Fresno Madera Farm Credit

*Agriculture is Our Only Business*

# 2020 Third Quarter Financial Statements

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## 2020 THIRD QUARTER FINANCIAL STATEMENTS

# FRESNO MADERA FARM CREDIT, ACA

## 2020 THIRD QUARTER FINANCIAL STATEMENTS

## MESSAGE TO SHAREHOLDERS

November 9, 2020

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 2020. 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

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

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

(Dollars in thousands, except as noted)

## RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2020 was $18.5 million compared to $18.1 million from the comparative period in 2019. Our earnings primarily reflect higher net interest income coupled with an increase in noninterest income. This was partly offset by an increase in our noninterest expense.

Net interest income increased $139 to $25.1 million for the nine months ended September 30, 2020 from the comparative period in 2019 due to higher average loan volume, partially offset by a decrease in earnings from our loanable funds impacted by decreasing short-term interest rates.

Noninterest income for the nine months ended September 30, 2020 was $8.1 million, an increase of $894 or 12% from the comparative period in 2019. In the second quarter, the Association began accepting applications from eligible members to participate in the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). The increase in noninterest income is primarily due to loan fee income of $968 from fees collected on PPP loans made in the second quarter. The Association had $28.7 million in PPP loans outstanding as of September 30, 2020.

The provision for loan losses for the nine months ended September 30, 2020 was $266 compared to $341 in the comparative period in 2019. The provision is primarily due to an increase in our allowance for loan losses as a result of an increase in loan volume with a slight deterioration in credit quality. The provision amount was lower compared to prior year given the net recoveries of $100 compared to net charge-offs of $63 in prior year.

Noninterest expenses for the nine months ended September 30, 2020 increased $632 or 5%, to $14.4 million compared to the same period in the prior year primarily due to an increase in salaries and benefit expense, partially offset by a decrease in training and travel related expenses. The increase in salaries and employee benefits expense is primarily driven by annual merit increases and increase in the accrual of the short-term and long-term incentive compensation programs. The decrease in training and travel related expenses are mainly due to postponing or cancelling scheduled training and offsite events due to the COVID-19 pandemic.

## LOAN PORTFOLIO

Loan volume outstanding at September 30, 2020 was $1,264 million, an increase of $38.6 million from total loan volume at December 31, 2019 of $1,226 million. Overall, the increase in loan volume was driven by seasonal increase in operating line balances in production and intermediate-term loans along with the origination of SBA PPP loans and new loan commitments in the agribusiness segment.

As of September 30, 2020, the allowance for loan losses was $7.3 million, an increase of $366 from December 31, 2019, with the allowance as a percentage of loans as of September 30, 2020 at 0.58%, compared to 0.57% at December 31, 2019. The increase in the allowance for loan losses is primarily due to an increase in loan volume and slight deterioration in credit quality as of September 30, 2020.

**CAPITAL RESOURCES**

The Association continues to have a sound capital position with a total regulatory capital ratio of 17.29% compared to the minimum of 15.50% established by the board of directors and the regulatory minimum of 10.50%. Members' equity at September 30, 2020 was $293 million representing an increase of $15.3 million or 6% from December 31, 2019. The increase in Members' equity is attributed to the Association's net operating results, partially offset by a $3.3 million patronage distribution. In September, 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 in order to provide earlier access to these funds to members. The Association will distribute any remaining 2020 declared patronage in 2021 once the Association's fiscal year concludes.

For additional information, please refer to the "Notes to Consolidated Financial Statements" and the Association's 2019 Annual Report to Shareholders.

**COVID-19 PANDEMIC**

In March 2020, the outbreak of the Coronavirus Disease 2019 ("COVID-19") was recognized as a pandemic by the World Health Organization. The spread of COVID-19 continues to be a global public health crisis that has resulted in unprecedented uncertainty, volatility and disruption in financial markets and in governmental, commercial and consumer activity in the United States and globally, including the markets that the Association serves. Governmental authorities responded to the pandemic by mandating non-essential businesses to close or scale back services and required individuals to observe social distancing restrictions.

As an essential business, the Association has remained open and continues to operate and serve our borrowers while also making adjustments to protect employee safety. The majority of the Association staff continues to work remotely with a limited number of staff based in the Association branches to enable and comply with social distancing and safety standards in each of our three locations. Despite these changes, the Association has not experienced an interruption in our ability to operate and provide services to our borrowers. As noted above under *Results of Operations*, the Association has participated in the SBA PPP as a designated lender. The SBA PPP was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The program provides 100% federally guaranteed loans to small businesses with forgiveness of outstanding principal plus accrued interest, assuming key conditions have been met. The program helps businesses cover costs related to payroll and benefits as well as rent, utilities and interest on mortgages during the coronavirus outbreak.

The Association recognizes there may be negative credit quality migration over the next year attributed to stress in certain commodity segments. However, the impact currently does not seem to be as significant as expected given current observations noted as of September 30, 2020. As certain commodities have experienced below breakeven prices, due primarily to disruptions within the food service industry and school closures, others have experienced strong prices and product demand. The labor supply has remained adequate, with crops reportedly harvested 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 SBA PPP and the Coronavirus Food Assistance

Program, which is expected to help offset lost revenue attributed to reduced commodity prices. There are currently no loan defaults known to be attributed to COVID-19.

The Association will continue to monitor the impact on agricultural commodities and the potential financial impact to our borrowers. The long-term impacts of COVID-19 on agriculture and the Association's borrowers are still relatively unknown.

# CONSOLIDATED STATEMENTS OF CONDITION

(Dollars in thousands)

| | September 30 2020 UNAUDITED | December 31 2019 AUDITED |
|---|---|---|
| **ASSETS** | | |
| Loans | **$ 1,264,254** | $ 1,225,675 |
| Less allowance for loan losses | **7,293** | 6,927 |
| Net loans | **1,256,961** | 1,218,748 |
| Cash | **14,537** | 10,137 |
| Accrued interest receivable | **17,954** | 20,872 |
| Investment in CoBank, ACB | **39,210** | 38,703 |
| Premises and equipment, net | **5,473** | 5,596 |
| Other assets | **11,596** | 11,879 |
| **Total assets** | **$ 1,345,731** | $ 1,305,935 |
| **LIABILITIES** | | |
| Note payable to CoBank, ACB | **$ 990,342** | $ 946,569 |
| Funds held | **57,583** | 64,260 |
| Accrued interest payable | **316** | 1,334 |
| Patronage distributions payable | **510** | 12,539 |
| Other liabilities | **4,028** | 3,567 |
| **Total liabilities** | **1,052,779** | 1,028,269 |
| **MEMBERS' EQUITY** | | |
| Capital stock and participation certificates | **757** | 755 |
| Unallocated retained earnings | **292,195** | 276,911 |
| **Total members' equity** | **292,952** | 277,666 |
| **Total liabilities and members' equity** | **$ 1,345,731** | $ 1,305,935 |

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 | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | UNAUDITED | UNAUDITED | UNAUDITED | UNAUDITED |
| **INTEREST INCOME** | | | | |
| Loans | **$ 10,201** | $ 14,997 | **$ 34,735** | $ 45,788 |
| **INTEREST EXPENSE** | | | | |
| Note payable to CoBank, ACB | **1,985** | 6,353 | **9,296** | 19,551 |
| Funds held | **26** | 434 | **360** | 1,297 |
| **Total interest expense** | **2,011** | 6,787 | **9,656** | 20,848 |
| Net interest income | **8,190** | 8,210 | **25,079** | 24,940 |
| Provision for loan losses | **112** | 108 | **266** | 341 |
| Net interest income after provision for loan losses | **8,078** | 8,102 | **24,813** | 24,599 |
| **NONINTEREST INCOME** | | | | |
| Patronage distribution from Farm Credit Institutions | **1,352** | 1,421 | **6,151** | 6,256 |
| Farm Credit Insurance Fund rebate | **-** | - | **258** | 272 |
| Financially related services income | **86** | 52 | **170** | 236 |
| Loan fees | **153** | 121 | **1,368** | 310 |
| Other noninterest income | **35** | 51 | **160** | 139 |
| **Total noninterest income** | **1,626** | 1,645 | **8,107** | 7,213 |
| **NONINTEREST EXPENSE** | | | | |
| Salaries and employee benefits | **2,759** | 2,364 | **8,642** | 7,903 |
| Occupancy and equipment | **155** | 107 | **411** | 370 |
| Farm Credit Insurance Fund premium | **248** | 200 | **595** | 592 |
| Information technology | **974** | 920 | **2,933** | 2,722 |
| Supervisory and examination costs | **100** | 111 | **340** | 332 |
| Other noninterest expense | **572** | 577 | **1,449** | 1,819 |
| **Total noninterest expense** | **4,808** | 4,279 | **14,370** | 13,738 |
| Income before income taxes | **4,896** | 5,468 | **18,550** | 18,074 |
| Provision for income taxes | **-** | - | **2** | 2 |
| **Net income** | **$ 4,896** | $ 5,468 | **$ 18,548** | $ 18,072 |

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, 2018** | $ 774 | $ 266,184 | $ 266,958 |
| Net income | | 18,072 | 18,072 |
| Capital stock and participation certificates issued | 42 | | 42 |
| Capital stock and participation certificates retired | (59) | | (59) |
| **Balance at September 30, 2019** | **$ 757** | **$ 284,256** | **$ 285,013** |
| | | | |
| **Balance at December 31, 2019** | $ 755 | $ 276,911 | $ 277,666 |
| Net income | | 18,548 | 18,548 |
| Capital stock and participation certificates issued | 51 | | 51 |
| Capital stock and participation certificates retired | (49) | | (49) |
| Patronage Distributions: Cash | | (3,264) | (3,264) |
| **Balance at September 30, 2020** | **$ 757** | **$ 292,195** | **$ 292,952** |

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

## 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, 2019 are contained in the 2019 Annual Report to Shareholders. These unaudited third quarter 2020 financial statements should be read in conjunction with the 2019 Annual Report to Shareholders.

The accompanying unaudited 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, 2019 as contained in the 2019 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, 2020. Descriptions of the significant accounting policies are included in the 2019 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.

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 adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

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

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes 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 its financial condition and results of operations.

(Dollars in thousands, except as noted)

## 2. Loans and Allowance for Loan Losses

A summary of loans follows:

| | **September 30, 2020** | December 31, 2019 |
|---|---|---|
| Real estate mortgage | **$ 779,971** | $ 783,124 |
| Production and intermediate-term | **282,859** | 254,647 |
| Agribusiness: | | |
| Cooperatives | **77,319** | 72,807 |
| Processing and marketing | **91,763** | 82,234 |
| Farm-related business | **4,343** | 2,251 |
| Energy | **5,313** | 5,311 |
| Lease receivables | **22,686** | 25,301 |
| Total loans | **$ 1,264,254** | $ 1,225,675 |

Unamortized deferred loan fees and costs totaled $3.6 million and $3.8 million as of September 30, 2020 and December 31, 2019, 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, 2020:

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|---|---|---|---|---|---|---|
| | Purchased | Sold | Purchased | Sold | Purchased | Sold |
| Real estate mortgage | $ 127,356 | $ 186,336 | $ - | $ - | $ 127,356 | $ 186,336 |
| Production and intermediate-term | 19,190 | 211,176 | - | - | 19,190 | 211,176 |
| Agribusiness | 140,597 | 26,883 | - | - | 140,597 | 26,883 |
| Energy | 5,312 | - | - | - | 5,312 | - |
| Lease receivables | 22,686 | - | - | - | 22,686 | - |
| Total loans | **$ 315,141** | **$ 424,395** | **$ -** | **$ -** | **$ 315,141** | **$ 424,395** |

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.

(Dollars in thousands, except as noted)

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

| | **September 30, 2020** | December 31, 2019 |
|---|---|---|
| Real estate mortgage | | |
| Acceptable | **95.40%** | 96.17% |
| OAEM | **3.00%** | 1.41% |
| Substandard | **1.60%** | 2.42% |
| Total | **100.00%** | 100.00% |
| Production and intermediate-term | | |
| Acceptable | **85.49%** | 91.37% |
| OAEM | **9.88%** | 4.40% |
| Substandard | **4.63%** | 4.23% |
| Total | **100.00%** | 100.00% |
| Agribusiness | | |
| Acceptable | **96.06%** | 95.30% |
| OAEM | **2.20%** | 2.55% |
| Substandard | **1.74%** | 2.15% |
| Total | **100.00%** | 100.00% |
| Energy | | |
| OAEM | **0.00%** | 100.00% |
| Substandard | **100.00%** | 0.00% |
| Total | **100.00%** | 100.00% |
| Lease receivables | | |
| Acceptable | **100.00%** | 93.63% |
| Substandard | **0.00%** | 6.37% |
| Total | **100.00%** | 100.00% |
| Total Loans | | |
| Acceptable | **92.97%** | 94.61% |
| OAEM | **4.36%** | 2.56% |
| Substandard | **2.67%** | 2.83% |
| Total | **100.00%** | 100.00% |

(Dollars in thousands, except as noted)

High risk assets consist of impaired loans and other property owned. These nonperforming assets (including related accrued interest) and related credit quality are as follows:

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Nonaccrual loans: | | |
| Real estate mortgage | **$ 7,131** | $ 7,159 |
| Production and intermediate-term | **2,532** | 3,895 |
| Agribusiness: | | |
| Processing and marketing | **2,828** | 3,155 |
| Total nonaccrual loans | **12,491** | 14,209 |
| Accruing restructured loans | **-** | - |
| Accruing loans 90 days past due | **-** | - |
| Other property owned | **-** | - |
| Total high risk assets | **$ 12,491** | $ 14,209 |

Additional impaired loan information is as follows:

| | September 30, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| **Impaired loans with no related allowance for credit losses:** | | | | | | |
| Real estate mortgage | $ 7,131 | $ 7,248 | $ - | $ 7,159 | $ 7,448 | $ - |
| Production and intermediate-term | 2,532 | 2,532 | - | 3,895 | 4,606 | - |
| Agribusiness: | | | | | | |
| Processing and marketing | 2,828 | 2,981 | - | 3,155 | 3,155 | - |
| Total impaired loans | $ 12,491 | $ 12,761 | $ - | $ 14,209 | $ 15,209 | $ - |

The decrease in impaired loans during the nine months ended September 30, 2020 is primarily due to paydowns on existing impaired loans.

| | For the Three Months Ended | | | |
|---|---|---|---|---|
| | September 30, 2020 | | September 30, 2019 | |
| | **Average Impaired Loans** | **Interest Income Recognized** | Average Impaired Loans | Interest Income Recognized |
| **Impaired loans with no related allowance for credit losses:** | | | | |
| Real estate mortgage | $ 7,131 | $ 3 | $ 5,444 | $ 3 |
| Production and intermediate-term | 2,103 | 17 | 3,974 | - |
| Agribusiness: | | | | |
| Processing and marketing | 2,839 | - | 240 | - |
| Total impaired loans | $ 12,073 | $ 20 | $ 9,658 | $ 3 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except as noted)
(Unaudited)

| | For the Nine Months Ended | | | |
|---|---|---|---|---|
| | **September 30, 2020** | | September 30, 2019 | |
| | **Average Impaired Loans** | **Interest Income Recognized** | Average Impaired Loans | Interest Income Recognized |
| **Impaired loans with no related allowance for credit losses:** | | | | |
| Real estate mortgage | $ 7,102 | $ 500 | $ 4,996 | $ 44 |
| Production and intermediate-term | 2,791 | 180 | 3,908 | - |
| Agribusiness: | | | | |
| Processing and marketing | 2,913 | - | 80 | - |
| Total impaired loans | $ 12,806 | $ 680 | $ 8,984 | $ 44 |

The following tables provide an age analysis of past due loans (including accrued interest):

| **September 30, 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 | $ 792,234 | $ 856 | $ 2,113 | $ 795,203 | $ - |
| Production and intermediate-term | 284,096 | 903 | - | 284,999 | - |
| Agribusiness | 172,948 | 183 | 648 | 173,779 | - |
| Energy | 5,315 | - | - | 5,315 | - |
| Lease receivables | 22,912 | - | - | 22,912 | - |
| Total | $ 1,277,505 | $ 1,942 | $ 2,761 | $ 1,282,208 | $ - |

| 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 | $ - |

A summary of changes in the allowance for loan losses by loan type is as follows:

| For the Three Months Ended September 30, 2020 | **Real estate mortgage** | **Production and intermediate- term** | **Agribusiness** | **Energy** | **Lease receivables** | **Total** |
|---|---|---|---|---|---|---|
| **Allowance for Credit Losses:** | | | | | | |
| Balance at June 30, 2020 | $ 373 | $ 4,158 | $ 1,512 | $ 264 | $ 874 | $ 7,181 |
| Charge-offs | - | - | - | - | - | - |
| Recoveries | - | - | - | - | - | - |
| Provision for Loan Losses/(Loan loss reversal) | 7 | 678 | (139) | 11 | (445) | 112 |
| Balance at September 30, 2020 | $ 380 | $ 4,836 | $ 1,373 | $ 275 | $ 429 | $ 7,293 |

| For the Three Months Ended September 30, 2019 | **Real estate mortgage** | **Production and intermediate- term** | **Agribusiness** | **Energy** | **Lease receivables** | **Total** |
|---|---|---|---|---|---|---|
| **Allowance for Credit Losses:** | | | | | | |
| Beginning Balance at June 30, 2019 | $ 477 | $ 3,644 | $ 1,595 | $ 27 | $ 1,258 | $ 7,001 |
| Charge-offs | (32) | (12) | - | - | - | (44) |
| Recoveries | - | - | - | - | - | - |
| Provision for Loan Losses/(Loan loss reversal) | (32) | 190 | (89) | 76 | (37) | 108 |
| Ending Balance at September 30, 2019 | $ 413 | $ 3,822 | $ 1,506 | $ 103 | $ 1,221 | $ 7,065 |

(Dollars in thousands, except as noted)

| For the Nine Months Ended September 30, 2020 | 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 | - | 101 | - | - | - | 101 |
| Provision for Loan Losses/(Loan loss reversal) | (30) | 817 | 62 | 188 | (771) | 266 |
| Balance at September 30, 2020 | $ 380 | $ 4,836 | $ 1,373 | $ 275 | $ 429 | $ 7,293 |

| For the Nine Months Ended September 30, 2019 | 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) | (31) | - | - | - | (63) |
| Recoveries | - | - | - | - | - | - |
| Provision for Loan Losses/(Loan loss reversal) | 6 | 72 | (193) | 77 | 379 | 341 |
| Ending Balance at September 30, 2019 | $ 413 | $ 3,822 | $ 1,506 | $ 103 | $ 1,221 | $ 7,065 |

A summary of 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:** | | | | | | |
| Ending balance: Allowance individually evaluated for impairment | $ - | $ - | $ - | $ - | $ - | $ - |
| Ending balance: Allowance collectively evaluated for impairment | 380 | 4,836 | 1,373 | 275 | 429 | 7,293 |
| Balance at September 30, 2020 | $ 380 | $ 4,836 | $ 1,373 | $ 275 | $ 429 | $ 7,293 |
| **Recorded Investments in Loans Outstanding:** | | | | | | |
| Ending balance: Loans individually evaluated for impairment | $ 7,131 | $ 2,532 | $ 2,828 | $ - | $ - | $ 12,491 |
| Ending balance: Loans collectively evaluated for impairment | 788,072 | 282,467 | 170,951 | 5,315 | 22,912 | 1,269,717 |
| Balance at September 30, 2020 | $ 795,203 | $ 284,999 | $ 173,779 | $ 5,315 | $ 22,912 | $ 1,282,208 |

| | Real estate mortgage | Production and intermediate- term | Agribusiness | Energy | Lease receivables | Total |
|---|---|---|---|---|---|---|
| **Allowance for Credit Losses:** | | | | | | |
| 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 |

The Association recorded no troubled debt restructurings during the nine months ended September 30, 2020.

(Dollars in thousands, except as noted)

### 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, 2020** | **December 31, 2019** | Regulatory Minumums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| **Risk Adjusted:** | | | | | |
| Common equity tier 1 ratio | **16.78%** | **16.85%** | 4.50% | 2.5% | 7.00% |
| Tier 1 capital ratio | **16.78%** | **16.85%** | 6.00% | 2.5% | 8.50% |
| Total capital ratio | **17.29%** | **17.36%** | 8.00% | 2.5% | 10.50% |
| Permanent capital ratio | **16.86%** | **16.94%** | 7.00% | - | 7.00% |
| **Non-risk-adjusted:** | | | | | |
| Tier 1 leverage ratio | **19.36%** | **19.79%** | 4.00% | 1.00% | 5.00% |
| Unallocated retained earnings and equivalents leverage ratio | **20.53%** | **20.86%** | 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 2019 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, 2020 or December 31, 2019.

### 5. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 9, 2020 which is the date the 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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