



FRESNO MADERA
FARM CREDIT



2023
QUARTERLY
REPORT
September 30, 2023

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FRESNO MADERA FARM CREDIT, ACA

2023 QUARTERLY REPORT

SEPTEMBER 30, 2023

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FRESNO MADERA FARM CREDIT, ACA

2023 QUARTERLY REPORT

SEPTEMBER 30, 2023

MESSAGE TO SHAREHOLDERS

November 9, 2023

Dear Member:

These consolidated financial statements reflect the status of the Fresno Madera Farm Credit, ACA and its subsidiaries at the end of the Third Quarter of 2023. Results for interim periods are not necessarily indicative of results to be expected for the year. These financial statements were prepared and reviewed under the oversight of the Association's Audit Committee.

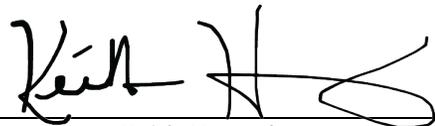
The shareholders' investment in the Association is materially affected by the financial condition and the results of the operation of CoBank. The CoBank, ACB and CoBank District quarterly and annual reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 4635 W. Spruce, P.O. Box 13069, Fresno, California 93794-3069 or by calling (559) 277-7000.

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

Sincerely,



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



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



Marta Decker
Chief Financial Officer
Fresno Madera Farm Credit, ACA
Fresno Madera PCA, FLCA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2023 was \$20.5 million compared to \$18.6 million from the comparative period in 2022. Our net income increased 10.27% from prior year reflecting an increase in net interest income and noninterest income. This was partially offset by an increase in noninterest expense.

Net Interest Income

Net interest income increased \$2.5 million to \$30.1 million for the nine months ended September 30, 2023 from the comparative period in 2022 primarily due to an increase in average loan volume and an increase in earnings from our invested capital resulting from the higher interest rate environment. Average loan volume during the first nine months of 2023 was \$1.48 billion, an increase of \$101.7 million or 7.40% from \$1.37 billion for the comparative period in 2022. Net interest margin increased to 2.72% for the first nine months of 2023 compared to 2.68% for the comparative period in 2022. The higher net interest margin in the current period was due to an increase in earnings from our invested capital.

Noninterest Income

Noninterest income for the nine months ended September 30, 2023 was \$9.0 million, an increase of \$215 thousand or 2.44% from the comparative period in 2022. The increase in noninterest income was driven by an increase in patronage distributions from both CoBank and other Farm Credit institutions, along with increases in unused commitment fees recognized from our capital markets segment. The increase in noninterest income was partially offset by prior year non-recurring earnings from the sale of our Madera location.

Provision for Credit Losses

We monitor the risks within our loan portfolio to determine if any adjustments to our allowance for credit losses (ACL) are necessary based on our assessment of inherent credit losses at the balance sheet date. The Association recorded a credit loss reversal for the nine months ended September 30, 2023 of \$893 thousand compared to \$168 thousand for the comparative period in 2022. The increase in our credit loss reversal is primarily due to the Association updating its Probability of Default (PD) factors to the most recent System Risk Rating Guidance, which resulted in a reversal in our allowance for credit losses. This was partially offset by an increase in loan volume.

Noninterest Expense

Noninterest expenses for the nine months ended September 30, 2023 increased \$1.6 million or 8.62%, to \$19.5 million compared to the same period in the prior year primarily due to increases in salaries and employee benefits of \$1.2 million, and an increase in our information technology expense of \$392 thousand. The increase in salaries and employee benefits expense was driven by planned increases in staff along with higher salaries due to annual merit increases. The increase in information technology was due to planned increases in service charges from our technology provider.

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

LOAN PORTFOLIO

Loan volume outstanding at September 30, 2023 was \$1.50 billion, an increase of \$50.4 million from total loan volume at December 31, 2022 of \$1.45 billion. The increase in loan volume was driven by new loan commitments coupled with increased utilization on revolving lines of credit. This was partially offset by increased repayment activity in our processing and marketing and real estate mortgage portfolio.

Allowance for Credit Losses

As of September 30, 2023, the Association's allowance for credit losses (ACL) was \$3.2 million, a decrease of \$2.7 million from December 31, 2022. Allowance as a percentage of loans was 0.21% and 0.41% as of September 30, 2023 and December 31, 2022, respectively. The reversal in our allowance for credit losses is primarily due to the adoption of the Financial Accounting Standards Board (FASB) guidance, "Measurement of Credit Losses on Financial Instruments," on January 1, 2023. Upon adoption, the Association recorded a \$1.6 million decrease in its allowance for credit losses (ACL) on January 1, 2023. The allowance for credit losses (ACL) decreased again during the third quarter when the Association updated its Probability of Default (PD) factors to the most recent System Risk Rating Guidance. The updated System curve indicates a lower occurrence of default, which is in line with the Association's loss history. The net reversal in our allowance for credit losses indicates a favorable adjustment from our earlier loan and economic performance forecasts.

CAPITAL RESOURCES

The Association continues to have a sound capital position and exceed all regulatory and board minimums. Members' equity at September 30, 2023 was \$331.2 million representing an increase of \$22.1 million or 7.15% from December 31, 2022. The increase in Members' equity is attributed to the Association's net operating results combined with a \$1.6 million increase to retained earnings upon adoption of the new allowance standard on January 1, 2023.

For additional information, please refer to the "Notes to Consolidated Financial Statements" and the Association's 2022 Annual Report to Shareholders.

CONSOLIDATED STATEMENTS OF CONDITION
(Dollars in thousands)

	September 30 2023	December 31 2022
	UNAUDITED	AUDITED
ASSETS		
Loans	\$ 1,503,689	\$ 1,453,296
Less allowance for credit losses	3,192	5,935
Net loans	1,500,497	1,447,361
Cash	2,905	11,199
Accrued interest receivable	38,181	24,724
Investment in CoBank, ACB	37,034	39,833
Premises and equipment, net	10,016	9,203
Other assets	18,523	21,023
Total assets	<u>\$ 1,607,156</u>	<u>\$ 1,553,343</u>
LIABILITIES		
Note payable to CoBank, ACB	\$ 1,217,506	\$ 1,174,098
Funds held	47,952	43,875
Accrued interest payable	5,008	3,803
Patronage distributions payable	-	17,094
Reserve for unfunded commitments	240	242
Other liabilities	5,286	5,156
Total liabilities	<u>1,275,992</u>	<u>1,244,268</u>
MEMBERS' EQUITY		
Capital stock and participation certificates	736	753
Unallocated retained earnings	330,428	308,322
Total members' equity	<u>331,164</u>	<u>309,075</u>
Total liabilities and members' equity	<u>\$ 1,607,156</u>	<u>\$ 1,553,343</u>

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

CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands)

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED
INTEREST INCOME				
Loans	\$ 27,298	\$ 16,698	\$ 76,824	\$ 40,343
INTEREST EXPENSE				
Note payable to CoBank, ACB	16,640	7,008	45,083	12,475
Funds held	617	224	1,633	278
Total interest expense	17,257	7,232	46,716	12,753
Net interest income	10,041	9,466	30,108	27,590
(Credit loss reversal) provision for credit losses	(1,051)	(296)	(893)	(168)
Net interest income after (credit loss reversal) provision for credit losses	11,092	9,762	31,001	27,758
NONINTEREST INCOME				
Patronage distribution from Farm Credit Institutions	2,065	1,770	8,191	7,453
Financially related services income	38	86	140	275
Loan fees	203	127	543	372
Gain on sale of premises and equipment	-	-	-	560
Other noninterest income	48	44	154	153
Total noninterest income	2,354	2,027	9,028	8,813
NONINTEREST EXPENSE				
Salaries and employee benefits	3,551	3,340	10,852	9,629
Occupancy and equipment	267	162	632	495
Farm Credit Insurance Fund premium	513	519	1,518	1,531
Information technology	1,336	1,179	3,854	3,462
Supervisory and examination costs	127	125	379	373
Other noninterest expense	858	1,160	2,307	2,501
Total noninterest expense	6,652	6,485	19,542	17,991
Income before income taxes	6,794	5,304	20,487	18,580
Provision for income taxes	-	-	2	2
Net income	\$ 6,794	\$ 5,304	\$ 20,485	\$ 18,578

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
(Dollars in thousands)

UNAUDITED	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Total Members' Equity
Balance at December 31, 2021	\$ 760	\$ 299,350	\$ 300,110
Net income		18,578	18,578
Capital stock and participation certificates issued	46		46
Capital stock and participation certificates retired	(47)		(47)
Balance at September 30, 2022	\$ 759	\$ 317,928	\$ 318,687
Balance at December 31, 2022	\$ 753	\$ 308,322	\$ 309,075
Net income		20,485	20,485
Capital stock and participation certificates issued	33		33
Capital stock and participation certificates retired	(50)		(50)
Cumulative effects from adoption of the CECL standard		1,621	1,621
Balance at September 30, 2023	\$ 736	\$ 330,428	\$ 331,164

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Fresno Madera Farm Credit, ACA (ACA) and subsidiaries, Fresno Madera Federal Land Bank Association, FLCA (FLCA) and Fresno Madera Production Credit Association, (PCA) (collectively, the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2022 are contained in the 2022 Annual Report to Shareholders. These unaudited third quarter 2023 consolidated financial statements should be read in conjunction with the 2022 Annual Report to Shareholders.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2022 as contained in the 2022 Annual Report to Shareholders.

In the opinion of management, the unaudited financial information is complete and reflects, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2023. Descriptions of the significant accounting policies are included in the 2022 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Recently Adopted or Issued Accounting Pronouncements

On January 1, 2023, the Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to credit losses. This guidance replaced the current incurred loss impairment methodology with a single allowance framework that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance- sheet credit exposures. This guidance is applied on a modified retrospective basis. This framework requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that consider macroeconomic conditions.

Also adopted effective January 1, 2023, was the updated guidance entitled "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure." This guidance requires the creditor to determine whether a modification results in a new loan or a continuation of an existing loan, among other disclosures specific to modifications with borrowers that are experiencing financial

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

difficulties. The update eliminated the accounting guidance for troubled debt restructurings by creditors. The update also requires disclosure of current period gross write-offs by year of origination for financing receivables and net investments in leases on a prospective basis.

The following table presents the impact to the allowance for credit losses and retained earnings upon adoption of this guidance on January 1, 2023:

(\$ in thousands)	December 31, 2022	CECL Adoption	January 1, 2023
Assets:			
Allowance for credit losses on loans	\$ 5,935	\$ (1,841)	\$ 4,094
Liabilities:			
Reserve for credit losses on unfunded commitments	\$ 241	\$ 220	\$ 461
Retained earnings:			
Unallocated retained earnings, net of tax	\$ 308,322	\$ 1,621	\$ 309,943

Investments

As more fully described in the 2022 Annual Report, the Association may hold investments in accordance with other investment programs approved by the Farm Credit Administration. These programs allow the institution to make investments that further the mission to support rural America. The investments held by the Association were not impacted by the adoption of CECL.

Loans and Allowance for Credit Losses

Loans are generally carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Loan origination fees and direct loan origination costs are netted and capitalized and the net fee or cost is amortized over the average life of the related loan as an adjustment to interest income. Loan prepayment fees are reported in interest income. Interest on loans is accrued and credited to interest income based on the daily principal amount outstanding.

Nonaccrual Loans

Nonaccrual loans are loans for which there is reasonable doubt that all principal and interest will not be collected according to the original contractual terms and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. 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 modified or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Consistent with prior practice, loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection), circumstances indicate that collection of principal and interest is in doubt or legal action, including foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest. At the time a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, interest payments received in cash are generally recognized as interest income if the collectability of the loan principal is fully expected and certain other criteria are met. Otherwise, payments received on nonaccrual loans are applied against the recorded investment in the loan asset. Nonaccrual loans are returned to accrual status if all contractual principal and interest is current, the borrower is fully expected to fulfill the contractual repayments terms and after remaining current as to principal and interest for a sustained period or have a recent repayment pattern demonstrating future repayment capacity to make on-time payments. 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.

Accrued Interest Receivable

The Association elected to continue classifying accrued interest on loans in accrued interest receivable and not as part of loans on the Consolidated Statements of Condition. The Association also elected to not estimate an allowance on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected. The presentation of accrued interest receivable in the footnotes may differ from prior periods due to the adoption of the CECL guidance.

Loan Modifications to Borrowers Experiencing Financial Difficulty

Loan modifications may be granted to borrowers experiencing financial difficulty. Modifications can be in the form of one or a combination of principal forgiveness, interest rate reduction, other-than-insignificant payment delay or a term extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions.

Collateral Dependent Loans

Collateral dependent loans are loans secured by collateral, including but not limited to agricultural real estate, crop inventory, equipment and livestock. CECL requires an entity to measure the expected credit losses based on fair value of the collateral at the reporting date when the entity determines that foreclosure is probable. Additionally, CECL allows a fair value practical expedient as a measurement approach for loans when the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulties. Under the practical

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

expedient measurement approach, the expected credit losses is based on the difference between the fair value of the collateral less estimated costs to sell and the amortized cost basis of the loan.

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The collateral dependent loans are primarily real estate mortgage and rural residential real estate loans.

Allowance for Credit Losses

Beginning January 1, 2023, the allowance for credit losses (ACL) represents the estimated current expected credit losses over the remaining contractual life of financial assets measured at amortized cost and certain off-balance sheet credit exposures. The ACL takes into consideration relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are not unconditionally cancellable. The ACL comprises:

- the allowance for credit losses on loans (ACLL), and
- the reserve for unfunded commitments, which is presented on the balance sheet.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, considering macroeconomic conditions, forecasts and other factors prevailing at the time, may result in significant changes in the ACL in those future periods.

Methodology for Allowance for Credit Losses on Loans

The ACLL represents management's estimate of credit losses over the remaining expected life of loans. The Association employs a disciplined process and methodology to establish its ACLL that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

Asset-specific loans are generally collateral-dependent loans (including those loans for which foreclosure is probable) and nonaccrual loans. For collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. If the calculated expected credit loss is determined to be permanent, fixed or non-recoverable, the credit loss portion of the loan will be charged off against the allowance for credit losses.

In estimating the component of the ACLL that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default, based on the migration of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

loans from performing to loss by credit quality rating or delinquency buckets using historical life-of-loan analysis periods for loan types, and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool.

The determination of the ACLL is based on numerous estimates and assumptions, which require a high degree of judgment and are often interrelated. A critical judgment in the process is the weighting of our forward-looking macroeconomic scenarios that are incorporated into our quantitative models. As any one economic outlook is inherently uncertain, the Association leverages multiple scenarios over reasonable and supportable forecast period of 3 years. Subsequent to the forecast period, the institution reverts to long run historical loss experience beyond the 3 years on a straight-line to inform the estimate of losses for the remaining contractual life of the loan portfolio. There are multiple variables that drive the macroeconomic scenarios with the key variables including, but not limited to unemployment rates, gross domestic product levels, and corporate bond spreads.

In addition to the quantitative calculation, the Association considers the imprecision inherent in the process and methodology, emerging risk assessments and other subjective factors, which may lead to a management adjustment to the modeled ACLL results.

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors are considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition, and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations and appraisals to change over time. Management considered a number of factors in determining and supporting the levels of the allowances for loan losses, which include, but are not limited to, 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.

Reserve for Credit Losses on Unfunded Commitments

The Association evaluates the need for a reserve for credit losses on unfunded commitments under CECL and, if required, an amount is recognized and included in liabilities on the Combined Statement of Condition. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the Association and applying the loss factors used in the ACLL methodology to the results of the usage calculation. No reserve for credit losses are recorded for commitments that are unconditionally cancellable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

2. Loans and Allowance for Loan Losses

A summary of loans follows:

(\$ in thousands)	September 30, 2023		December 31, 2022	
Real estate mortgage	\$	927,185	\$	931,702
Production and intermediate-term		275,395		271,268
Agribusiness:				
Cooperatives		78,386		65,001
Processing and marketing		133,597		140,050
Farm-related business		24,773		17,517
Communications		8,962		-
Energy		36,953		7,830
Lease receivables		18,438		19,928
Total loans	\$	1,503,689	\$	1,453,296

Unamortized deferred loan fees and costs totaled \$3.2 million and \$3.4 million as of September 30, 2023 and December 31, 2022, respectively.

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold as of September 30, 2023:

(\$ in thousands)	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 161,796	\$ 250,774	\$ -	\$ -	\$ 161,796	\$ 250,774
Production and intermediate-term	23,437	222,426	-	-	23,437	222,426
Agribusiness	202,907	57,866	4,445	-	207,352	57,866
Communications	8,962	-	-	-	8,962	-
Energy	36,953	-	-	-	36,953	-
Lease receivables	17,520	-	-	-	17,520	-
Total loans	\$ 451,575	\$ 531,066	\$ 4,445	\$ -	\$ 456,020	\$ 531,066

Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit, and unfunded loan commitments. The Association manages credit risk associated with the retail lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies, approved by its board of directors, which provides direction to its loan officers. The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each association that makes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85% of the original appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Loans other than real estate mortgage may be made on a secured or unsecured basis.

The Association uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default occurs during the remaining life of the loan. 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 or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship. The Association reviews, at least on an annual basis, or when a credit action is taken the probability of default category.

Each of the probability of default categories carries a distinct percentage of default probability. The probability of default rate between one and nine of the acceptable categories is very narrow and would reflect almost no default to a minimal default percentage. The probability of default rate grows more rapidly as a loan moves from acceptable 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. These 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
(Unaudited)

The following table presents credit quality indicators by loan type and the related principal balance:

(\$ in thousands)	Term Loans Amortized Cost by Origination Year						Revolving Loans Amortized Cost Basis	Total
	September 30, 2023	2022	2021	2020	2019	Prior		
Real estate mortgage								
Acceptable	\$ 40,557	\$ 124,376	\$ 169,499	\$ 107,955	\$ 71,115	\$ 214,872	\$ 156,386	\$ 884,760
OAEM	1	432	3,116	-	-	14,495	7	18,051
Substandard	6	7,320	-	-	1,785	14,020	1,243	24,374
Total	40,564	132,128	172,615	107,955	72,900	243,387	157,636	927,185
Production and intermediate-term								
Acceptable	20,929	6,019	9,024	2,370	10,830	2,432	200,842	252,446
OAEM	733	1,682	-	94	3,916	-	2,353	8,778
Substandard	10,966	2,399	322	107	-	377	-	14,171
Total	32,628	10,100	9,346	2,571	14,746	2,809	203,195	275,395
Current period gross charge-offs	-	-	-	9	-	-	-	9
Agribusiness								
Acceptable	30,889	37,784	25,219	6,235	8,999	42,586	70,942	222,654
OAEM	-	3,467	843	-	389	2,198	4,277	11,174
Substandard	1,142	-	-	-	-	12	1,774	2,928
Total	32,031	41,251	26,062	6,235	9,388	44,796	76,993	236,756
Communications								
Acceptable	3,994	-	4,966	-	-	-	2	8,962
Total	3,994	-	4,966	-	-	-	2	8,962
Energy								
Acceptable	17,942	12,547	-	-	-	-	6,464	36,953
Total	17,942	12,547	-	-	-	-	6,464	36,953
Lease receivables								
Acceptable	1,188	6,570	1,221	1,403	1,278	6,542	-	18,202
OAEM	-	-	-	-	-	64	-	64
Substandard	-	-	-	172	-	-	-	172
Total	1,188	6,570	1,221	1,575	1,278	6,606	-	18,438
Total loans	\$ 128,347	\$ 202,596	\$ 214,210	\$ 118,336	\$ 98,312	\$ 297,598	\$ 444,290	\$ 1,503,689
Total current period gross charge-offs	\$ -	\$ -	\$ -	\$ 9	\$ -	\$ -	\$ -	\$ 9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table shows loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type as of September 30, 2023, and December 31, 2022:

	September 30, 2023	December 31, 2022 ¹
Real estate mortgage		
Acceptable	95.42%	96.21%
OAEM	1.95%	2.62%
Substandard	2.63%	1.17%
Total	100.00%	100.00%
Production and intermediate-term		
Acceptable	91.66%	90.40%
OAEM	3.19%	6.88%
Substandard	5.15%	2.72%
Total	100.00%	100.00%
Agribusiness		
Acceptable	94.04%	99.37%
OAEM	4.72%	0.00%
Substandard	1.24%	0.63%
Total	100.00%	100.00%
Communications		
Acceptable	100.00%	0.00%
Total	100.00%	0.00%
Energy		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Lease receivables		
Acceptable	98.72%	100.00%
OAEM	0.35%	0.00%
Substandard	0.93%	0.00%
Total	100.00%	100.00%
Total loans		
Acceptable	94.70%	95.68%
OAEM	2.53%	2.96%
Substandard	2.77%	1.36%
Total	100.00%	100.00%

¹ Prior to the adoption of CECL on January 1, 2023, loans were presented with accrued interest receivables.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Accrued interest receivable on loans of \$38.2 million and \$24.7 million at September 30, 2023 and December 31, 2022, respectively, have been excluded from the amortized cost of loans and reported separately in the Consolidated Statements of Condition. The Association wrote off accrued interest receivable of \$30 and \$19 thousand for the nine months ended September 30, 2023, and 2022, respectively.

The following table reflects nonperforming assets (including accrued interest), which consist of nonaccrual loans, accruing loans 90 days or more past due and other property owned and related credit quality statistics:

(\$ in thousands)	September 30, 2023	December 31, 2022
Nonaccrual loans:		
Real estate mortgage	\$ 1,168	\$ 652
Production and intermediate-term	121	-
Agribusiness:		
Processing and marketing	1,142	1,401
Lease receivables	81	-
Total nonaccrual loans	2,512	2,053
Accruing loans 90 days or more past due:		
Real estate mortgage	3,200	-
Production and intermediate-term	712	115
Agribusiness:		
Processing and marketing	9	-
Total accruing loans 90 days or more past due	3,921	115
Other property owned	-	-
Total nonperforming assets	\$ 6,433	\$ 2,168
Nonaccrual loans to total loans	0.17%	0.14%
Nonperforming assets to total loans	0.43%	0.15%
Nonperforming assets to total members' equity	1.94%	0.70%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table provides the amortized cost for nonaccrual loans with and without a related allowance for loan losses, as well as interest income recognized on nonaccrual during the period:

(\$ in thousands)	September 30, 2023			Interest Income Recognized	
	Amortized Cost with Related Allowance	Amortized Cost without Related Allowance	Total	For the Three Months Ended September 30, 2023	For the Nine Months Ended September 30, 2023
Nonaccrual loans:					
Real estate mortgage	\$ -	\$ 1,168	\$ 1,168	\$ -	\$ -
Production and intermediate-term	120	1	121	-	-
Agribusiness:					
Processing and marketing	-	1,142	1,142	-	-
Lease receivables	-	81	81	-	-
Total nonaccrual loans	\$ 120	\$ 2,392	\$ 2,512	\$ -	\$ -

The following table provides an age analysis of past due loans at amortized cost (excluding accrued interest) by portfolio segment as of:

September 30, 2023	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	\$ 923,618	\$ -	\$ 3,567	\$ 927,185	\$ 2,952
Production and intermediate-term	274,369	207	819	275,395	697
Agribusiness	236,208	540	8	236,756	-
Communications	8,962	-	-	8,962	-
Energy	36,953	-	-	36,953	-
Lease receivables	18,292	146	-	18,438	-
Total	\$ 1,498,402	\$ 893	\$ 4,394	\$ 1,503,689	\$ 3,649

Prior to the adoption of CECL, the aging analysis of past due loans included accrued interest as follows:

December 31, 2022	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	\$ 950,467	\$ 949	\$ 295	\$ 951,711	\$ -
Production and intermediate-term	274,502	43	115	274,660	115
Agribusiness	223,611	-	-	223,611	-
Energy	7,863	-	-	7,863	-
Lease receivables	19,751	424	-	20,175	-
Total	\$ 1,476,194	\$ 1,416	\$ 410	\$ 1,478,020	\$ 115

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Effective January 1, 2023, the Association adopted the CECL accounting guidance as described in Note 1. A summary of changes in the allowance for credit losses by portfolio segment are as follows:

For the Three Months Ended September 30, 2023	Real estate mortgage	Production and intermediate-term	Agribusiness	Communications	Energy	Lease receivables	Total
Allowance for Credit Losses:							
Balance at June 30, 2023	\$ 2,449	\$ 592	\$ 955	\$ 19	\$ 37	\$ 200	\$ 4,252
Charge-offs	-	(9)	-	-	-	-	(9)
Recoveries (Credit loss reversal)	-	-	-	-	-	-	-
provision for credit losses	(1,030)	(168)	224	(6)	(11)	(60)	(1,051)
Balance at September 30, 2023	1,419	415	1,179	13	26	140	3,192
Provision for Unfunded Commitments:							
Balance at June 30, 2023	54	72	96	4	-	33	259
(Credit loss reversal)	-	(22)	12	(1)	-	(8)	(19)
provision for credit losses	-	(22)	12	(1)	-	(8)	(19)
Balance at September 30, 2023	54	50	108	3	-	25	240
Total allowance for credit losses	\$ 1,473	\$ 465	\$ 1,287	\$ 16	\$ 26	\$ 165	\$ 3,432

For the Nine Months Ended September 30, 2023	Real estate mortgage	Production and intermediate-term	Agribusiness	Communications	Energy	Lease receivables	Total
Allowance for Credit Losses:							
Balance at December 31, 2022	\$ 423	\$ 3,854	\$ 1,472	\$ -	\$ -	\$ 186	\$ 5,935
Cumulative effect of a change in accounting principle	1,859	(3,103)	(530)	-	-	(67)	(1,841)
Balance at January 1, 2023	2,282	751	942	-	-	119	4,094
Charge-offs	-	(9)	-	-	-	-	(9)
Recoveries (Credit loss reversal)	-	-	-	-	-	-	-
provision for credit losses	(863)	(327)	237	13	26	21	(893)
Balance at September 30, 2023	1,419	415	1,179	13	26	140	3,192
Provision for Unfunded Commitments:							
Balance at December 31, 2022	11	150	74	-	2	4	241
Cumulative effect of a change in accounting principle	143	57	(28)	-	-	48	220
Balance at January 1, 2023	154	207	46	-	2	52	461
(Credit loss reversal)	-	-	-	-	-	-	-
provision for credit losses	(100)	(157)	62	3	(2)	(27)	(221)
Balance at September 30, 2023	54	50	108	3	-	25	240
Total allowance for credit losses	\$ 1,473	\$ 465	\$ 1,287	\$ 16	\$ 26	\$ 165	\$ 3,432

For the Three Months Ended September 30, 2022	Real estate mortgage	Production and intermediate-term	Agribusiness	Communications	Energy	Lease receivables	Total
Allowance for Credit Losses ¹ :							
Balance at June 30, 2022	\$ 596	\$ 4,345	\$ 1,942	\$ -	\$ -	\$ 241	\$ 7,124
Charge-offs	-	-	-	-	-	-	-
Recoveries (Credit loss reversal)	-	3	-	-	-	-	3
provision for credit losses	34	(52)	(315)	-	-	37	(296)
Balance at September 30, 2022	630	4,296	1,627	-	-	278	6,831
Provision for Unfunded Commitments:							
Balance at June 30, 2022	22	157	140	-	-	1	320
Provision for credit losses (credit loss reversal)	1	124	12	-	1	11	149
Balance at September 30, 2022	23	281	152	-	1	12	469
Total allowance for credit losses	\$ 653	\$ 4,577	\$ 1,779	\$ -	\$ 1	\$ 290	\$ 7,300

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

For the Nine Months Ended September 30, 2022	Real estate mortgage	Production and intermediate-term	Agribusiness	Communications	Energy	Lease receivables	Total
Allowance for Credit Losses ¹ :							
Balance at December 31, 2021	\$ 680	\$ 3,943	\$ 1,993	\$ -	\$ -	\$ 396	\$ 7,012
Charge-offs	(14)	(2)	-	-	-	-	(16)
Recoveries (Credit loss reversal)	-	3	-	-	-	-	3
provision for credit losses	(36)	352	(366)	-	-	(118)	(168)
Balance at September 30, 2022	630	4,296	1,627	-	-	278	6,831
Provision for Unfunded Commitments:							
Balance at December 31, 2021	15	209	152	-	1	-	377
Provision for credit losses (credit loss reversal)	8	72	-	-	-	12	92
Balance at September 30, 2022	23	281	152	-	1	12	469
Total allowance for credit losses	\$ 653	\$ 4,577	\$ 1,779	\$ -	\$ 1	\$ 290	\$ 7,300

¹ For periods prior to January 1, 2023, the allowance for loan losses was based on probable and estimable losses inherent in the loan portfolio.

Troubled Debt Restructurings

Prior to January 1, 2023, the adoption of updated FASB guidance on loan modifications, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider.

The Association recorded no loan modifications during the nine months ended September 30, 2023.

3. CAPITAL

A summary of select capital ratios based on a three-month average and minimums set by the Farm Credit Administration follows:

	September 30, 2023	December 31, 2022	Regulatory Minimums	Capital Conservation Buffer	Total
Risk adjusted:					
Common equity tier 1 ratio	16.13%	16.57%	4.50%	2.5%	7.00%
Tier 1 capital ratio	16.13%	16.57%	6.00%	2.5%	8.50%
Total capital ratio	16.39%	16.99%	8.00%	2.5%	10.50%
Permanent capital ratio	16.17%	16.63%	7.00%	-	7.00%
Non-risk-adjusted:					
Tier 1 leverage ratio	18.60%	18.97%	4.00%	1.00%	5.00%
Unallocated retained earnings and equivalents leverage ratio	18.55%	18.92%	1.50%	-	1.50%

4. 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 the principal or most advantageous market for the asset or liability. Refer to Note 2 in the 2022 Annual Report to Shareholders for a more complete description.

The Association had no assets or liabilities measured at fair value on a recurring or non-recurring basis at September 30, 2023 or December 31, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

5. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 9, 2023, which is the date the consolidated financial statements were issued, and no material subsequent events were identified.



Fresno Madera Farm Credit, ACA

Fresno Madera Production Credit Association

Fresno Madera Federal Land Bank Association, FLCA

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