31, 2017. The fair value of the plan assets was \$228.4 million at December 31, 2019, \$192.0 million at December 31, 2018 and \$200.7 million at December 31, 2017. 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 \$3.6 million in 2019, \$1.9 million in 2018, and \$3.6 million in 2017. The Association's allocated share of plan expenses included in salaries and employee benefits was \$300 for 2019, \$168 for 2018, and \$262 for 2017. Participating employers contributed \$16.0 million to the plan in 2019, 2018, and 2017. The Association's allocated share of these pension contributions was \$1.3 million in 2019, \$1.4 million in 2018, and \$1.2 million in 2017. 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 2020 is \$23 million. The Association's allocated share of these pension contributions is expected to be \$3.1 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 \$7 in 2019, \$5 in 2018, and \$28 in 2017. These expenses are equal to the Association's cash contributions for each year.

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 \$842 in 2019, \$803 in 2018, and \$643 in 2017.

## 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	2019	2018	2017
Beginning balance	\$ 33,333	\$ 59,706	\$ 44,731
New Loans	92,419	57,340	52,856
Repayments	(91,939)	(36,528)	(37,881)
Reclassifications <sup>(1)</sup>	(683)	(47,185)	-
Ending balance	\$ 33,130	\$ 33,333	\$ 59,706

<sup>(1)</sup>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, 2019, 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 \$10 in 2019, \$1,212 in 2018, and \$1,098 in 2017 to AgVantis for technology services including offboarding costs. The Association paid \$122 in 2019, \$126 in 2018, and \$149 in 2017 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 2019 and 2018, and \$2 in 2017. 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 2019, 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, 2019, \$525.5 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, 2019, the Association had \$7.2 million of standby letters of credit outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2020 to 2024. The maximum potential amount of future payments the Association is required to make under the guarantees is \$7.2 million.

The Association has set aside a reserve for unfunded commitments in the amount of \$291 at December 31, 2019, 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, 2019, 2018, and 2017.



**15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

Quarterly results of operations for the years ended December 31, 2019, 2018, and 2017, follow:

	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 8,491	\$ 8,240	\$ 8,210	\$ 8,085	\$ 33,026
Provision for loan losses (loan loss reversal)	171	62	108	(137)	204
Noninterest expense, net	1,363	2,531	2,634	3,028	9,556
Net income	\$ 6,957	\$ 5,647	\$ 5,468	\$ 5,194	\$ 23,266

	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

**16. SUBSEQUENT EVENTS**

The Association has evaluated subsequent events through March 13, 2020, 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, 2019, 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 2019.

### **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:** 2019 – 2022

**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 (Member-Owner and Past Chairman); 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, table grapes, 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 Alternate 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); and Victor and Arlyne Sahatdjian Family Trust (Trustee). Past affiliations with Drumwright Oilwell Services, LLC (Member) 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.

##### **Wayne Carstens, Director**

**Term of Office:** 2019-2022

**Committees:** Audit

**Board or Officer Experience:** Fresno Madera Farm Credit Director since 2019; Carstens Appraisal Services (Owner); Carstens Family Trust (Trustee); Fowler Lions Club (Board Member); and Real Estate Appraiser Association (Board Member and Class Instructor); Past affiliation with Accu-Rate Realty (Owner).

Mr. Carstens is a third generation farmer and farms grapes (juice and raisins) and walnuts. He is also an appraiser and real estate broker. Mr. Carstens is the owner of Carstens Appraisal Services.

##### **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 (President & Board Member); Family Farm Alliance (Treasurer & Board Member); Fresno County Farm Bureau (Board Member); CSUF Agriculture Foundation (Treasurer & Board Member); and San Luis & Delta-Mendota Water Authority (Board Member).

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:** Risk

**Board or Officer Experience:** Fresno Madera Farm Credit Director since 2018; 53 Pistachio Ranch, LP (General Partner); California Fig Advisory Board (Board Member); California Fresh 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 College 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.

#### **Steve Schafer, Director**

**Term of Office:** 2019 – 2022

**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 (Vice Chair)

**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); 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:** 2019 – 2022

**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 Remington Properties, LLC (Member).

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); Farmer's Hemp, LLC (Member); Riverbend West, LLC (Member); Western Custom Ag, LLC (Member) and Reclamation District #1606 (Trustee).

Mr. Yribarren is a fourth generation farmer and farms alfalfa seed, almonds, grapes (raisins), hemp, and wheat hay. Mr. Yribarren is also a vintner.

### **COMPENSATION OF DIRECTORS**

During 2019 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, 2019.

Name of Director	Number of Days Served at Board Meetings	Number of Days Served in Other Official Activities	Compensation Paid During 2019
Jeff Jue	8	27	\$ 42,750
Victor Sahatdjian	8	18	29,250
Wayne Carstens <sup>(1)</sup>	6	8	6,000
Daniel Errotabere	8	18	9,000
Kevin Herman	7	7	9,000
Allan Kantrowitz	8	20	24,000
Edward Martinazzi <sup>(2)</sup>	3	9	3,000
Steve Schafer	7	6	9,000
Lance Shebelut	8	5	9,000
Denise Waite	7	12	32,000
Jeff Yribarren	8	7	20,800
<b>Total Compensation</b>	<b>78</b>	<b>137</b>	<b>\$ 193,800</b>

<sup>(1)</sup> Mr. Carstens was elected to the Board during 2019.

<sup>(2)</sup> Mr. Martinazzi retired from the Board during 2019.

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 2019, as outlined above, amounted to \$193,800. The Association has adopted a policy concerning travel, subsistence and other related expenses as they apply to directors and senior officers. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to all directors as a group for travel, subsistence and other related expenses were \$8,756 in 2019, \$7,101 in 2018, and \$4,634 in 2017.

### **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 27 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 Kiggins, Senior Vice President and Chief Credit Officer**

Mr. Kiggins serves as ACA Senior Vice President and Chief Credit Officer and has 23 years of Farm Credit experience. Mr. Kiggins manages the credit administration function of the Association, including ensuring loans are properly structured, documented and are in compliance with applicable laws and regulations prior to closing. He is also responsible for ensuring that the Association's lending policies and guidelines are in compliance with FCA regulations and Board approved policies, as well as 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. Kiggins 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, Information Security Officer, and Corporate Secretary and has 22 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 29 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.

### **Pat Luis, Senior Vice President and Chief Risk Officer**

Mr. Luis was hired in November 2019 and serves as ACA Senior Vice President and Chief Risk Officer. He 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. Additionally, he oversees the Association's business intelligence reporting to create a program that ensures strong controls around data and fosters effective risk management within the organization. Mr. Luis is also a board member of the Pacific Coast Banking School. He has over 36 years of experience in various roles including leading a 16-state region covering the Midwest and Eastern United States. He has over 25 years of experience in all phases of credit and problem loan administration leading several nationwide teams with an emphasis in production Agriculture and Agribusiness.

### **Ken Brown, Senior Vice President and Appraisal Program Manager**

Mr. Brown serves as ACA Senior Vice President and Appraisal Program Manager and has 29 years of Farm Credit experience. Mr. Brown is responsible for the operation of the real estate and chattel appraisal department and ensures the delivery of credible, accurate and timely appraisals which are developed independently from credit delivery operations to mitigate risk. He was hired in April 1991 and has held his current position as Appraisal Program Manager since August 16, 1999. He is a Certified General Real Estate appraiser and is designated as an Accredited Rural Appraiser (ARA). Prior to joining Fresno Madera Farm Credit, Mr. Brown worked for Farmers Home Administration in agricultural lending and appraisal as an Assistant County Supervisor.

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 13, 2020 and the Report of Management, appearing as part of this Annual Report to Shareholders, are incorporated herein by reference.

### **COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS**

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



## 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 Farm Bureau ag roundtables to visiting foreign Ag Economists sponsored by the USDA Foreign Ag Service. We also attend and participate in numerous local conferences such as the California Certified Organic Farms (CCOF), National Small Farm Resource and Organic Fertilizer Association of California, the National Hmong American Farmers Conference, and the Latino Conferences 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 2019, 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 Fresno Fair, the Madera County Fair in Chowchilla, and the 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 2019 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 2017 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	2019	2018	2017
Young	10.11%	<b>11.89%</b>	11.75%	11.03%
Beginning	27.55%	<b>18.07%</b>	17.39%	15.60%
Small	67.22%	<b>18.27%</b>	19.14%	16.58%

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 2019 goals and results:

	Goal Number	Actual Number	Percent of Plan
Young	186	179	96%
Beginning	276	272	99%
Small	303	275	91%

	Goal Volume	Actual Volume	Percent of Plan Volume
Young	\$ 187,150	\$ 144,370	77%
Beginning	\$ 186,833	\$ 163,052	87%
Small	\$ 63,048	\$ 56,904	90%

We have established 2020 minimum goals based on our market information, efforts and historical results, we have included 2% 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

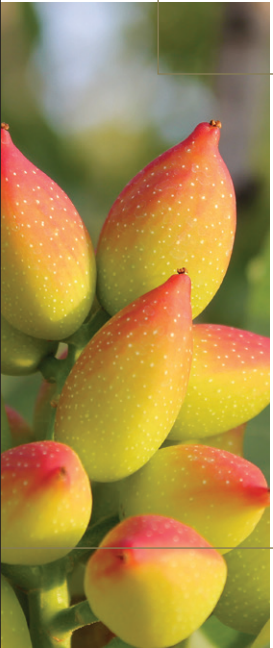
4635 West Spruce  
Fresno, CA 93722  
559.277.7000

## MADERA

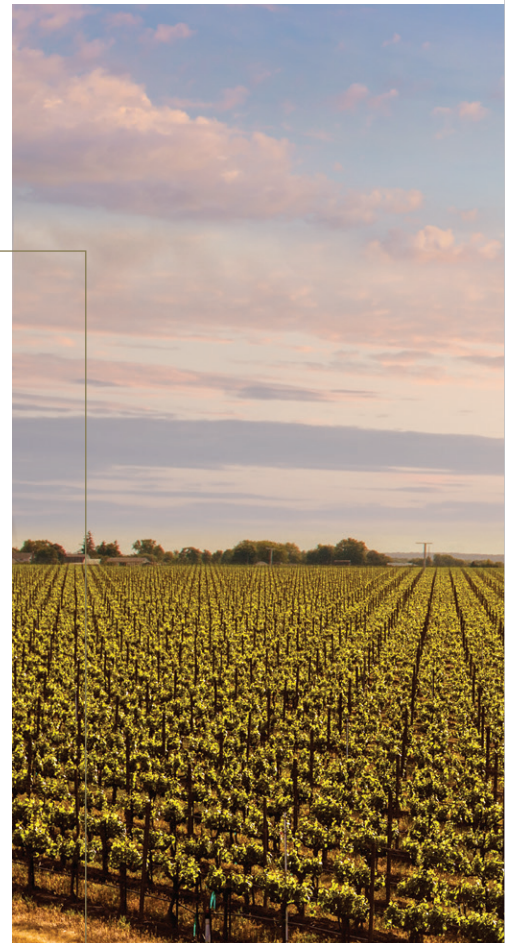
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