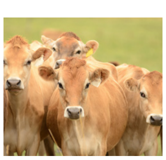
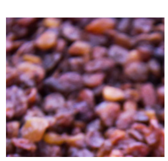


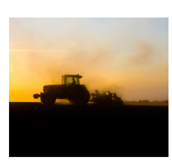
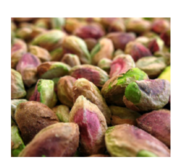
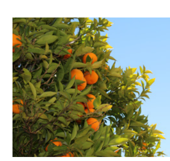

Fresno Madera Farm Credit

Agriculture is Our Only Business


2019 First Quarter Financial Statements



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FRESNO MADERA FARM CREDIT, ACA

2019 FIRST QUARTER FINANCIAL STATEMENTS

MESSAGE TO SHAREHOLDERS

May 10, 2019

Dear Member:

These consolidated financial statements reflect the status of the Fresno Madera Farm Credit, ACA and its subsidiaries at the end of the First Quarter of 2019. 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

Frank Seelye
Acting 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 three months ended March 31, 2019 was $7.0 million compared to $6.4 million from the comparative period in 2018 representing an increase of $0.6 million or 3.5%. Our earnings primarily reflect higher net interest income coupled with an increase in noninterest income related to increased patronage income from CoBank and other Farm Credit System institutions. This was partly offset by an increase in our noninterest expense.

Net interest income increased $709 to $8.5 million for the three months ended March 31, 2019 from the comparative period in 2018 due to higher average loan volume which increased 11% and increased earnings associated with our invested capital impacted by increased interest rates.

Noninterest income for the three months ended March 31, 2019 was $3.7 million which is an increase of $449 thousand or 9% from the comparative period in 2018. Noninterest income includes patronage distributions which reflect patronage income on direct borrowings from CoBank as well as participations purchased activity with CoBank and other Farm Credit Associations. Patronage income increased due to an increase in average volume outstanding in our participations sold portfolio coupled with an increase in average patronage collected on that portfolio compared to the prior year. Noninterest income was also 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, however the refund received in the first quarter of 2019 was lower than the refund received in the comparative period which partly offset the increase in patronage income.

The provision for loan losses for the three months ended March 31, 2019 was $171 compared to $561 in the comparative period in 2018. The provision is primarily due to an increase in our allowance for loan losses as a result of some increase in credit risk associated with our loan portfolio. The provision in prior year was primarily due to an increase in outstanding loan volume as well as a slight increase in credit risk.

Noninterest expenses for the three months ended March 31, 2019 increased $986, or 9%, to $5.0 million compared to the same period in the prior year primarily due to higher salaries and employee benefits expenses driven by an increased number of staff in order to provide bench strength in various departments and assist in succession planning efforts.

LOAN PORTFOLIO

Loan volume outstanding at March 31, 2019 was $1,187 million, a decrease of $60.6 million from total loan volume at December 31, 2018 of $1,247 million. Overall the decrease in loan volume is primarily due to paydowns on existing complexes coupled with Association borrowers' seasonal repayment activity of revolving equity lines of credit and seasonal reduction of operating loans.

As of March 31, 2019, the allowance for loan losses was $7.0 million, an increase of $171 from December 31, 2018, with the allowance as a percentage of loans at 0.59%. The increase in allowance for loan losses is primarily the result of an increase in our exposure caused by migration in our portfolio as a result of some deterioration of our portfolio's credit quality.

CAPITAL RESOURCES

The Association continues to have a sound capital position with a total regulatory capital ratio of 16.95% compared to the minimum of 15.50% established by the board of directors. Members' equity at March 31, 2019 was $273.9 million representing an increase of $7.0 million or 3% from December 31, 2018. The increase in Members' equity is attributed to the Association's net operating results.

For additional information, please refer to the "Notes to Consolidated Financial Statements" and the Association's 2018 Annual Report to Shareholders.

CONSOLIDATED STATEMENTS OF CONDITION

(Dollars in thousands)

	March 31 2019 UNAUDITED	December 31 2018 AUDITED
ASSETS		
Loans	**$ 1,186,722**	$ 1,247,297
Less allowance for loan losses	**6,958**	6,787
Net loans	**1,179,764**	1,240,510
Cash	**3,265**	10,530
Accrued interest receivable	**13,269**	22,191
Investment in CoBank, ACB	**37,334**	36,840
Premises and equipment, net	**6,168**	5,991
Other assets	**5,999**	10,263
Total assets	**$ 1,245,799**	$ 1,326,325
LIABILITIES		
Note payable to CoBank, ACB	**$ 881,640**	$ 976,151
Funds held	**75,461**	65,931
Accrued interest payable	**1,692**	1,769
Patronage distributions payable	**10,402**	10,402
Other liabilities	**2,700**	5,114
Total liabilities	**971,895**	1,059,367
MEMBERS' EQUITY		
Capital stock and participation certificates	**763**	774
Unallocated retained earnings	**273,141**	266,184
Total members' equity	**273,904**	266,958
Total liabilities and members' equity	**$ 1,245,799**	$ 1,326,325

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

CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands)

	For the three months ended March 30	
	2019	2018
	UNAUDITED	UNAUDITED
INTEREST INCOME		
Loans	**$ 15,533**	$ 11,955
INTEREST EXPENSE		
Note payable to CoBank, ACB	**6,600**	3,970
Funds held	**442**	203
Total interest expense	**7,042**	4,173
Net interest income	**8,491**	7,782
Provision for Loan Losses	**171**	561
Net interest income after provision for loan losses	**8,320**	7,221
NONINTEREST INCOME		
Patronage distribution from Farm Credit Institutions	**3,127**	2,277
Farm Credit Insurance Fund rebate	**272**	673
Financially related services income	**120**	105
Loan fees	**89**	113
Other noninterest income	**42**	33
Total noninterest income	**3,650**	3,201
NONINTEREST EXPENSE		
Salaries and employee benefits	**3,063**	2,346
Occupancy and equipment	**133**	135
Farm Credit Insurance Fund premium	**202**	176
Information technology	**909**	824
Supervisory and examination costs	**111**	108
Other noninterest expense	**595**	438
Total noninterest expense	**5,013**	4,027
Income before income taxes	**6,957**	6,395
Provision for income taxes	**-**	2
Net income	**$ 6,957**	$ 6,393

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, 2017	$ 757	$ 256,633	$ 257,390
Net income		6,393	6,393
Capital stock and participation certificates issued	20		20
Capital stock and participation certificates retired	(21)		(21)
Balance at March 31, 2018	**$ 756**	**$ 263,026**	**$ 263,782**
Balance at December 31, 2018	$ 774	$ 266,184	$ 266,958
Net income		6,957	6,957
Capital stock and participation certificates issued	13		13
Capital stock and participation certificates retired	(24)		(24)
Balance at March 31, 2019	**$ 763**	**$ 273,141**	**$ 273,904**

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, 2018 are contained in the 2018 Annual Report to Shareholders. These unaudited first quarter 2019 financial statements should be read in conjunction with the 2018 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, 2018 as contained in the 2018 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, 2019. Descriptions of the significant accounting policies are included in the 2018 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 becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association's financial condition or its results of operations but will impact the fair value measurements disclosures. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018.

(Dollars in thousands, except as noted)

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

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

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. In July 2018, the FASB issued an update entitled "Leases – Targeted Improvements," which provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. An entity that elects this additional transition method must provide the required disclosures of the now current standard for all prior periods presented. The guidance and related amendments in this update become effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association adopted this guidance on January 1, 2019 and upon adoption, recorded a $306 thousand right of use asset and lease liability.

2. Loans and Allowance for Loan Losses

A summary of loans follows:

	March 31, 2019	December 31, 2018
Real estate mortgage	**$ 756,509**	$ 803,992
Production and intermediate-term	**204,354**	239,756
Agribusiness:		
Cooperatives	**95,177**	78,673
Processing and marketing	**91,885**	84,830
Farm-related business	**3,280**	2,708
Energy	**6,375**	6,374
Lease receivables	**29,142**	30,964
Total loans	**$ 1,186,722**	$ 1,247,297

(Dollars in thousands, except as noted)

Unamortized deferred loan fees and costs totaled $3.9 million and $4.6 million as of March 31, 2019 and December 31, 2018, 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 March 31, 2019:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	**Sold**	**Purchased**	**Sold**	**Purchased**	**Sold**
Real estate mortgage	$ 107,882	$ 215,438	$ -	$ -	$ 107,882	$ 215,438
Production and intermediate-term	9,237	141,607	-	-	9,237	141,607
Agribusiness	157,848	47,409	-	-	157,848	47,409
Lease receivables	29,142	-	-	-	29,142	-
Energy	6,375	-	-	-	6,375	-
Total loans	**$ 310,484**	**$ 404,454**	**$ -**	**$ -**	**$ 310,484**	**$ 404,454**

(Dollars in thousands, except as noted)

The following table shows loan 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:

	March 31, 2019	December 31, 2018
Real estate mortgage		
Acceptable	**97.60%**	97.91%
OAEM	**0.20%**	0.60%
Substandard	**2.20%**	1.49%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**92.57%**	91.89%
OAEM	**2.75%**	1.70%
Substandard	**4.68%**	6.41%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**97.19%**	96.55%
OAEM	**1.32%**	0.00%
Substandard	**1.49%**	3.45%
Total	**100.00%**	100.00%
Energy		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Lease receivables		
Acceptable	**89.55%**	89.76%
OAEM	**10.45%**	0.37%
Substandard	**0.00%**	9.87%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**96.47%**	96.39%
OAEM	**1.07%**	0.72%
Substandard	**2.46%**	2.89%
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:

	March 31, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	**$ 4,592**	$ 5,762
Production and intermediate-term	**4,015**	5,860
Total nonaccrual loans	**8,607**	11,622
Accruing restructured loans	**-**	-
Accruing loans 90 days past due	**2,305**	-
Other property owned	**-**	-
Total high risk assets	**$ 10,912**	$ 11,622

Additional impaired loan information is as follows:

	March 31, 2019			December 31, 2018		
	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	$ 4,592	$ 4,768	$ -	$ 5,762	$ 5,762	$ -
Production and intermediate-term	4,015	4,886	-	5,860	6,426	-
Total impaired loans	$ 8,607	$ 9,654	$ -	$ 11,622	$ 12,188	$ -

The decrease in impaired loans during the three months ended March 31, 2019 is primarily due to paydowns on existing impaired loan complexes in the first quarter.

	For the Three Months Ended			
	March 31, 2019		March 31, 2018	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ 7,063	$ 76	$ 4	
Production and intermediate-term	3,950	-	-	-
Total	11,013	76	4	-
Total impaired loans	$ 11,013	$ 76	$ 4	$ -

(Dollars in thousands, except as noted)

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

March 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	$ 759,670	$ 4,059	$ 2,305	$ 766,034	$ 2,305
Production and intermediate-term	204,434	479	2,150	207,063	-
Agribusiness	190,650	417	-	191,067	-
Energy	6,380			6,380	
Lease receivables	29,016	431	-	29,447	-
Total	$ 1,190,150	$ 5,386	$ 4,455	$ 1,199,991	$ 2,305
December 31, 2018					
Real estate mortgage	$ 820,989	$ 1,204	$ -	$ 822,193	$ -
Production and intermediate-term	234,182	3,021	5,683	$ 242,886	-
Agribusiness	166,576	236	-	166,812	-
Energy	6,381	-	-	6,381	-
Lease receivables	30,973	243	-	31,216	-
Total	$ 1,259,101	$ 4,704	$ 5,683	$ 1,269,488	$ -

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

For the Three Months Ended March 31, 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	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision for Loan Losses/(Loan loss reversal)	68	(65)	258	1	(91)	171
Balance at March 31, 2019	$ 507	$ 3,716	$ 1,957	$ 27	$ 751	$ 6,958

For the Three Months Ended March 31, 2018	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	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision for Loan Losses/(Loan loss reversal)	(104)	480	177	(16)	24	561
Balance at March 31, 2018	$ 289	$ 3,683	$ 1,599	$ 25	$ 1,023	$ 6,619

(Dollars in thousands, except as noted)

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	507	3,716	1,957	27	751	6,958
Balance at March 31, 2019	$ 507	$ 3,716	$ 1,957	$ 27	$ 751	$ 6,958
Recorded Investments in Loans Outstanding:						
Ending balance: Loans individually evaluated for impairment	$ 4,592	$ 4,015	$ -	$ -	$ -	$ 8,607
Ending balance: Loans collectively evaluated for impairment	751,917	200,339	190,342	6,375	29,142	1,178,115
Balance at March 31, 2019	$ 756,509	$ 204,354	$ 190,342	$ 6,375	$ 29,142	$ 1,186,722

	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	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

The Association recorded no troubled debt restructurings during the three months ended March 31, 2019.

(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:

	March 31, 2019	December 31, 2018	Regulatory Minumums	Capital Conservation Buffer	Total
Risk Adjusted:					
Common equity tier 1 ratio	**16.44%**	**16.90%**	4.50%	2.5%*	7.00%
Tier 1 capital ratio	**16.44%**	**16.90%**	6.00%	2.5%*	8.50%
Total capital ratio	**16.95%**	**17.40%**	8.00%	2.5%*	10.50%
Permanent capital ratio	**16.52%**	**16.98%**	7.00%	-	7.00%
Non-risk-adjusted:					
Tier 1 leverage ratio	**18.95%**	**19.40%**	4.00%	1.00%	5.00%
Unallocated retained earnings and equivalents	**19.95%**	**20.10%**	1.50%	–	1.50%

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

4. INCOME TAXES

The Tax Cuts and Jobs Act of 2017 enacted in late 2017, among other changes, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. Refer to the 2018 Annual Report to Shareholders for additional information.

5. 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 2018 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 March 31, 2019 or December 31, 2018.

6. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 10, 2019 which is the date the financial statements were issued, and no material subsequent events were identified.








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