AgHeritage Farm Credit Services, ACA

Quarterly Report
September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgHeritage Farm Credit Services, ACA and its subsidiaries AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2018 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

The 2019 crop planting season was challenging for many growers due to extremely wet weather conditions. Generally the crop progress during the growing season was behind multi-year averages. Harvest is nearing completion for most crops in our area. We are expecting yields to be slightly below multi-year averages. Commodity prices have been weak due to large supplies and weakness in export markets. If current commodity market conditions persist, we expect to experience a modest decline in credit quality in the short-term. Land values in our area are stable.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.5 billion at September 30, 2019, an increase of $188.3 million from December 31, 2018. The increase was primarily due to growth in the real estate mortgage and capital markets portfolios. There was also growth due to seasonal use of operating loans within our production and intermediate-term loan portfolio.

Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2018. Adversely classified loans decreased to 3.2% of the portfolio at September 30, 2019, from 3.6% of the portfolio at December 31, 2018. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At September 30, 2019, $21.5 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**September 30 2019**	December 31 2018
Loans:		
Nonaccrual	**$ 9,618**	$ 10,728
Accruing restructured	**--**	--
Accruing loans 90 days or more past due	**--**	368
Total risk loans	**9,618**	11,096
Other property owned	**--**	--
Total risk assets	**$ 9,618**	$ 11,096
Total risk loans as a percentage of total loans	**0.6%**	0.8%
Nonaccrual loans as a percentage of total loans	**0.6%**	0.8%
Current nonaccrual loans as a percentage of total nonaccrual loans	**36.7%**	64.4%
Total delinquencies as a percentage of total loans	**1.0%**	0.6%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2018, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

Nonaccrual loans remained at an acceptable level at September 30, 2019, and December 31, 2018.

Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	**September 30 2019**	December 31 2018
Allowance as a percentage of:		
Loans	**0.5%**	0.3%
Nonaccrual loans	**73.9%**	41.6%
Total risk loans	**73.9%**	40.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2019.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30	**2019**	2018
Net income	**$ 21,154**	$ 19,058
Return on average assets	**1.9%**	2.0%
Return on average members' equity	**9.1%**	8.9%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity and Capital section

Changes in Significant Components of Net Income

(in thousands) For the nine months ended September 30		2019		2018		Increase (decrease) in net income
Net interest income	**$**	**30,119**	$	27,300	**$**	**2,819**
Provision for credit losses		**2,648**		--		**(2,648)**
Patronage income		**4,712**		3,247		**1,465**
Other income, net		**2,217**		304		**1,913**
Operating expenses		**12,326**		11,471		**(855)**
Provision for income taxes		**920**		322		**(598)**
Net income	**$**	**21,154**	$	19,058	**$**	**2,096**

Changes in Net Interest Income

(in thousands) For the nine months ended September 30		2019 vs 2018
Changes in volume	**$**	**2,995**
Changes in interest rates		**29**
Changes in nonaccrual income and other		**(205)**
Net change	**$**	**2,819**

The change in the provision for credit losses was related to changes in loss estimates during the nine months ended September 30, 2019.

Patronage Income

(in thousands) For the nine months ended September 30		2019		2018
Wholesale patronage:				
Cash	**$**	**1,617**	$	2,594
Stock		**2,682**		--
Pool program patronage		**363**		530
Other Farm Credit Institutions		**50**		123
Total patronage income	**$**	**4,712**	$	3,247

The increase in patronage income was primarily due to an increase in wholesale patronage. Total wholesale patronage increased primarily as a result of a higher patronage rate for the nine months ended September 30, 2019, compared to the same period of 2018. Wholesale patronage may be paid in cash or AgriBank stock. All pool program patronage is paid in cash.

The change in other income, net was primarily due to a contingency loss recognized during the six months ended June 30, 2018, related to the settlement of a lawsuit in which the Association was a defendant. The increase in other income, net was also partially offset due to our share of the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) of $297 thousand in 2019, compared to $686 thousand in 2018. The AIRA was established by FCSIC when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. Refer to the 2018 Annual Report for additional information about the FCSIC.

FUNDING, LIQUIDITY AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable was scheduled to mature on May 31, 2020. However, it was renewed early for $1.6 billion with a new maturity date of August 31, 2022. The note payable will be renegotiated no later than the maturity date. The note payable will be renegotiated no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at September 30, 2019, or December 31, 2018.

Total members' equity increased $18.2 million from December 31, 2018, primarily due to net income for the period partially offset by patronage distribution accruals**.** The change in accumulated other comprehensive loss is the amortization impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan. Refer to Note 9 in our 2018 Annual Report for more information on the Pension Restoration Plan.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 7 in our 2018 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**September 30 2019**	December 31 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**17.9%**	18.5%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**17.9%**	18.5%	6.0%	2.5%*	8.5%
Total capital ratio	**18.2%**	18.8%	8.0%	2.5%*	10.5%
Permanent capital ratio	**17.9%**	18.6%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**19.1%**	19.7%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.7%**	20.3%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums is being phased in over three years under the FCA capital requirements. The phase in period ends on December 31, 2019.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

CERTIFICATION

The undersigned have reviewed the September 30, 2019, Quarterly Report of AgHeritage Farm Credit Services, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate and complete to the best of our knowledge and belief.

Dwain Morris
Chairperson of the Board
AgHeritage Farm Credit Services, ACA

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

Kenneth L. Sumner
Senior Vice President and Chief Financial Officer
AgHeritage Farm Credit Services, ACA

November 8, 2019

CONSOLIDATED STATEMENTS OF CONDITION

AgHeritage Farm Credit Services, ACA
(in thousands)
(Unaudited)

As of:		September 30 2019		December 31 2018
ASSETS				
Loans	**$**	**1,502,553**	$	1,314,268
Allowance for loan losses		**7,103**		4,458
Net loans		**1,495,450**		1,309,810
Investment in AgriBank, FCB		**32,633**		27,449
Investment securities		**1,073**		1,663
Accrued interest receivable		**27,585**		24,547
Deferred tax assets, net		**464**		317
Other assets		**10,032**		10,538
Total assets	**$**	**1,567,237**	$	1,374,324
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**1,232,565**	$	1,058,397
Accrued interest payable		**8,802**		7,659
Patronage distribution payable		**3,075**		3,900
Other liabilities		**4,665**		4,420
Total liabilities		**1,249,107**		1,074,376
Contingencies and commitments (Note 4)				
MEMBERS' EQUITY				
Protected members' equity		**1**		1
Capital stock and participation certificates		**2,913**		2,839
Unallocated surplus		**315,652**		297,588
Accumulated other comprehensive loss		**(436)**		(480)
Total members' equity		**318,130**		299,948
Total liabilities and members' equity	**$**	**1,567,237**	$	1,374,324

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AgHeritage Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
For the period ended September 30	**2019**	2018	**2019**	2018
Interest income	**$ 19,569**	$ 17,251	**$ 55,030**	$ 46,221
Interest expense	**8,802**	7,207	**24,911**	18,921
Net interest income	**10,767**	10,044	**30,119**	27,300
Provision for credit losses	**1,865**	--	**2,648**	--
Net interest income after provision for credit losses	**8,902**	10,044	**27,471**	27,300
Other income				
Patronage income	**1,663**	1,116	**4,712**	3,247
Financially related services income	**108**	110	**182**	184
Fee income	**680**	294	**1,733**	1,386
Allocated Insurance Reserve Accounts distribution	**--**	--	**297**	686
Miscellaneous income (loss), net	**(13)**	7	**5**	(1,952)
Total other income	**2,438**	1,527	**6,929**	3,551
Operating expenses				
Salaries and employee benefits	**2,273**	2,151	**7,049**	6,705
Other operating expenses	**1,768**	1,600	**5,277**	4,766
Total operating expenses	**4,041**	3,751	**12,326**	11,471
Income before income taxes	**7,299**	7,820	**22,074**	19,380
Provision for income taxes	**417**	373	**920**	322
Net income	**$ 6,882**	$ 7,447	**$ 21,154**	$ 19,058
Other comprehensive income				
Employee benefit plans activity	**$ 15**	$ 20	**$ 44**	$ 60
Total other comprehensive income	**15**	20	**44**	60
Comprehensive income	**$ 6,897**	$ 7,467	**$ 21,198**	$ 19,118

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

AgHeritage Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2017	$ 1	$ 2,759	$ 274,207	$ (582)	$ 276,385
Net income	--	--	19,058	--	19,058
Other comprehensive income	--	--	--	60	60
Unallocated surplus designated for patronage distributions	--	--	(2,862)	--	(2,862)
Capital stock and participation certificates issued	--	194	--	--	194
Capital stock and participation certificates retired	--	(134)	--	--	(134)
Balance at September 30, 2018	$ 1	$ 2,819	$ 290,403	$ (522)	$ 292,701
Balance at December 31, 2018	$ 1	$ 2,839	$ 297,588	$ (480)	$ 299,948
Net income	**--**	**--**	**21,154**	**--**	**21,154**
Other comprehensive income	**--**	**--**	**--**	**44**	**44**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(3,085)**	**--**	**(3,085)**
Cumulative effect of change in accounting principle	**--**	**--**	**(5)**	**--**	**(5)**
Capital stock and participation certificates issued	**--**	**215**	**--**	**--**	**215**
Capital stock and participation certificates retired	**--**	**(141)**	**--**	**--**	**(141)**
Balance at September 30, 2019	**$ 1**	**$ 2,913**	**$ 315,652**	**$ (436)**	**$ 318,130**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the nine months ended September 30, 2019, are not necessarily indicative of the results to be expected for the year ending December 31, 2019. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of AgHeritage Farm Credit Services, ACA (the Association) and its subsidiaries AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Leases: We are the lessee in operating leases. We evaluate arrangements at inception to determine if it is a lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet with lease expense recognized on a straight-line basis over the lease term. For operating leases with terms greater than 12 months the right-of-use (ROU) assets are included in “Other assets” in the Consolidated Statements of Condition and the lease liabilities are included in “Other liabilities” in the Consolidated Statements of Condition.

The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease. The length of the lease term is modified to include the option when it is reasonably certain that we will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements on the public business entities effective date or aligned with other System institutions, whichever is earlier.

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 “Leases.” In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The guidance is effective for public business entities in its first quarter of 2019 and early adoption is permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019, using the transition guidance allowing for the application of the transition requirements on the effective date with the effects initially recognized as a cumulative effect adjustment to the opening balance of retained earnings. In addition, we elected the package of practical expedients permitted under the transition guidance, which among other things, allowed us to carry forward the historical lease classification. We also elected the hindsight practical expedient to determine the lease term for existing leases. The adoption of this guidance did not have a material impact on our financial condition, results of operations and financial statement disclosures and had no impact on cash flows. The adoption of this guidance resulted in the recording of a cumulative effect adjustment to unallocated surplus of $5 thousand.

Standard and effective date	Description	Adoption status and financial statement impact
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments – Credit Losses." This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 and early adoption is permitted.	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 determine credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	On October 16, 2019, the FASB voted to defer effective dates for various standards for certain entities, which includes ASU 2016-13. We have determined we qualify for the delay in the required adoption date for this standard. We are evaluating the deferral and have not yet determined if we will early adopt the standard. We have reviewed the accounting standard, selected and substantially completed development of our system and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include system testing, drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**September 30, 2019**		December 31, 2018	
	Amount	%	Amount	%
Real estate mortgage	**$ 746,752**	**49.7%**	$ 670,347	51.0%
Production and intermediate-term	**495,193**	**33.0%**	433,209	33.0%
Agribusiness	**192,969**	**12.8%**	127,456	9.7%
Other	**67,639**	**4.5%**	83,256	6.3%
Total	**$ 1,502,553**	**100.0%**	$ 1,314,268	100.0%

The other category is primarily composed of rural infrastructure and rural residential real estate loans.

Delinquency

Aging Analysis of Loans

(in thousands)

As of September 30, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 1,504**	**$ 3,140**	**$ 4,644**	**$ 756,367**	**$ 761,011**	**$ --**
Production and intermediate-term	**7,743**	**2,673**	**10,416**	**496,709**	**507,125**	**--**
Agribusiness	**--**	**--**	**--**	**194,163**	**194,163**	**--**
Other	**581**	**95**	**676**	**67,116**	**67,792**	**--**
Total	**$ 9,828**	**$ 5,908**	**$ 15,736**	**$ 1,514,355**	**$ 1,530,091**	**$ --**

As of December 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 1,729	$ 615	$ 2,344	$ 680,107	$ 682,451	$ --
Production and intermediate-term	1,809	2,602	4,411	440,285	444,696	--
Agribusiness	--	--	--	128,056	128,056	--
Other	802	718	1,520	81,987	83,507	368
Total	$ 4,340	$ 3,935	$ 8,275	$ 1,330,435	$ 1,338,710	$ 368

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:	**September 30 2019**	December 31 2018
Volume with specific allowance	**$ 2,193**	$ 1,638
Volume without specific allowance	**7,425**	9,458
Total risk loans	**$ 9,618**	$ 11,096
Total specific allowance	**$ 578**	$ 323
For the nine months ended September 30	**2019**	2018
Income on accrual risk loans	**$ 1**	$ 2
Income on nonaccrual loans	**458**	663
Total income on risk loans	**$ 459**	$ 665
Average risk loans	**$ 11,682**	$ 6,690

Note: Accruing loans include accrued interest receivable.

We did not have any material commitments to lend additional money to borrowers whose loans were classified as risk loans at September 30, 2019.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

There were no TDRs that occurred during the nine months ended September 30, 2019. We completed TDRs of certain rural residential real estate loans during the nine months ended September 30, 2018. Our recorded investment in these loans just prior to restructuring was $283 thousand during the nine months ended September 30, 2018. Our recorded investment in these loans immediately following the restructuring was $279 thousand during the nine months ended September 30, 2018. The recorded investment in the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges and acquisition costs and may also reflect a previous direct charge-off of the investment.

There were no TDRs that defaulted during the nine months ended September 30, 2019, or 2018, in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	**September 30 2019**	December 31 2018
Total TDRs:		
Production and intermediate-term	**$ --**	$ 41
Other	**251**	266
Total TDRs	**$ 251**	$ 307

All TDRs outstanding as of September 30, 2019, and December 31, 2018, were in nonaccrual status. There were no commitments to lend to borrowers whose loans have been modified in a TDR at September 30, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Nine months ended September 30	2019	2018
Balance at beginning of period	**$ 4,458**	$ 4,404
Provision for loan losses	**2,674**	--
Loan recoveries	**93**	18
Loan charge-offs	**(122)**	(39)
Balance at end of period	**$ 7,103**	$ 4,383

The "Provision for credit losses" in the Consolidated Statements of Comprehensive Income includes a provision for loan losses as presented in the previous chart, as well as a provision for credit losses on unfunded commitments. The accrued credit losses on unfunded commitments are recorded in "Other liabilities" in the Consolidated Statements of Condition.

Credit Loss Information on Unfunded Commitments

(in thousands) For the nine months ended September 30	2019	2018
Reversal of credit losses	**$ (26)**	$ --
As of:	**September 30 2019**	December 31 2018
Accrued credit losses	**$ 79**	$ 105

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $1.1 million at September 30, 2019, and $1.7 million at December 31, 2018. Our investment securities consisted of securities containing loans guaranteed by the Small Business Administration (SBA). All of our investment securities were fully guaranteed by the SBA at September 30, 2019, and December 31, 2018.

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. No investments within the portfolio were impaired at September 30, 2019, or December 31, 2018.

Additional Investment Securities Information

(dollars in thousands) As of:	September 30 2019	December 31 2018
Amortized cost	**$ 1,073**	$ 1,663
Unrealized gains	**32**	58
Fair value	**$ 1,105**	$ 1,721
Weighted average yield	**5.9%**	5.2%

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled $5 thousand and $56 thousand for the nine months ended September 30, 2019, and 2018, respectively.

NOTE 4: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2018 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2019, or December 31, 2018.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

	As of September 30, 2019			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 1,696**	**$ 1,696**
	As of December 31, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 1,381	$ 1,381

Valuation Techniques

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 8, 2019, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.