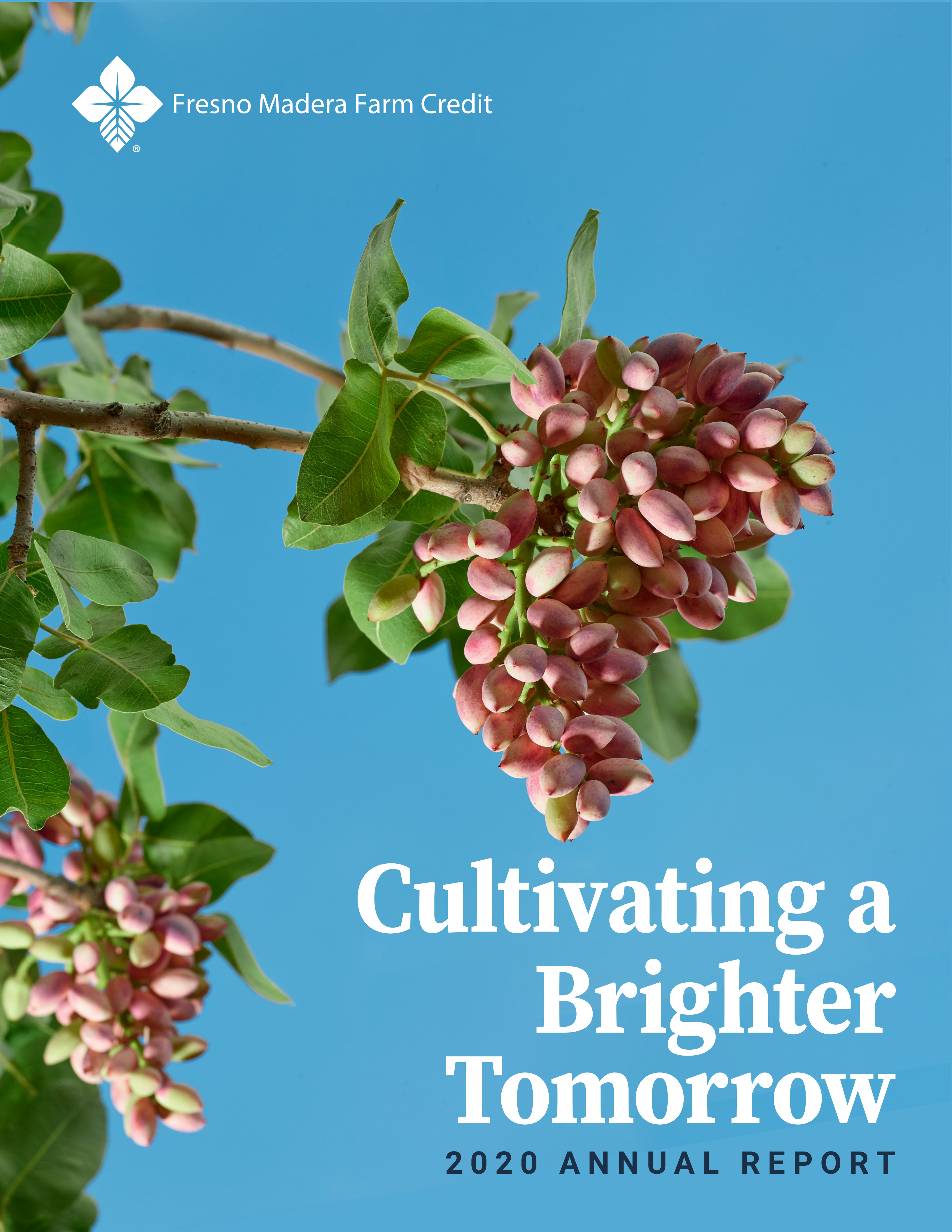
Fresno Madera Farm Credit



Cultivating a Brighter Tomorrow

2020 ANNUAL REPORT

Table of Contents

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

Your lender for generations.

- 100 years of ag experience
- We are here in good times and bad
- We always put customers first
- All decisions are made locally

Letter to Shareholders

Dear Shareholders,

It is our pleasure to share with you the results of our 2020 operations and financial outcomes. Given the unprecedented nature of the many events that impacted our communities and environment we are electing this year to expand our report to you so that we can deliver more perspective on how the institution delivered on our proposition to serve you as a singularly focused lender to Agriculture right here in the Central Valley and as a proud member of the Ag community here in our region.

Putting 2020 into Perspective

The pandemic and related disruption impacted our country and communities in ways that are difficult to fully appreciate or describe. The impacts and ripple effects of the pandemic have been **"unprecedented"**. We believe the Farm Credit System was created for unprecedented times – for uncertainty. Originating in the period between 1916 to 1933, the modern Farm Credit System was created out of the realization that during uncertain times – the reliability of our food system here in the United States, must be certain. We are proud to serve you – a membership that did their part to overcome the impacts of the pandemic and deliver on U.S. Agriculture's proposition to feed America and much of the world.

As a board and staff we understand the role we are here to play to create reliable access to capital and financial services no matter the environment or circumstance.

Maintaining our ability to operate

In mid-March of 2020, we made adjustments to protect our ability to operate throughout the pandemic. We modified our work posture so that we did not run the risk of our services or any of our departments being unavailable. All lobbies remained open with all services available – with the exception of a brief closure in Madera as a result of a major water leak in July.

We took a number of measures to change our processes so they could be operated reliably with many staff working remote. Many of these changes allowed us to accelerate already-planned process improvements that will permanently impact our efficiency beyond the pandemic.

Payroll Protection Program

In response to the widespread economic disruption caused by the pandemic the CARES Act became law on March 27, 2020. The newly passed law authorized a pool of $349 billion in funding to be distributed to businesses to offset some of the economic impacts created by the pandemic – the program became known as the Paycheck Protection Program, or "PPP".

Once it became clear that the U.S. Small Business Administration (SBA) would administer the program, Fresno Madera Farm Credit staff worked diligently to complete the process to become an approved lender so that our eligible members could have access. Our members have had access to all three rounds of funding that have been offered by the SBA; we believe creating this access was an important part of our service to the membership, by the end of fiscal year 2020 we funded 138 requests for just over $28.6 million of funding.

Serving our Members and the Region's Communities

In early summer it became clear that the pandemic's impact would have a persistent impact on our members and the many communities in our region; our board and management team evaluated the various ways we could have a positive impact on our membership and communities.

Early Patronage Advance

Over the course of 2020 the board had many discussions around how the Association could take steps to have the best possible impact on the Membership to offset or lessen the impacts experienced by the pandemic. The discussion led the board to authorize an early advance on 2020 patronage to put funds into the membership's hands early. The board approved an advance of 2020 patronage of $3.3 million for September 2020 – seven months earlier than our established practice.

The board made this decision with great care and consideration for the overall financial strength of Fresno Madera Farm Credit; they made certain the amount was safe for the organization while meaningful to the membership.

Supporting our Communities

Fresno Madera Farm Credit is proud of our long-term relationship with the Central California Food Bank; we have found many ways over the years to support their mission to improve food security in our region which include both Fresno and Madera counties.

As the pandemic's impact on food security in the region became evident, we evaluated ways we could expand our normal contributions to support those elevated needs. Each year, our $12,500 donation is matched by our funding bank, CoBank (100% match) and separately Gar Bennett (50% match) to increase the total to $37,000.

In the summer of 2020, the board authorized $15,000 that could be activated by matching 100% of any board member or staff member donation. These additional funds combined with those originally budgeted funds created a final donation to the Central California Food Bank of $82,500 after all matching funds were applied in a year that the needs for this support was profoundly elevated as a result of the pandemic. We appreciate the impact that *Gar Bennett's Feeding Families Fund Drive* had in magnifying those September contributions.

Investing in our Future

We understand the need to invest in our future and each year identify work that will improve our capacity to meet your needs and increase our efficiency. In 2020 we commenced work on projects that we believe will impact how you experience your service with us.

Online Banking Upgrade

In 2021 Members will have more online banking options. After March, members will be able to perform more transactions including directing available loan funds to your checking account, viewing your billing statements, and making ACH payments. These capabilities will be available on your mobile device as well; all with increased security features to keep your information secure at all times.

Transparency into our Loan Process

We are in the process of upgrading the capability of our loan systems so that you will have more visibility into the status of your loan and servicing requests. These upgrades will take time to develop however once fully realized – these investments will make the steps in your loan process clearer to you and our staff that are providing your service!

Updating Madera County Location

Fresno Madera has nearly 105 years of committed service to this region; our existing location in Madera located at North I and 4th Street has been in service for 45 years. The board and management team have been undertaking a discussion now for several years to address the aging state of our current building as well as our interest in exploring options around where we locate our facility if we were to make a change. After confirming our current and future needs in our planning discussions – we pursued a process and have now finalized the purchase of a lot near the intersection of Avenue 17 and Highway 99 in Madera; construction at that location will begin in June 2021. We want to maintain a consistent presence in our marketplace and we look forward to ushering in this next chapter of Fresno Madera Farm Credit, in Madera County.

Financial Results

We believe our biggest success was fulfilling our mission responsibility to serve our members over the course of 2020; it was a year of opportunity in this regard. The financial outcomes experienced from our fiscal year 2020 were strong and the result of your ongoing support of our organization. The board and management team are committed to making certain that the organization runs efficiently while making investments for the future so that the organization is well-positioned to meet your needs not only today – but for the next generation as well.

Earnings

The majority of our earnings come from interest we collect on outstanding loan balances. The performance of our loans can vary with the factors that influence the food and agribusiness sector in our region. These factors are discussed in detail in the management discussion and analysis that are contained in the notes of this report.

Net Interest Income

Our net interest income for 2020 did not change materially from last year despite an increase in our average outstanding loan volume of 2.7% and an increase in year over year loans outstanding of 5.4%, or $65.9 million. While our loans increased, our net interest margin decreased from 2.72% to 2.66% which lowered the amount we earn from our capital. The lower rates were the result of the Fed's move to lower short-term interest rates after the pandemic slowed economic activity in the U.S. economy. The benefit we received from increased volume was somewhat muted by the decreases in earnings on capital. Net interest income for 2020 was just 0.48% higher in 2020, or $158 thousand.

Non-Interest Income

We observed an 18.6% or $1.7 million increase in our non-interest income from last year. The increase was the result of several factors including the collection of fees from loans approved under the PPP program mentioned earlier as well as refunds we received from premiums we paid to the Farm Credit Insurance Corporation in previous years. We also received increased patronage from CoBank and other Farm Credit institutions on loan participations we have sold.

Non-Interest Expense

Our operating expenses increased by 4.1% from 2019 or $757 thousand; the majority of the increase was the result of increased expenses in the area of salaries and information technology. We want to use technology and people to increase our capacity to impact the customer experience and increase our overall efficiency.

Our expenses were lower than planned as a result of significantly reduced expenditures on travel and training that required travel.

Allowance for Loan Loss and Credit Quality

Compared to 2019 we took $138 thousand more in allowance for loan loss in 2020; the increase was the result of our loan growth and slightly elevated credit risk in our portfolio. Our overall credit quality remained strong as 93.40% of our loans were rated Acceptable, 4.99% of our outstanding loans indicated potential weakness, and 1.61% were rated Substandard.

Net Income

As a result of our increased loan volume, higher non-interest income and controlled operating expenses we achieved a net income of $24.3 million which was a 4.4% increase from 2019. This level of net income drove a return on assets of 1.85% which slightly exceeds the board target range for Association profitability.

We believe that strong earnings are a critical financial resource that must be maintained at consistent levels. Earnings that aren't necessary to retain are distributed to our members as patronage distributions.

Capital and Patronage

The Fresno Madera Farm Credit board of directors understand how important capital planning is to the process of making certain that we have enough high-quality capital to support the risks in our institution. They have committed significant discussion at the Risk Committee and board level to establishing and maintaining capital minimums and target levels for key capital ratios.

Patronage

There is no question that our patronage program is one of the most unique and compelling aspects of our value proposition with our membership.

After addressing the financial needs of the organization including establishing allowance for potential loan loss, accounting for potential loan loss as well as planning for loan growth, our remaining earnings are distributed as patronage dividends.

In total the board approved a record high patronage distribution of $12.7 million, or 0.80% of patronage sourced volume for 2020. An initial advance of $3.3 million was paid to members in September to put funds in the hands of our members much earlier than usual to offset the impacts of the pandemic. The remaining $9.4 million will be advanced to members in March. The amount of patronage paid is 52% of our 2020 total net income.

Capital

Member capital increased to $289.3 million at the end of the fiscal year 2020; this 4.2% 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 2020 which is consistent with the previous year end. We also want to emphasize that in addition to the quantity of capital—the quality of our capital is high as the vast majority is comprised of retained earnings from previous years. As a result of this quantity and quality, we are comfortably in excess of all board and regulatory capital ratio minimums.

Summary

Our staff and board take tremendous pride in the opportunity you've given us to be your financial partner. The board and management team are committed to making sure that the aspiration of the organization continues to be aligned with your current and future needs and we remain committed to fulfilling the potential of the organization and delivering on our mission to serve the agriculture in our region. As always, we appreciate the trust you place in us and will continue to earn it every day.

Jeff Jue

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

Keith H

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

2020 Board of Directors

Jeff Jue
Board Chairman

Victor Sahatdjian
1st Vice Chairman

Jeff Yribarren
2nd Vice Chairman

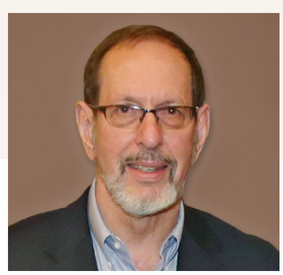
Wayne Carstens
Board Member

Daniel Errotabere
Board Member

Kevin Herman
Board Member

Steve Schafer
Board Member

Lance Shebelut
Board Member



Allan Kantrowitz
Appointed Director

Denise Waite
Appointed Director

2020 Management Team

Keith Hesterberg
Chief Executive Officer
President

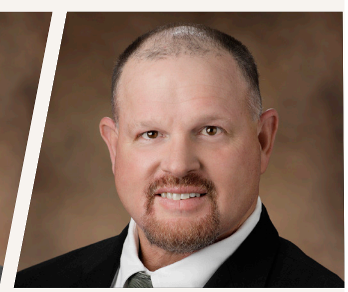
Doug Weber
Senior Vice President
Co-Chief Credit Officer

Joe Soto
Senior Vice President
Chief Financial Officer

Stephanie Graham
Senior Vice President
Chief Administrative Officer

Dan Kiggens
Chief Risk Officer/
Co-Chief Credit Officer

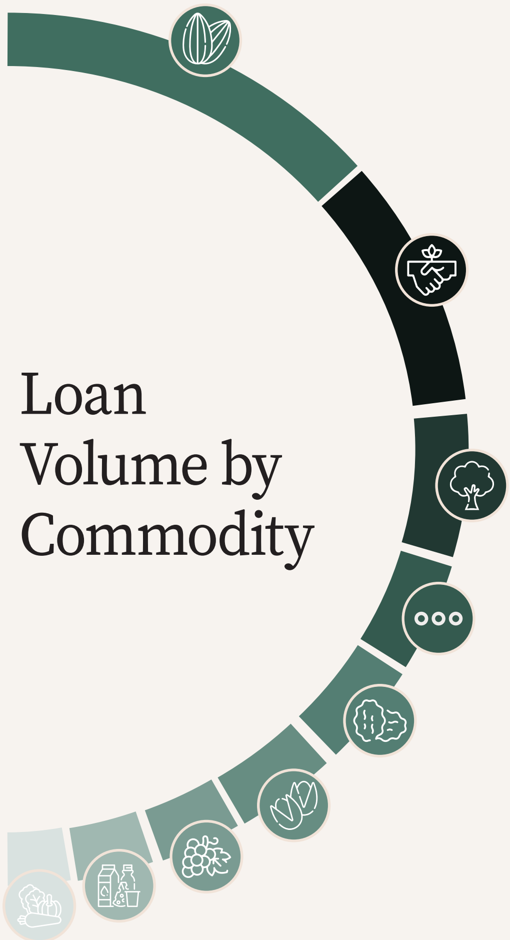
David Ylarregui
Senior Vice President
Relationship Management



Ken Brown
Senior Vice President
Appraisal Program Manager

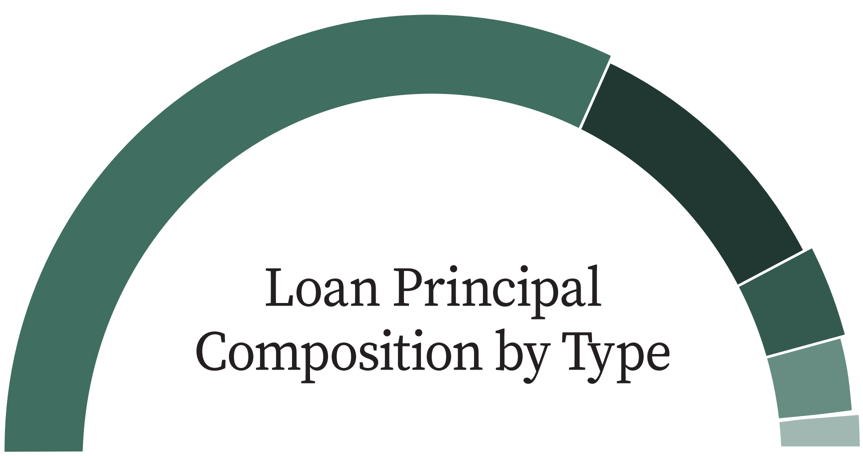
2020 Year in Review

Loan Volume by Commodity



31%	Almonds
19%	AG Related Business
10%	Tree Fruit
10%	Other
7%	Raisins
7%	Pistachios
6%	Wine & Table Grapes
5%	Dairy
5%	Vegetables & Melons

Loan Principal Composition by Type



63%	Real Estate Mortgage
21%	Production & Intermediate-Term
7%	Processing & Marketing
7%	Cooperatives
2%	Lease Receivables

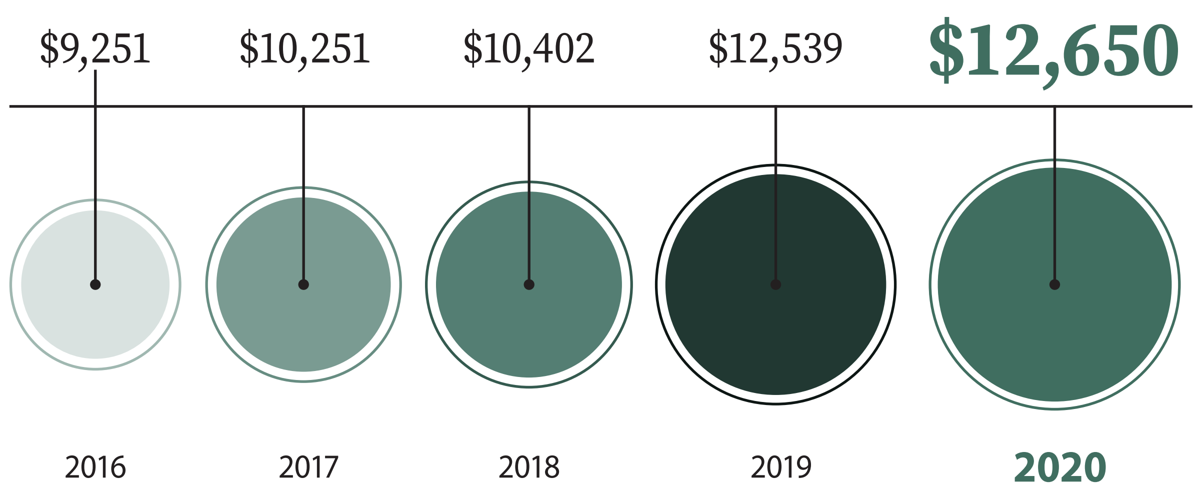
	2020	2019	2018	2017	2016
Patronage Distribution Declared	$12,650	$12,539	$10,402	$10,251	$9,251
Net Income *Dollars in Thousands*	$24,288	$23,266	$19,953	$19,910	$20,377
Loan Principal	$1,291,568	$1,225,675	$1,247,297	$1,115,862	$1,056,746
Permanent Capital Ratio	16.93%*	16.94%*	16.98%*	18.25%*	18.48%
Total Capital Ratio	17.36%	17.36%	17.40%	18.67%	-
Return on Average Assets	1.85%	1.82%	1.62%	1.81%	1.84%
Efficiency Ratio	44.0	44.3	47.5	43.4	40.2
Nonaccrual Loans *As % of Total Loans*	0.39%	1.16%	0.93%	0.00%	0.00%
Total Assets *Dollars in Thousands*	$1,363,512	$1,305,935	$1,326,325	$1,174,974	$1,122,152
Total Member Capital *Dollars in Thousands*	$289,306	$277,666	$266,958	$257,390	$247,731
Acceptable/OAEM Volume *As % of P & I*	98.39%	97.17%	97.11%	99.5%	100.0%

**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 $50 Million Declared Since 2016

Dollars in Thousands



MARCH 16, 2021

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 2020 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 Price Water House Coopers 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 controls 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 2020 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

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

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

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

MARCH 16, 2021

Report on Internal Control Over Financial Reporting

Fresno Madera Farm Credit's principal executives and principal financial officers are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting 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, 2020. 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's management concluded that as of December 31, 2020, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2020.

Keith Hesterberg

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

Joe Soto

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

MARCH 16, 2021

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 2020, 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 Price Water House Coopers, LLP (PwC) as the Association's independent auditors for 2020. The fees for professional services rendered for the Association by its independent auditor, PwC, during 2020 were $108,000 for audit services, $26,700 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, 2020 (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, 2020 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				
	2020	2019	2018	2017	2016
Consolidated Statement of Condition Data					
Loans	**$ 1,291,568**	$ 1,225,675	$ 1,247,297	$ 1,115,862	$ 1,056,746
Less allowance for loan losses	**7,370**	6,927	6,787	6,058	5,780
Net loans	**1,284,198**	1,218,748	1,240,510	1,109,804	1,050,966
Investment in CoBank, ACB	**40,398**	38,703	36,840	32,001	31,539
Other assets	**38,916**	48,484	48,975	33,169	39,647
Total assets	**$ 1,363,512**	$ 1,305,935	$ 1,326,325	$ 1,174,974	$ 1,122,152
Obligations with maturities of one year or less	**$ 1,073,338**	$ 1,027,519	$ 1,058,601	$ 916,877	$ 873,804
Obligations with maturities longer than one year	**474**	459	443	443	404
Reserve for unfunded commitments	**394**	291	323	264	213
Total liabilities	**1,074,206**	1,028,269	1,059,367	917,584	874,421
Capital stock and participation certificates	**757**	755	774	757	757
Unallocated retained earnings	**288,549**	276,911	266,184	256,633	246,974
Total members' equity	**289,306**	277,666	266,958	257,390	247,731
Total liabilities and members' equity	**$ 1,363,512**	$ 1,305,935	$ 1,326,325	$ 1,174,974	$ 1,122,152

	For the Year Ended December 31				
	2020	2019	2018	2017	2016
Consolidated Statement of Income Data					
Net interest income	**$ 33,184**	$ 33,026	$ 32,157	$ 29,163	$ 27,995
Patronage distribution from Farm Credit institutions	**8,594**	7,888	7,869	5,950	5,435
Provision for loan losses (Loan loss reversal)	**342**	204	1,221	310	(558)
Noninterest expense, net	**17,200**	17,442	18,850	14,891	12,783
(Benefit from) provision for income taxes	**(52)**	2	2	2	828
Net income	**$ 24,288**	$ 23,266	$ 19,953	$ 19,910	$ 20,377
Key Financial Ratios					
For the Year					
Return on average assets	**1.85%**	1.82%	1.62%	1.81%	1.84%
Return on average members' equity	**8.36%**	8.28%	7.37%	7.71%	8.24%
Net interest income as a percentage of average earning assets	**2.66%**	2.72%	2.74%	2.79%	2.64%
Net (recoveries) charge-offs as a percentage of average loans	**(0.01%)**	0.01%	0.04%	<0.01%	(0.01%)
At Year End					
Members' equity as a percentage of total assets	**21.22%**	21.26%	20.13%	21.91%	22.08%
Debt as a ratio to members' equity	**3.71:1**	3.70:1	3.97:1	3.57:1	3.53:1
Allowance for loan losses as a percentage of loans	**0.57%**	0.57%	0.54%	0.54%	0.55%
Common equity tier 1 (CET1) capital ratio	**16.84%**	16.85%	16.90%	18.16%	N/A
Tier 1 capital ratio	**16.84%**	16.85%	16.90%	18.16%	N/A
Total capital ratio	**17.36%**	17.36%	17.40%	18.67%	N/A
Tier 1 leverage ratio	**19.45%**	19.79%	19.40%	21.08%	N/A
Unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio	**20.63%**	20.86%	20.10%	21.81%	N/A
Permanent capital ratio	**16.93*%**	16.94%*	16.98%*	18.25%*	18.48%
Other					
Cash patronage distributions declared	**$ 12,650**	$ 12,539	$ 10,402	$ 10,251	$ 9,251
Cash patronage distributions paid	**$ 15,802**	$ 10,402	$ 10,251	$ 9,251	$ 6,293

*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.

Management's Discussion and Analysis

(Unaudited)

Introduction

The following discussion summarizes the financial position and results of operations of Fresno Madera Farm Credit, ACA (the Association) for the year ended December 31, 2020. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact, our financial condition and results of operations. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, footnotes and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

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

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

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

We are one of 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. The territory we serve 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 ensure compliance with its general financing agreements with the Association and each subsidiary.

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

We purchase technology and other operational services from 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 Farm Bill governs 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 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.

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 experienced downward pressure in general from disruption in supply chains as a result of the COVID-19 pandemic along with continued labor, regulation, and trade issues in 2020.

While certain commodities experienced below breakeven prices, due primarily to disruptions within the food service industry and school closures, other products grown and produced within our loan service area (LSA) enjoyed strong prices and product demand. The labor supply has remained adequate, with crops harvest and processed in a timely manner with limited disruption reported. Further, many of our members were able to access capital through government funded support programs including the U.S. Small Business Administration's (SBA) Payroll Protection Program and the Coronavirus Food Assistance Program, which helped offset lost revenue. Select commodities including wine and raisin grapes, dairy, and almonds experienced reduced pricing for their products in 2020. 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. Additional commodity 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 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 2019/2020 season was below average and as a result the water district deliveries were slightly lower than that received in an average year. Despite less surface water being available, most of our borrowers were able to produce and harvest their crops without material changes to their cropping plans. Management views the risks associated with drought conditions and regulations related to the implementation of the 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 that were submitted in 2020 are analyzed.

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 2020, we recognized net income of $24.3 million as compared to $23.3 million and $19.95 million for 2019 and 2018, respectively. The increase in 2020 is primarily due to an increase in loan fee income and increased patronage distributions from Farm Credit institutions. Loan fees increased primarily as a result of our participation in the Coronavirus Aid, Relief, and Economic Security (CARES) Act – SBA Paycheck Protection Program (PPP). The increase in net income in 2019 was primarily the result of a decrease in our provision for loan losses and noninterest expense. The following table reflects key performance results as of December 31:

($ in thousands)	**2020**	2019	2018
Net income	**$ 24,288**	$ 23,266	$ 19,953
Net interest income	**$ 33,184**	$ 33,026	$ 32,157
Net interest margin	**2.66%**	2.72%	2.74%
Return on average assets	**1.85%**	1.82%	1.62%
Return on average members' equity	**8.36%**	8.28%	7.37%

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

($ in thousands)	**2020 vs 2019**	2019 vs 2018
Net income, prior year	**$ 23,266**	$ 19,953
Increase (Decrease) due to:		
Interest income	**(14,841)**	5,595
Interest expense	**14,999**	(4,726)
Net interest income	**158**	869
Provision for loan losses	**(138)**	1,017
Noninterest income	**1,705**	(304)
Noninterest expense	**(757)**	1,731
Provision for income tax	**54**	-
Total increase in net income	**1,022**	3,313
Net income, current year	**$ 24,288**	$ 23,266

Net Interest Income

Net interest income for 2020 was $33.2 million compared with $33.0 million for 2019 and $32.2 million for 2018. 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 $0.2 million or 0.5% from the prior year primarily due to higher average loan volume, lower interest paid on funds held accounts driven by a depressed rate environment, and an increase in interest income recovered on nonaccrual loans. This was partially offset by a decrease in 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 2020 and 2019:

($ in thousands)	**2020 vs. 2019**	2019 vs. 2018
Net interest income, prior year	**$ 33,026**	$ 32,157
Increase (Decrease) due to:		
Interest rates earned	**(16,721)**	3,340
Interest rates paid	**15,244**	(3,617)
Volume of interest-bearing assets & liabilities	**928**	936
Interest income on nonaccrual loans	**707**	210
Increase in net interest income	**158**	869
Net interest income, current year	**$ 33,184**	$ 33,026

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.

	2020	2019	2018
Net interest margin	**2.66%**	2.72%	2.74%
Interest rate on:			
Average loan volume	**3.60%**	4.92%	4.61%
Average debt	**1.15%**	2.69%	2.31%
Interest rate spread	**2.45%**	2.23%	2.30%

As a result of the Federal Reserve managing the Fed Funds Rate, short term interest rates continued to decline in 2020. 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 first and second quarters of 2020 consistent with the decrease in our variable cost of funds. Our net interest margin decreased from previous years primarily due to a decrease in the Association's earnings from capital. This was partially offset by an increase in income recovered on nonaccrual loans. 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 $342 thousand in 2020, $204 thousand in 2019, and $1.2 million in 2018. The provision for loan loss recorded in 2020 was primarily the result of an overall increase in our exposure attributable to increased loan volume coupled with some deterioration of our portfolio's credit quality. The provision reflects the changes in our expense estimate for the risk of losses in our loan portfolio. Further discussion of the provision for loan losses can be found in Note 3, "Loans and Allowance for Loan Losses," of the accompanying consolidated financial statements.

Noninterest Income

During 2020, we recorded noninterest income of $10.9 million, compared with $9.1 million in 2019 and $9.5 million in 2018. Noninterest income is primarily comprised of patronage distributions, which reflect patronage income on direct borrowings from CoBank as well as loan participation activity with CoBank and other Farm Credit associations. Patronage income increased compared to 2019 due to an increase in distributions from our participations sold portfolio. The Association also received a one-time special patronage distribution from CoBank in the current year which contributed to the increase.

Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. Patronage earned from CoBank was $6.5 million in 2020, $5.9 million in 2019, and $6.9 million in 2018. This comprises 60%, 64% and 72% of total non interest income for 2020, 2019 and 2018, 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 transitioned 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 2020, noninterest income was positively impacted by $968 thousand in loan fees collected related to our participation in the CARES Act – SBA Paycheck Protection Program. 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 in 2020, 2019, and 2018.

Noninterest Expense

Noninterest expense for 2020 increased $757 thousand, or 4%, to $19.5 million compared with $18.7 million in 2019 primarily due to increases in salaries and employee benefits expense and information technology expense. Salaries and employee benefits expense increased primarily due to annual merit increases and an increase in the accrual of short-term and long-term incentive compensation programs. The increase in information technology expense is attributable to costs incurred in the development of an online banking platform for the Association's borrowers as well as the implementation of new customer relationship management software. This was partly offset by a decrease in training and travel expenses mainly due to postponing or cancelling scheduled training and offsite events due to the COVID-19 pandemic.

Provision for/Benefit from income taxes

We recorded a benefit from income taxes of $52 thousand in 2020 compared to a provision for income taxes of $2 thousand in 2019 and 2018. As a result of the CARES Act, the Association amended its 2013 tax return to carryback the net operating loss generated in 2018 and claim the related federal tax refund in the amount of $54 thousand, partly offset by the franchise state tax. The provision for income taxes in 2019 and 2018 year are franchise state taxes. For additional information refer to Note 9, "Income Taxes", of the accompanying consolidated financial statements.

Loan Portfolio

Total loans outstanding were $1.29 billion at December 31, 2020, an increase of $65.9 million, or 5.4%, from total loans at December 31, 2019 of $1.23 billion. Our loan volume increase was driven by new loan originations across multiple segments of the portfolio along with increased utilization of existing loan commitments. The types of loans outstanding are reflected in the following table.

As of December 31	2020	2019	2018
Real estate mortgage	**63%**	64%	65%
Production and intermediate-term	**21%**	21%	19%
Agribusiness:			
Cooperatives	**7%**	6%	6%
Processing and marketing	**7%**	7%	7%
Farm related business	**0%**	0%	0%
Energy	**0%**	0%	1%
Lease receivables	**2%**	2%	2%
Total	**100%**	100%	100%

Real estate mortgage loans account for 63% of total loan volume. While this represents a slight decrease in percentage of total volume from previous year, volume in this category increased $34.3 million. The increase is attributed to new loan originations partially offset by scheduled payments and pay downs on revolving equity lines of credit in the existing portfolio. These long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years.

Production and intermediate-term loans remained consistent with prior year end by percentage of overall volume and accounts for 21% of total loan volume. Volume in this category increased by $10.7 million as a result of new loan originations coupled with seasonal increases for year-end tax planning partially offset by reductions in criticized loan assets. 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 14% of our total loan portfolio, which is an increase from the prior year end. The total loan volume in this category increased by $28.6 million as a result of new loan originations and increased seasonal utilization of operating lines offset by an unscheduled payoff in the energy segment.

We experienced an increase in average accruing loan volume of 2.5% with average volume at $1.23 billion for 2020 compared to $1.20 billion for 2019. This was driven by new business within the direct loan portfolio along with increased seasonal utilization of existing loan commitments partially offset by unscheduled loan payoffs. Overall new business developed in 2020 amounted to $299 million with 81% in direct loans and 19% 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)	**2020**	2019	2018
Purchased	**$ 340,605**	$ 305,482	$ 294,768
Sold	**$ (424,753)**	$(439,362)	$(458,956)

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	**2020**	2019	2018
Fresno	**47%**	47%	48%
Madera	**18%**	19%	18%
Other	**35%**	34%	34%
Total	**100%**	100%	100%

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

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

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

Commodities	**2020**	2019	2018
Almonds	**31%**	29%	28%
Agribusiness	**19%**	19%	20%
Tree fruit	**10%**	11%	10%
Raisins	**7%**	8%	8%
Pistachios	**7%**	6%	5%
Wine & table grapes	**6%**	8%	7%
Dairy	**5%**	6%	6%
Vegetables & melons	**5%**	5%	7%
Other	**10%**	8%	9%
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 31% of our loan portfolio. While almond growers have enjoyed strong pricing for many years, the record 2020 crop size, combined with reduced exports attributed to several factors including COVID-19 and ongoing trade negotiations, have negatively impacted prices. Though the current pricing remains above breakeven for many growers, operations with higher cost structures (including elevated water costs and high debt service requirements) may see tighter margins, and could be more susceptible to operating losses. Many in the industry expect the current lower prices to be short-term in nature, as sales have steadily been increasing and marketers have been successful in working through inventory. Management continues to closely monitor the economics of the industry, and work with borrowers who are experiencing operational challenges.

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 10% of our total portfolio, which is a slight decrease 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 preceding 2020; however given increased product demand attributed to government support programs and a shift in consumer purchasing due to stay-at-home orders, prices strengthened in 2020 and most of our tree fruit growers are reporting preliminary earnings that support a return to profitability.

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.

Amount outstanding			
($ in thousands)	**2020**	2019	2018
$1 - $250	**$ 66,369**	$ 57,550	$ 56,994
$251 - $500	**104,805**	99,405	105,931
$501 - $1,000	**163,801**	156,193	167,893
$1,001 - $5,000	**658,335**	605,888	632,726
$5,001 - $25,000	**298,258**	306,639	283,753
Total	**$ 1,291,568**	$ 1,225,675	$ 1,247,297

Number of loans			
($ in thousands)	**2020**	2019	2018
$1 - $250	**669**	573	588
$251 - $500	**284**	273	286
$501 - $1,000	**227**	218	234
$1,001 - $5,000	**315**	288	287
$5,001 - $25,000	**40**	42	38
Total	**1,535**	1,394	1,433

The principal balance outstanding at December 31, 2020 for loans $500 thousand and less account for 13.3% of loan volume but 62% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. Loans above $5 million comprise 23% of our loan volume and are attributable to 40 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 its website at www.farmermac.com. The amount of loans subject to these Farmer Mac credit enhancements was $12.7 million at December 31, 2020, $16.8 million at December 31, 2019, and $41.8 million at December 31, 2018. The decrease in 2020 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 $52 thousand in 2020, $97 thousand in 2019, and $183 thousand in 2018.

In addition, we obtained Federal Guarantees through the Farm Service Agency and State of California Guarantees through Valley Small Business Development Corporation. Additionally in 2020, the Association originated loans made available through the Paycheck Protection Program (PPP), which include a 100% guarantee from the Small Business Administration (SBA). During 2020, the Association originated 138 PPP loans with an aggregate volume of $28.6 million.

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 $26.1 million at year-end 2020, $5.0 million at year-end 2019, and $6.1 million at year-end 2018.

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, 2020.

($ in thousands)	Commitments to extend credit	Standby letters of credit	Total commitments
Less than 1 year	$ 189,038	$ 7,652	$ 196,690
1 – 3 years	135,703	31	135,734
3 – 5 years	41,509	-	41,509
Over 5 years	197,355	-	197,355
Total	$ 563,605	$ 7,683	$ 571,288

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)	2020	2019	2018
Nonaccrual loans:			
Real estate mortgage	**$ 2,567**	$ 7,159	$ 5,762
Production and intermediate-term	**-**	3,895	5,860
Agribusiness	**2,528**	3,155	-
Total nonaccrual loans	**5,095**	14,209	11,622
Accruing restructured loans	**-**	-	-
Accruing loans 90 days past due	-	-	-
Total impaired loans	**5,095**	14,209	11,622
Other property owned	**-**	-	-
Total high risk assets	**$ 5,095**	$ 14,209	$ 11,622
Nonaccrual loans to total loans	**0.39%**	1.16%	0.93%
High risk assets to total loans	**0.39%**	1.16%	0.93%
High risk assets to total members' equity	**1.76%**	5.12%	4.35%

Total high risk assets decreased $9.1 million to $5.1 million as of December 31, 2020 from $14.2 million as of December 31, 2019. High risk assets decreased primarily due to the reinstatement of $6.7 million in nonaccrual loans to accrual status during 2020. For the years ended December 31, 2020, 2019 and 2018, there were eight, sixteen and twelve loans classified as nonaccrual, respectively.

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

($ in thousands)	2020	2019	2018
Nonaccrual loans current	**$ 2,315**	$ 2,991	$ 5,939
Nonaccrual loans past due	**2,780**	4,880	5,683
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, 2020, 2019, or 2018.

Credit Quality

We review the credit quality of the loan portfolio on an ongoing 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:

	2020	2019	2018
Acceptable	**93.40%**	94.61%	96.39%
OAEM	**4.99%**	2.56%	0.72%
Substandard	**1.61%**	2.83%	2.89%
Doubtful	**0.00%**	0.00%	0.00%
Total	**100.00%**	100.00%	100.00%

During 2020, overall credit quality increased slightly with loans classified as "Acceptable" and "OAEM" accounting for 98.39% of volume at December 31, 2020 compared to 97.17% at December 31, 2019. 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 2020, 2019, or 2018. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans were at 0.0% at December 31, 2020 and December 31, 2019. Loan delinquencies equated to 0.4% at December 31, 2018.

To ensure the quality of our loan portfolio remains strong, we maintain a safe credit culture with robust underwriting standards. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices, each of which can be significantly impacted by uncontrollable events. While credit quality has remained strong, less favorable economic conditions has led to softening prices in certain commodities, which is expected to cause tighter operating margins for some of our borrowers. This could lead to some portfolio deterioration and lower credit quality than achieved in recent years. We believe our robust capital position, adequate allowance for loan loss, and 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)	**2020**	2019	2018
Balance at beginning of year	**$ 6,927**	$ 6,787	$ 6,058
Charge-offs:			
Real estate mortgage	**-**	32	-
Production and intermediate-term	**1**	33	566
Total Charge-offs	**1**	65	566
Recoveries:			
Production and intermediate-term	**102**	1	-
Agribusiness	**-**	-	74
Total Recoveries	**102**	1	74
Net (recoveries) charge-offs	**(101)**	64	492
Provision for loan losses	**342**	204	1,221
Balance at December 31	**$ 7,370**	$ 6,927	$ 6,787
Net (recoveries) charge-offs to average net loans	**-0.01%**	0.01%	0.04%

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

($ in thousands)	2020	2019	2018
Real estate mortgage	**$ 386**	$ 410	$ 439
Production and intermediate-term	**4,874**	3,919	3,781
Agribusiness	**1,675**	1,311	1,699
Energy	**-**	87	26
Lease receivables	**435**	1,200	842
Total	**$ 7,370**	$ 6,927	$ 6,787

The allowance for loan losses increased $443 thousand from December 31, 2019 to $7.4 million as of December 31, 2020. 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:

	2020	2019	2018
Allowance as a percentage of:			
Total Loans	**0.57%**	0.57%	0.54%
Nonaccrual loans	**144.65%**	48.75%	58.40%
High Risk Loans	**144.65%**	48.75%	58.40%

The overall allowance as a percentage of loans has remained steady at 0.57% at December 31, 2020 and 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 commitments, 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 Executive 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 $944.2 million in 2020, $914.3 million in 2019, and $880.8 million in 2018.

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 its 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.

Uncertainty Surrounding the Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. In November 2020, the Intercontinental Exchange Benchmark Administration (IBA) announced that it would consult on its plan to cease the publication of one-week and two-month USD LIBOR immediately after December 31, 2021, and to cease the publications of the remaining USD LIBOR tenors immediately after June 30, 2023.

On November 30, 2020, the U.S. Prudential Regulators (Federal Reserve, FDIC, OCC) issued a statement to encourage banks to transition away from LIBOR as soon as practical, indicating that entering into new contracts after December 31, 2021 would create safety and soundness risks. In December 2020, the FCA issued an Information Memorandum with similar LIBOR transition guidance as the Prudential Regulators, but applicable to Farm Credit System Institutions.

In the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York. Specifically, the ARRC has proposed the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR and the Federal Reserve Bank of New York began publishing SOFR in April 2018.

In accordance with the Informational Memorandum issued by the FCA, the Association established a workgroup under the guidance of our Asset Liability Management Committee, that is responsible for adopting and managing a LIBOR transition plan, with objectives that include the following: reducing LIBOR exposures; stopping the inflow of new LIBOR volume; development of alternative reference rate loan products; assess, and if necessary, revise fallback language in LIBOR indexed loans; assess operational processes, including accounting and management information systems, ability to support alternative rate products; and communicate with our customers as appropriate.

The Association has assessed the risk associated with the LIBOR transition and does not consider it will have a material financial impact, with most of the effort undertaken being operational in nature. In 2020, the Association worked closely with our borrowers to convert LIBOR loans to an alternative interest rate product, with only a few loans remaining priced on LIBOR as of December 31, 2020. The principal balance outstanding for loans priced on LIBOR decreased $175.8 million to $19.1 million as of December 31, 2020 from $194.9 million as of December 31, 2019. The Association also participates in district level LIBOR transition workgroups that are tasked with creating alternative SOFR based interest rate products, as well as working with our technology service provider to ensure adequate capabilities will be in place to support new alternative interest rate products.

In 2020, the Association also began the process of replacing the LIBOR component of our variable cost of funds with a SOFR product on a quarterly basis, with the LIBOR component completely replaced by SOFR as of December 31, 2020. The impact of this transition to our variable cost of funds was not material as the SOFR rate trended lower than LIBOR as of December 31, 2020.

We continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. At this time, we are unable to predict whether or when LIBOR will cease to be available or if SOFR or any other alternative reference rate will become the benchmark to replace LIBOR.

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, 2020 totaled $289.3 million, compared with $277.7 million at December 31, 2019 and $267.0 million at December 31, 2018. 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:

	2020	2019	2018
Debt to members' equity	**3.71:1**	3.70:1	3.97:1
Members' equity as a % of net loans	**22.53%**	22.78%	21.52%
Members' equity as a % of total assets	**21.22%**	21.26%	20.13%

Retained Earnings

Our retained earnings increased $11.6 million to $288.5 million at December 31, 2020 from $276.9 million at December 31, 2019. The increase was a result of net income of $24.3 million partially offset by a $12.7 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 $15.8 million in 2020, $10.4 million in 2019, and $10.3 million in 2018. During 2020, we declared patronage distributions of $12.7 million. In September 2020, the Association announced changes to its 2020 annual cash patronage distribution due to the COVID-19 pandemic. The Association distributed a partial advance of the 2020 patronage dividend in September 2020 totaling $3.3 million in order to provide members earlier access to these funds. The Association will distribute the remaining balance of $9.4 million in March 2021.

Stock

Our total stock and participation certificates increased $2 thousand to $757 thousand at December 31, 2020 from $755 thousand at December 31, 2019. 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, 2020, 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, 2020	Regulatory Minumums	Capital Conservation Buffer	Total
Risk Adjusted:				
Common equity tier 1 ratio	**16.84%**	4.50%	2.5%	7.00%
Tier 1 capital ratio	**16.84%**	6.00%	2.5%	8.50%
Total capital ratio	**17.36%**	8.00%	2.5%	10.50%
Permanent capital ratio	**16.93%**	7.00%	–	7.00%
Non-risk-adjusted:				
Tier 1 leverage ratio	**19.45%**	4.00%	1.00%	5.00%
Unallocated retained earnings and equivalents leverage ratio	**20.63%**	1.50%	–	1.50%

As shown in the table above, the Association exceeded the minimum regulatory requirements. The 2020 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, 2020, 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.

This Page Intentionally Left Blank.

pwc

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, 2020, 2019 and 2018, 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, 2020, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 16, 2021

PricewaterhouseCoopers LLP, 1900 16th Street, Suite 1600, Denver, CO 80202
T: (720) 931 7000, www.pwc.com/us

Consolidated Statements of Condition

(Dollars in Thousands)

	December 31		
	2020	2019	2018
ASSETS			
Loans	**$ 1,291,568**	$ 1,225,675	$ 1,247,297
Less allowance for loan losses	**7,370**	6,927	6,787
Net loans	**1,284,198**	1,218,748	1,240,510
Cash	**4,418**	10,137	10,530
Accrued interest receivable	**14,434**	20,872	22,191
Investment in CoBank, ACB	**40,398**	38,703	36,840
Premises and equipment, net	**5,574**	5,596	5,991
Other assets	**14,490**	11,879	10,263
Total assets	**$ 1,363,512**	$ 1,305,935	$ 1,326,325
LIABILITIES			
Note payable to CoBank, ACB	**$ 1,009,100**	$ 946,569	$ 976,151
Funds held	**51,251**	64,260	65,931
Accrued interest payable	**402**	1,334	1,769
Patronage distributions payable	**9,387**	12,539	10,402
Other liabilities	**4,066**	3,567	5,114
Total liabilities	**1,074,206**	1,028,269	1,059,367
Commitments and Contingencies (See Note 13)			
MEMBERS' EQUITY			
Capital stock and participation certificates	**757**	755	774
Unallocated retained earnings	**288,549**	276,911	266,184
Total members' equity	**289,306**	277,666	266,958
Total liabilities and members' equity	**$ 1,363,512**	$ 1,305,935	$ 1,326,325

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

Consolidated Statements of Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2020	2019	2018
INTEREST INCOME			
Loans	**$ 44,878**	$ 59,719	$ 54,124
INTEREST EXPENSE			
Note payable to CoBank, ACB	**11,305**	24,962	20,743
Funds held	**389**	1,731	1,224
Total interest expense	**11,694**	26,693	21,967
Net interest income	**33,184**	33,026	32,157
Provision for loan losses	**342**	204	1,221
Net interest income after provision for loan losses	**32,842**	32,822	30,936
NONINTEREST INCOME			
Financially related services income	**234**	334	256
Loan fees	**1,531**	500	476
Patronage distribution from Farm Credit institutions	**8,594**	7,888	7,869
Farm Credit Insurance Fund rebate	**258**	272	673
Other noninterest income	**237**	155	179
Total noninterest income	**10,854**	9,149	9,453
NONINTEREST EXPENSE			
Salaries and employee benefits	**11,269**	10,491	9,539
Occupancy and equipment	**577**	501	578
Farm Credit Insurance Fund premium	**845**	788	755
Information technology	**4,091**	3,698	5,123
Supervisory and examination costs	**464**	453	415
Other noninterest expense	**2,214**	2,772	4,024
Total noninterest expense	**19,460**	18,703	20,434
Income before income taxes	**24,236**	23,268	19,955
(Benefit from) provision for income taxes	**(52)**	2	2
Net income	**$ 24,288**	$ 23,266	$ 19,953

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

Consolidated Statements of Changes in Members' Equity

(Dollars in Thousands)

	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Total Members' Equity
Balance at December 31, 2017	$ 757	$ 256,633	$ 257,390
Net income		19,953	19,953
Capital stock and participation certificates issued	69		69
Capital stock and participation certificates retired	(52)		(52)
Patronage Distributions: Cash		(10,402)	(10,402)
Balance at December 31, 2018	$ 774	$ 266,184	$ 266,958
Net income		23,266	23,266
Capital stock and participation certificates issued	56		56
Capital stock and participation certificates retired	(75)		(75)
Patronage Distributions: Cash		(12,539)	(12,539)
Balance at December 31, 2019	$ 755	$ 276,911	$ 277,666
Net income		**24,288**	**24,288**
Capital stock and participation certificates issued	**73**		**73**
Capital stock and participation certificates retired	**(71)**		**(71)**
Patronage Distributions: Cash		**(12,650)**	**(12,650)**
Balance at December 31, 2020	**$ 757**	**$ 288,549**	**$ 289,306**

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

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 24,288**	$ 23,266	$ 19,953
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**663**	632	308
Provision for loan losses	**342**	204	1,221
Stock patronage from CoBank, ACB	**(493)**	(492)	(494)
Write-down of investment in AgVantis	**-**	-	544
(Gain) loss on disposal of premises and equipment	**(49)**	(8)	67
Change in assets and liabilities:			
Decrease (increase) in accrued interest receivable	**6,438**	1,319	(8,725)
Increase in other assets	**(2,625)**	(1,618)	(2,067)
(Decrease) increase in accrued interest payable	**(932)**	(435)	404
Increase (decrease) in other liabilities	**499**	(1,547)	(484)
Total adjustments	**3,843**	(1,945)	(9,226)
Net cash provided by operating activities	**28,131**	21,321	10,727
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net (increase) decrease in loans	**(65,792)**	21,558	(131,927)
Increase stock in CoBank, ACB	**(1,188)**	(1,369)	(4,394)
Proceeds from sale of premises and equipment	**49**	8	-
Purchase of premises and equipment	**(641)**	(237)	(2,062)
Net cash (used in) provided by investing activities	**(67,572)**	19,960	(138,383)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on (repayment of) note payable to CoBank, ACB	**62,531**	(29,582)	136,456
Net (decrease) increase in funds held	**(13,009)**	(1,671)	5,256
Capital stock and participation certificates retired	**(71)**	(75)	(52)
Capital stock and participation certificates issued	**73**	56	69
Cash patronage distributions paid	**(15,802)**	(10,402)	(10,251)
Net cash provided by (used in) financing activities	**33,722**	(41,674)	131,478
Net (decrease) increase in cash	**(5,719)**	(393)	3,822
Cash at beginning of year	**10,137**	10,530	6,708
Cash at end of year	**$ 4,418**	$ 10,137	$ 10,530
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	**$ 12,626**	$ 27,128	$ 21,563
Income taxes	**$ 2**	$ 2	$ 2
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:			
Cash patronage distributions payable	**$ 9,387**	$ 12,539	$ 10,402

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

Notes to Consolidated Financial Statements

Dollars in Thousands, Except as Noted

1. Organization and Operations

Organization

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

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The System is comprised of three Farm Credit Banks (FCBs), one Agricultural Credit Bank and 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; 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 became 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. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association adopted this new standard on January 1, 2020. The adoption did not have a material impact on the Association's consolidated financial position, results of operations or cash flows.

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 became effective for fiscal years ending after December 15, 2020. The guidance was applied on a retrospective basis for all periods. The Association adopted this new standard on December 31, 2020. The adoption of this guidance did not impact the Association's financial condition or its results of operations.

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 was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 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 with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and 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.

On September 10, 2020, the FCA issued a final rule on criteria to reinstate nonaccrual loans that clarifies the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule also revised the criteria by which loans are reinstated to accrual status, and it revised the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The application of this rule did not impact the classification of any of our recorded nonaccrual balances at December 31, 2020.

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 premises and equipment accounts to be depreciated. The Association purchases certain software to enhance or perform internal business functions. Software development costs, as well as costs for software that is part of a cloud computing arrangement incurred in the preliminary and post-implementation project stages are charged to noninterest expense. Costs associated with designing software configuration, installation, coding programs and testing systems are capitalized and amortized using the straight-line method over 3 to 5 years. Long-lived assets are reviewed for impairment whenever events or circumstances indicate the carrying amount of an asset group may not be recoverable.

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, 2020, 2019, and 2018, advertising costs included in other noninterest expense were $94, $101, and $89, respectively.

Fair Value Measurement

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

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

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

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

Off-Balance-Sheet Credit Exposures

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

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

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

3. Loans and Allowance for Loan Losses

A summary of loans follows:

As of December 31	2020	2019	2018
Real estate mortgage	**$ 817,439**	$ 783,124	$ 803,992
Production and intermediate-term	**265,319**	254,647	239,756
Agribusiness:			
Cooperatives	**87,497**	72,807	78,673
Processing and marketing	**94,777**	82,234	84,830
Farm-related business	**3,637**	2,251	2,708
Energy	**-**	5,311	6,374
Lease receivables	**22,899**	25,301	30,964
Total loans	**$ 1,291,568**	$ 1,225,675	$ 1,247,297

Unamortized deferred loan fees and costs totaled $3.8 million, $3.8 million, and $4.6 million as of December 31, 2020, 2019, and 2018, 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, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	**Sold**	**Purchased**	**Sold**	**Purchased**	**Sold**
Real estate mortgage	$ 147,620	$ 201,191	$ -	$ -	$ 147,620	$ 201,191
Production and intermediate-term	20,491	189,837	-	-	20,491	189,837
Agribusiness	149,595	33,725	-	-	149,595	33,725
Lease receivables	22,899	-	-	-	22,899	-
Total loans	$ 340,605	$ 424,753	$ -	$ -	$ 340,605	$ 424,753

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 $12.7 million, $16.8 million, and $41.8 million at December 31, 2020, 2019, and 2018, respectively. The decrease in 2020 and 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 $52 for 2020, $97 in 2019 and $183 in 2018 are reflected in noninterest expense.

In addition, the Association obtains Federal Guarantees through the Farm Service Agency and U.S. Small Business Administration (SBA) 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 $26.1 million, $5.0 million, and $6.1 million at December 31, 2020, 2019, and 2018, respectively. Guaranteed volume increased in 2020 due to the Association's participation in the CARES Act – SBA Paycheck Protection Program (PPP) which generated 138 PPP loans with an aggregate volume of $28.6 million in 2020.

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

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

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

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

As of December 31	**2020**	2019	2018
Real estate mortgage			
Acceptable	**95.77%**	96.17%	97.91%
OAEM	**3.15%**	1.41%	0.60%
Substandard	**1.08%**	2.42%	1.49%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**87.26%**	91.37%	91.89%
OAEM	**9.25%**	4.40%	1.70%
Substandard	**3.49%**	4.23%	6.41%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**90.84%**	95.30%	96.55%
OAEM	**7.71%**	2.55%	0.00%
Substandard	**1.45%**	2.15%	3.45%
Total	**100.00%**	100.00%	100.00%
Energy			
Acceptable	**0.00%**	0.00%	100.00%
OAEM	**0.00%**	100.00%	0.00%
	0.00%	100.00%	100.00%
Lease receivables			
Acceptable	**100.00%**	93.63%	89.76%
OAEM	**0.00%**	0.00%	0.37%
Substandard	**0.00%**	6.37%	9.87%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**93.40%**	94.61%	96.39%
OAEM	**4.99%**	2.56%	0.72%
Substandard	**1.61%**	2.83%	2.89%
Total	**100.00%**	100.00%	100.00%

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

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

As of December 31	2020	2019	2018
Nonaccrual loans:			
Current as to principal and interest	**$ 2,315**	$ 9,329	$ 5,939
Past due	**2,780**	4,880	5,683
Total impaired loans	**$ 5,095**	$ 14,209	$ 11,622

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:

	2020	2019	2018
Nonaccrual loans:			
Real estate mortgage	**$ 2,567**	$ 7,159	$ 5,762
Production and intermediate-term	**-**	3,895	5,860
Agribusiness	**2,528**	3,155	-
Total nonaccrual loans	**5,095**	14,209	11,622
Accruing restructured loans	**-**	-	-
Accruing loans 90 days past due	**-**	-	-
Total impaired loans	**5,095**	14,209	11,622
Other property owned	**-**	-	-
Total high risk assets	**$ 5,095**	$ 14,209	$ 11,622

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 2020, 2019, and 2018.

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

Additional impaired loan information is as follows:

December 31, 2020	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,567	$ 2,613	$ -	$ 2,560	$ 502
Agribusiness:					
Processing and marketing	2,528	2,691	-	2,861	-
Total Impaired Loans	$ 5,095	$ 5,304	$ -	$ 5,421	$ 502

December 31, 2019	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 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	-
Total Impaired Loans	$ 14,209	$ 15,209	$ -	$ 9,622	$ 210

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2020, 2019, and 2018.

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

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

For the Year Ended December 31	2020	2019	2018
Interest income recognized on:			
Nonaccrual loans	$ 707	$ 210	$ 15
Accrual loans 90 days or more past due	-	163	18
Interest income recognized on impaired loans	$ 707	$ 373	$ 33

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

For the Year Ended December 31	2020	2019	2018
Interest income which would have been recognized under the original loan terms	$ 1,097	$ 924	$ 622
Less: interest income recognized	(707)	(210)	(15)
Foregone interest income	$ 390	$ 714	$ 607

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

December 31, 2020	Current Loans	30-89 Days Past Due	90 Days or More Past Due	Total Loans Outstanding	Accrual Loans 90 Days or More Past Due
Real estate mortgage	$ 827,327	$ 47	$ 2,132	$ 829,506	$ -
Production and intermediate-term	267,007	14	-	267,021	-
Agribusiness	185,489	162	648	186,299	-
Lease receivables	23,176	-	-	23,176	-
Total	$ 1,302,999	$ 223	$ 2,780	$ 1,306,002	$ -

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

December 31, 2019	Current Loans	30-89 Days Past Due	90 Days or More Past Due	Total Loans Outstanding	Accrual Loans 90 Days or More Past Due
Real estate mortgage	$ 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	$ -

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

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

	Real estate mortgage	Production and intermediate-term	Agribusiness	Energy	Lease receivables	Total
Allowance for Credit Losses:						
Balance at December 31, 2019	$ 410	$ 3,919	$ 1,311	$ 87	$ 1,200	$ 6,927
Charge-offs	-	(1)	-	-	-	(1)
Recoveries	-	102	-	-	-	102
Provision for loan losses (loan loss reversal)	(24)	854	364	(87)	(765)	342
Balance at December 31, 2020	$ 386	$ 4,874	$ 1,675	$ -	$ 435	$ 7,370
Ending balance: Allowance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: Allowance collectively evaluated for impairment	386	4,874	1,675	-	435	7,370
Balance at December 31, 2020	$ 386	$ 4,874	$ 1,675	$ -	$ 435	$ 7,370
Recorded Investments in Loans Outstanding:						
Ending balance: Loans individually evaluated for impairment	$ 2,567	$ -	$ 2,528	$ -	$ -	$ 5,095
Ending balance: Loans collectively evaluated for impairment	826,939	267,021	183,771	-	23,176	1,300,907
Balance at December 31, 2020	$ 829,506	$ 267,021	$ 186,299	$ -	$ 23,176	$ 1,306,002

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

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

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

4. INVESTMENT IN COBANK

At December 31, 2020, 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	2020	2019	2018
Land, buildings and improvements	**$ 6,071**	$ 5,863	$ 5,863
Furniture and equipment	**2,011**	2,044	1,997
Software	**2,410**	2,324	2,324
Automobiles	**65**	68	56
Construction in progress	**314**	140	-
	10,871	10,439	10,240
Less: accumulated depreciation and amortization	**(5,297)**	(4,843)	(4,249)
Total	**$ 5,574**	$ 5,596	$ 5,991

The Association will begin construction of a new office branch in Madera beginning in June 2021 with the plan to relocate from its existing Madera branch once construction is complete.

The Association is obligated for rental payments under certain non-cancelable operating leases. Rental payments for the years ended December 31, 2020, 2019, and 2018 totaled $67, $66, and $65, 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,	
2021	$ 52
2022	30
2023	30
2024	30
2025	30
Thereafter	30
Total	$ 202

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, 2020.

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 1.20 percent for the year ended December 31, 2020, compared with 2.73 percent for the year ended December 31, 2019, and 2.36 percent at December 31, 2018.

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

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

The committed funds as of December 31 are as follows:

	2020	2019	2018
Committed funds	**$291,006**	$ 274,511	$ 272,567
Average rates	**0.99%**	1.87%	1.11%

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, 2020, 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, regulatory capital requirements for Banks and Associations were adopted. These 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 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, 2020:

	December 31, 2020	Regulatory Minumums	Capital Conservation Buffer	Total
Risk Adjusted:				
Common equity tier 1 ratio	**16.84%**	4.50%	2.5%	7.00%
Tier 1 capital ratio	**16.84%**	6.00%	2.5%	8.50%
Total capital ratio	**17.36%**	8.00%	2.5%	10.50%
Permanent capital ratio	**16.93%**	7.00%	–	7.00%
Non-risk-adjusted:				
Tier 1 leverage ratio	**19.45%**	4.00%	1.00%	5.00%
Unallocated retained earnings and equivalents leverage ratio	**20.63%**	1.50%	–	1.50%

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.

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

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

At December 31, 2020, the Association had the following classes of equity outstanding, all at a par value of $5 per share/unit.

Class	Number of Shares	Voting	Protected
C - common stock	150,200	yes	no
F - participation certificates	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
The Association has a patronage program that allows it 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 2020, 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	**2020**	2019	2018
CoBank	**$ 6,494**	$ 5,881	$ 6,870
Farm Credit Foundations	**12**	10	9
District Associations	**2,088**	1,997	990
Total	**$ 8,594**	$ 7,888	$ 7,869

Patronage distributed from CoBank was in cash and stock. These distributions are accrued monthly based on estimates provided by CoBank, The amount earned in 2020 was accrued and will be paid by CoBank in March 2021. The amount earned and accrued in 2019 was paid by CoBank in March 2020. The amount earned and accrued in 2018 was paid by CoBank in March 2019.

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

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

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

9. Income Taxes

The (Benefit from) provision for income taxes follows:

As of December 31	2020	2019	2018
Current			
Federal	$ (54)	$ -	$ -
State	2	2	2
Deferred			
Federal	-	-	-
State	-	-	-
(Benefit from) provision for income taxes	$ (52)	$ 2	$ 2

The benefit from income taxes of $52 for the year ended December 31, 2020 is due to a federal income tax refund, partly offset by the provision for state income tax. The Coronavirus Aid, Relief and Economic Security Act (CARES Act) enacted in March 2020, provided for the carryback of any net operating loss (NOL) arising in a taxable year beginning after December 31, 2017, and before January 1, 2021, to each of the five taxable years preceding the taxable year in which the loss arises. As a result of the CARES Act, the Association amended its 2013 tax return to carryback the net operating loss generated in 2018 and claim the related refund in the amount of $54.

The (benefit from)/provision for 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:

	2020		2019		2018	
As of December 31	Amount	Percent	Amount	Percent	Amount	Percent
Federal tax at statutory rate	$ 5,090	21%	$ 4,887	21%	$ 4,190	21%
State tax, net	1	-	1	-	1	-
Effect of non-taxable FLCA income	(4,961)	-20%	(5,137)	-22%	(4,987)	-25%
Adjustments to valuation allowance	(128)	-1%	251	1%	798	4%
Change in tax law	(54)	0%	-	-	-	-
(Benefit from) provision for income taxes	$ (52)	0%	$ 2	0%	$ 2	0%

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

Deferred tax assets and liabilities are comprised of the following:

As of December 31	**2020**	2019	2018
Gross deferred tax asset:			
Allowance for loan losses	**$ 1,380**	$ 1,285	$ 1,257
Nonaccrual loan interest	**17**	100	64
Net loss carryforward	**1,328**	1,439	982
Gross deferred tax asset	**2,725**	2,824	2,303
Less: valuation allowance	**(1,865)**	(1,993)	(1,742)
Deferred tax assets, net of valuation allowance	**860**	831	561
Gross deferred tax liability:			
Bank patronage allocations	**(299)**	(270)	-
Stock patronage distributions from System banks	**(561)**	(561)	(561)
Gross deferred tax liability	**(860)**	(831)	(561)
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 $1,865 in 2020, $1,993 in 2019, and $1,742 in 2018. 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 $691 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.

The Association has no uncertain tax positions as of December 31, 2020, 2019, or 2018. 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 2017 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 $46.7 million at December 31, 2020. 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 $318.4 million at December 31, 2020, $299.3 million at December 31, 2019, and $253.9 million at December 31, 2018. The fair value of the plan assets was $271.7 million at December 31, 2020, $228.4 million at December 31, 2019, and $192.0 million at December 31, 2018. The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $1.3 million in 2020, $3.6 million in 2019, and $1.9 million in 2018. The Association's allocated share of plan expenses included in salaries and employee benefits was $151 for 2020, $300 for 2019, and $168 for 2018. Participating employers contributed $23.0 million to the plan in 2020, and $16.0 million in 2019 and 2018. The Association's allocated share of these pension contributions was $1.6 million in 2020, $1.3 million in 2019, and $1.4 million in 2018. 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 2021 is $23 million. The Association's allocated share of these pension contributions is expected to be $1.7 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.

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

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 $6 in 2020, $7 in 2019, and $5 in 2018. 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 $857 in 2020, $842 in 2019, and $803 in 2018.

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	**2020**	2019	2018
Beginning balance	**$ 33,130**	$ 33,333	$ 59,706
New Loans	**141,932**	92,419	57,340
Repayments	**(127,862)**	(91,939)	(36,528)
Reclassifications [1]	**-**	(683)	(47,185)
Ending balance	**$ 47,200**	$ 33,130	$ 33,333

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

In the opinion of Management, none of the loans outstanding to directors at December 31, 2020, 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 $0 in 2020, $10 in 2019, and $1,212 in 2018 to AgVantis for technology services including offboarding costs. The Association paid $134 in 2020, $122 in 2019, and $126 in 2018 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. 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 2020, 2019, and 2018. 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. 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, 2020, $563.6 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, 2020, the Association had $7.7 million of standby letters of credit outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2021 to 2024. The maximum potential amount of future payments the Association is required to make under the guarantees is $7.7 million.

The Association has set aside a reserve for unfunded commitments in the amount of $394 at December 31, 2020, 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, 2020, 2019, and 2018.

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

15. Quarterly Financial Information (Unaudited)

Quarterly results of operations for the years ended December 31, 2020, 2019, and 2018, follow:

2020	**First**	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 8,728**	**$ 8,161**	**$ 8,190**	**$ 8,105**	**$ 33,184**
Provision for loan losses (loan loss reversal)	**(62)**	**216**	**112**	**76**	**342**
Noninterest expense, net	**1,135**	**1,948**	**3,182**	**2,289**	**8,554**
Net income	**$ 7,655**	**$ 5,997**	**$ 4,896**	**$ 5,740**	**$ 24,288**

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 (loan loss reversal)	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

16. Subsequent Events

The Association has evaluated subsequent events through March 16, 2021, which is the date the consolidated financial statements were issued, and no material subsequent events were identified.

Disclosure Information

(Unaudited)

Description of Business

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

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

Description of Property

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

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

Legal Proceedings and Enforcement Actions

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Selected Financial Data

The selected financial data for the five years ended December 31, 2020, 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 2020.

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, Chair
Term of Office: 2019 – 2022
Committees: CoBank Association Leadership Committee, Farm Credit Council Legislative 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); 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, First Vice-Chair
Term of Office: 2020 - 2021
Committees: Human Capital, Alternate Representative for CoBank Association Leadership Committee, and Farm Credit Council Alternate Legislative Representative.
Board or Officer Experience: Fresno Madera Farm Credit Director since 2011, Vice-Chairman from May 2016 to May 2019, and First Vice Chair since June 2020; Victor Packing, Inc. (President and Owner); 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); Nustar Energy, LP (Partner); Victor and Arlyne Sahatdjian Family Revocable Trust (Trustee); Raisin Administrative Committee (Member); Raisin Marketing Sales Subcommittee of the Raisin Administrative Committee (Vice Chairman); and California Raisin Marketing Board (Board Member); Past affiliations with Drumwright Oilwell Services, LLC (Member); VSA, LP (Partner); and Woodset Partners, LLC (Member).

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.

Jeff Yribarren, Second Vice-Chair
Term of Office: 2018 – 2021
Committees: Human Capital (Chair)
Board or Officer Experience: Fresno Madera Farm Credit Director since 2012 and Second Vice Chair from May 2014 to April 2016 and since June 2020; J. Yribarren Farms, Inc. (Owner and President); Jeffrey & Wendy Yribarren Family Trust (Trustee); Yribarren Winery, Inc. (Owner and President); Farmer's Hemp, LLC (Member); FH Farms, 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 almonds, grapes (raisins), and row crops. Mr. Yribarren is also a vintner.

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); Raisin Administrative Committee (Alternate 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: 2020 - 2023
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), Crescent Canal Company (Shareholder); 3 Family Farms (Director & Secretary); AE Farms (Member); AEF Farms (Member); West Coast Hemp (Member); Westlands Water District (President & Board Member); Family Farm Alliance (Treasurer & 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, barley, pistachios, wine grapes, pima cotton, tomatoes, garlic, , 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); APC Avenue 20, LLC (Member & Manager); APC MidValley Operations, LLC (Member & Manager); Herman 2008 Revocable Trust (Co-Trustee); Herman Family Exports (President); Kevin Herman Ranches (Owner); The Growers Fig Company (Director); The Specialty Crop Company (President); Woodset Partners, LLC (Member); California Fig Advisory Board (Board Member); California Fresh Fig Commission (Chairman); California Fresh Fruit Association (Chairman); Madera Compact (Chairman); Madera Subbasin Groundwater Advisory Committee (Board Member); State Center Community College Foundation (Board Member); and Le Grand-Athlone Water District (Board Member).

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

Allan Kantrowitz, Outside Appointed Director
Term of Office: 2020 – 2023
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 LLC (Manager); 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). Past affiliation with Nolo Farms II, LLC (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 co-owner in an almond huller operation.

Lance Shebelut, Director
Term of Office: 2020 - 2023
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); 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, table grapes, citrus, nectarines, peaches, persimmons, plums, pomegranates and Asian 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; and Remington Properties, LLC (Member). Past affiliation with Dritsas Groom McCormick LLP (Partner).

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.

COMPENSATION OF DIRECTORS

During 2020 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, 2020.

Name of Director	Number of Days Served at Board Meetings	Number of Days Served in Other Official Activities	Compensation Paid During 2020
Jeff Jue	8	27	$ 42,750
Victor Sahatdjian	8	18	29,250
Jeff Yribarren[(1)]	8	7	25,729
Wayne Carstens	6	8	9,000
Daniel Errotabere	8	18	9,000
Kevin Herman	7	7	9,000
Allan Kantrowitz	8	20	24,000
Steve Schafer	7	6	9,000
Lance Shebelut	8	5	9,000
Denise Waite	7	12	$ 32,000
Total Compensation	**75**	**128**	**$ 198,729**

[(1)] Mr. Yribarren was elected 2nd Vice Chair on June 4, 2020.

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 2020, as outlined above, amounted to $198,729. The Association has adopted a policy concerning travel, subsistence and other related expenses as they apply to directors and senior officers. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to all directors as a group for travel, subsistence and other related expenses were $7,203 in 2020, $8,756 in 2019, and $7,101 in 2018.

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 28 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.

Doug Weber, Senior Vice President and Co-Chief Credit Officer
Mr. Weber serves as ACA Senior Vice President and Co- Chief Credit Officer. He has served in his current capacity since January 15, 2021, where he co-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 also shares responsibility for ensuring that the Association's lending policies and guidelines comply with FCA regulations and Board approved policies, as well as jointly overseeing the operations of the loan documentation department. Mr. Weber was hired in September 2019 where he has served in various capacities including Director of Relationship Management, and Chief Credit Officer. His prior experience includes over 34 years of banking experience in agriculture in various roles in both credit administration and relationship management. Mr. Weber's career includes time with Wells Fargo and Comerica Bank where he held leadership positions managing a footprint spanning from Modesto to Bakersfield.

Dan Kiggens, Senior Vice President and Chief Risk Officer/Co-Chief Credit Officer
Mr. Kiggens serves as ACA Senior Vice President and Chief Risk Officer/Co-Chief Credit Officer and has 24 years of Farm Credit experience. Mr. Kiggens 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. Kiggens also co-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 also shares responsibility for ensuring that the Association's lending policies and guidelines comply with FCA regulations and Board approved policies, as well as jointly overseeing the operations of the loan documentation department. In addition, he shares responsibility with the CFO in developing and carrying out the Association's annual internal audit program. He was hired in October 1996 and has served in various capacities including Loan Officer, Portfolio Manager, Fresno Branch Manager and Portfolio Manager, Assistant Chief Credit Officer, and Chief Credit Officer. He has served in his current capacity as Chief Risk Officer since September 1, 2020 and Co-Chief Credit Officer since January 15, 2021. Mr. Kiggens Farm Credit experience includes complex direct lending, branch management, credit administration, development of supervisory controls and loan approvals.

Joe Soto, Senior Vice President and Chief Financial Officer
Mr. Soto serves as ACA Senior Vice President and Chief Financial Officer and was hired in June 2015. 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 and he shares responsibility with the CRO in developing and carrying out the Association's annual internal audit program. 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 for numerous financial institutions 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 23 years of Farm Credit Experience. Ms. Graham directs administrative operations including human resources, training and staff programs, marketing, insurance risk management and other designated Association administrative and corporate functions. 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 30 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.

Ken Brown, Senior Vice President and Appraisal Program Manager
Mr. Brown serves as ACA Senior Vice President and Appraisal Program Manager and has 30 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. Additionally, he directs the Association's facilities and fleets operations. 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 16, 2021 and the Report of Management, appearing as part of this Annual Report to Shareholders, are incorporated herein by reference.

COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

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

Young, Beginning and Small Farmers and Ranchers Program

(Unaudited)

Overview

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

To facilitate credit offerings to this specialized customer base, we support financing programs and use government-guaranteed loan programs. We are actively 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. When available, we also attend and participate in numerous local conference 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 Conference 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. Due to the COVID-19 pandemic, all of these fairs were cancelled in 2020. FMFC was able to support local 4-H and FFA members at virtual sales that took place in lieu of the fairs where possible. FMFC also utilized funds originally allocated for the fairs to support local community efforts to support displaced livestock as a result of the devastating wildfires that impacted our area. Once fair activities resume, FMFC staff members will continue our efforts to volunteer as Ag Youth leaders, judging fair events, preparing and cooking meals for fair participants and assisting and coordinating livestock auctions.
- Grants – Normally, 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. Although we were not able to facilitate the typical format for our Annual meeting in 2020, we did award five grants to local 4-H and FFA programs 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	**2020**	2019	2018
Young	10.11%	**10.73%**	11.89%	11.75%
Beginning	27.55%	**17.28%**	18.07%	17.39%
Small	67.22%	**16.31%**	18.27%	19.14%

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

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

Goals and Results

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 2020 goals and results:

	Goal Number	Actual Number	Percent of Plan Number
Young	183	177	97%
Beginning	277	285	103%
Small	281	269	96%

	Goal Volume	Actual Volume	Percent of Plan Volume
Young	$ 149,102	$ 145,319	97%
Beginning	$ 166,313	$ 178,803	108%
Small	$ 58,042	$ 60,801	105%

We have established 2021 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

305 North “I” Street
Madera, CA 93637

559.674.2437

KINGSBURG

1698 Draper Street
Kingsburg, CA 93631

559.419.5411

Fresno Madera Farm Credit

FMFarmCredit.com

Follow Us

- FresnoMaderaFarmCredit
- fresnomaderafc
- fresno-madera-farm-credit