



## AgHeritage Farm Credit Services, ACA

Quarterly Report  
June 30, 2020

### 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, 2019 (2019 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:

AgHeritage Farm Credit Services, ACA  
119 East Third Street, Suite 200  
Little Rock, AR 72201  
(800) 299-2290  
[www.agheritagefcs.com](http://www.agheritagefcs.com)

AgriBank, FCB  
30 East 7th Street, Suite 1600  
St. Paul, MN 55101  
(651) 282-8800  
[www.AgriBank.com](http://www.AgriBank.com)  
[FinancialReporting@AgriBank.com](mailto:FinancialReporting@AgriBank.com)

### 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 2019 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. However, as we have observed while renewing operating loans for the 2020 crop year, the majority of our row crop customers had positive returns. The 2020 planting season was delayed somewhat due to wet weather conditions causing the crops to be slightly behind our multi-year averages. While crops are currently behind, the crops are generally in good condition, and we expect good crop production for 2020. Commodity prices continue to be weak due to large supplies and weakness in export markets and weakness in markets caused by the uncertainty surrounding COVID-19. 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.

Consumer consumption patterns have changed dramatically with stay-at-home orders enacted in nearly every state, and many agricultural markets are facing pressure from outside markets. Additionally, the U.S. agricultural industry is facing stress from labor shortages and COVID-19 outbreaks at food processing plants, while exports could be challenged by logistics and the volatility of the U.S. dollar. For row crops, corn is experiencing the most pressure from the COVID-19 outbreak. Roughly forty percent of U.S. corn production is processed into ethanol and distiller's dried grain with solubles, the feed byproduct of ethanol production. The lockdown has rapidly reduced automobile traffic and fuel consumption and, in turn, ethanol and corn demand. The drop in fuel demand has resulted in reduced ethanol plant runtimes and plant shutdowns, which have pressured corn prices lower and reduced basis levels in the Corn Belt. Demand for soybeans remains highly questionable. The phase one trade deal between the U.S. and China would theoretically have been very supportive for U.S. soybeans, but the COVID-19 outbreak and reduced Chinese hog herd, due to African swine fever, have called into question if China will reach committed levels.

The livestock and animal agricultural sectors have more rapidly experienced the effects of shifts in consumer food spending. Dine-in restaurant sales have declined nearly 100 percent, while drive-thru only sales at many fast food restaurants have reduced that segment's sales significantly, as well. Most animal protein and dairy prices have declined considerably in March and early April, as food supply chains rapidly shift away from food service consumption to a high share of grocery store food purchases.

To assist with deteriorating agricultural conditions, nearly \$24 billion of aid has already been approved via federal stimulus packages and more aid could be on the way in the future if poor conditions persist; however, at this point, the timing, the level of aid and the distribution to various agriculture commodities is unknown. Because of all these factors, the outlooks for many commodities have been downgraded on the assumption of unknown government assistance at a level that will likely only partially mitigate losses relative to COVID-19.

In recent years, credit stress has increased as producers adjust to the normalization of crop prices near the long-run price trends. Optimal input usage, adoption of cost-saving technologies and effective utilization of hedging and other price risk management strategies are all critical in yielding positive net income for producers. Those who have been most effectively able to realize cost and marketing efficiencies are most likely to weather the current economic environment, but many may still require flexibility from lenders through payment deferrals and other measures to preserve working capital.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were \$1.6 billion at June 30, 2020, an increase of \$154.6 million from December 31, 2019. The increase was primarily due to growth in the real estate mortgage and agribusiness portfolios.

The U.S. government has instituted various programs in support of the COVID-19 economic recovery. In early 2020, Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act. Among other provisions, the CARES Act and congressional approval made available for small businesses approximately \$660.0 billion under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the U.S. Small Business Administration (SBA). We obtained approval from the SBA in April 2020 to participate as a lender in the PPP. Loan applicants with 500 or fewer employees or who fit within the revenue-based size standard and who are eligible to receive financing under the Farm Credit Act and the Farm Credit Administration (FCA) Regulations are able to borrow from our association under this program. The PPP provides for loan forgiveness under limited circumstances and loan payments can be deferred up to six months. Since beginning the program, we have successfully processed \$2.3 million in PPP loans for customers with production and intermediate-term loans. To date, no loans have been forgiven and nearly all payments have been deferred.

### Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2019. Adversely classified loans were 3.2% of the portfolio at June 30, 2020, and December 31, 2019. 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.

While overall credit quality remains strong, the impact of the global pandemic disruption and commodity prices expected to remain at relatively low levels, grower margins will likely be negatively impacted in 2020. These conditions may result in increases to adverse credit quality and related provision for credit losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At June 30, 2020, \$21.1 million of our loans were, to some level, guaranteed under these government programs.

### Risk Assets

#### Components of Risk Assets

(dollars in thousands)	June 30, 2020	December 31, 2019
As of:		
Loans:		
Nonaccrual	\$ 13,744	\$ 10,055
Accruing restructured	--	--
Accruing loans 90 days or more past due	--	--
Total risk loans	13,744	10,055
Other property owned	170	--
Total risk assets	\$ 13,914	\$ 10,055
Total risk loans as a percentage of total loans	0.8%	0.7%
Nonaccrual loans as a percentage of total loans	0.8%	0.7%
Current nonaccrual loans as a percentage of total nonaccrual loans	43.7%	41.1%
Total delinquencies as a percentage of total loans	0.6%	0.6%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2019, but have remained at acceptable levels. Despite the increase in risk assets, 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 June 30, 2020, and December 31, 2019.

We have implemented a borrower relief program related to the COVID-19 global pandemic. The program is generally for borrowers with acceptable credit quality and who have experienced COVID-19 related financial difficulty. The relief comes in a variety of ways, but most predominantly payment deferral for up to 6 months with no maturity extensions. To date, there have not been significant actions taken under this program. However, our program may continue to evolve and is dependent on the prolonged nature of the economic disruption. Lastly, we continue to work with each borrower on a case-by-case basis, which may involve loan restructurings outside the COVID-19 relief program.

## 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:	June 30, 2020	December 31, 2019
Allowance as a percentage of:		
Loans	0.5%	0.5%
Nonaccrual loans	63.9%	76.5%
Total risk loans	63.9%	76.5%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2020.

## RESULTS OF OPERATIONS

### Profitability Information

(dollars in thousands)

For the six months ended June 30,	2020	2019
Net income	\$ 16,432	\$ 14,272
Return on average assets	2.1%	2.0%
Return on average members' equity	9.9%	9.3%

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 six months ended June 30,	2020	2019	Increase (decrease) in net income
Net interest income	\$ 20,597	\$ 19,352	\$ 1,245
Provision for credit losses	1,735	783	(952)
Non-interest income	6,285	4,650	1,635
Non-interest expense	8,370	8,444	74
Provision for income taxes	345	503	158
Net income	\$ 16,432	\$ 14,272	\$ 2,160

## Net Interest Income

### Changes in Net Interest Income

(in thousands)

For the six months ended June 30,	2020 vs 2019
Changes in volume	\$ 1,989
Changes in interest rates	(603)
Changes in nonaccrual income and other	(141)
Net change	\$ 1,245

## Provision for Credit Losses

The change in the provision for credit losses was related to our estimate of losses in our portfolio for the applicable years.

## Non-Interest Income

The change in non-interest income was primarily due to patronage income and fee income.

**Patronage Income:** We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

### Patronage Income

(in thousands)

For the six months ended June 30,	2020	2019
Wholesale patronage	\$ 3,359	\$ 2,747
Pool program patronage	234	252
Other Farm Credit Institution patronage	32	50
Total patronage income	\$ 3,625	\$ 3,049
Form of patronage distributions:		
Cash	\$ 3,625	\$ 1,334
Stock	--	1,715
Total patronage income	\$ 3,625	\$ 3,049

The increase in patronage income was primarily due to an increase in wholesale patronage, which is largely a result of a higher patronage rate and an increase in the average daily balance on our note payable to AgriBank for the first six months of 2020 compared to the same period of 2019.

**Fee Income:** The increase in fee income was primarily due to an increase in loan conversion fees, along with fees for originating PPP loans guaranteed by the SBA. The increased loan conversion opportunities were the result of the lower interest rate environment.

## FUNDING, LIQUIDITY AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on August 31, 2022. 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 June 30, 2020, or December 31, 2019.

We continue to maintain our primary source of liquidity through our AgriBank line of credit. During recent market volatility, certain adjustments to cost of our funding of longer term loans was impacted.

Total members' equity increased \$13.9 million from December 31, 2019, 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 gain/loss related to the Pension Restoration Plan. Refer to Note 9 in our 2019 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 2019 Annual Report for a more complete description of these ratios.

### Regulatory Capital Requirements and Ratios

As of:	June 30, 2020	December 31, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	17.6%	18.0%	4.5%	2.5%	7.0%
Tier 1 capital ratio	17.6%	18.0%	6.0%	2.5%	8.5%
Total capital ratio	18.1%	18.4%	8.0%	2.5%	10.5%
Permanent capital ratio	17.7%	18.1%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	19.1%	19.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	19.8%	20.2%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section and off-balance sheet commitments.

## OTHER MATTERS

### Relationships with Other Farm Credit Institutions

**SunStream Business Services:** SunStream Business Services (SunStream) was previously a division of AgriBank. Effective April 1, 2020, SunStream is a System service corporation and we are a partial owner and continue to purchase services from SunStream. We purchase various services from SunStream, which include financial and retail systems, tax reporting services and technology services. Our entire investment in SunStream was called on April 1, 2020, at which time \$183 thousand was paid in cash, and the remainder is due in January 2021. As of June 30, 2020, our investment in SunStream was \$329 thousand.

### COVID-19

The spread of COVID-19 has created a global public-health crisis that has stifled the world-wide economy, decreased liquidity in fixed income and equity markets, significantly increased unemployment levels and disrupted global supply and demand chains. Unprecedented actions are being taken by governments, businesses and individuals to slow or contain the spread of COVID-19, including quarantines, stay-at-home orders, school closings and travel bans that have substantially restricted daily activities and forced many businesses to curtail or cease operations. The impact of COVID-19 on companies is evolving rapidly and its future effects are uncertain.

The extent to which the COVID-19 pandemic impacts the Association will depend on future developments that are highly uncertain and cannot be predicted, such as the duration, extent and severity of the pandemic, the continued response by the U.S. government and how quickly "normal" daily activities resume.

Despite volatility and uncertainty in the market, we have weathered the significant initial challenges presented by current operating environment and operations of our Association are fully functioning. Our business continuity response has allowed us to continue to serve our mission. Our remote work environment has allowed us to continue to maintain the health of our employees and operate without loss of key functions due to illness. We have not had any significant changes to internal controls over financial reporting due to working remotely or due to limited staff.

This outbreak puts the economy and agriculture sector in uncharted territory. The overall impact of COVID-19 on U.S. agriculture will depend on the severity and duration of the outbreak, including a potential reoccurrence later in the year. Overall, agriculture will adjust, providing an "essential service" to the U.S. and global consumer.

## CERTIFICATION

The undersigned have reviewed the June 30, 2020, 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

August 7, 2020

# CONSOLIDATED STATEMENTS OF CONDITION

AgHeritage Farm Credit Services, ACA

(in thousands)

(Unaudited)

As of:	June 30, 2020	December 31, 2019
<b>ASSETS</b>		
Loans	\$ 1,614,579	\$ 1,459,978
Allowance for loan losses	8,777	7,693
Net loans	1,605,802	1,452,285
Investment in AgriBank, FCB	34,555	32,968
Investment securities	736	982
Accrued interest receivable	17,995	26,805
Deferred tax assets, net	318	510
Other assets	13,403	11,765
Total assets	\$ 1,672,809	\$ 1,525,315
<b>LIABILITIES</b>		
Note payable to AgriBank, FCB	\$ 1,320,831	\$ 1,181,941
Accrued interest payable	6,336	8,319
Patronage distribution payable	2,600	5,000
Other liabilities	5,158	6,084
Total liabilities	1,334,925	1,201,344
Contingencies and commitments (Note 4)		
<b>MEMBERS' EQUITY</b>		
Protected members' equity	--	1
Capital stock and participation certificates	2,979	2,943
Unallocated surplus	335,680	321,852
Accumulated other comprehensive loss	(775)	(825)
Total members' equity	337,884	323,971
Total liabilities and members' equity	\$ 1,672,809	\$ 1,525,315

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)

For the period ended June 30,	Three Months Ended		Six Months Ended	
	2020	2019	2020	2019
<b>Interest income</b>	\$ 16,836	\$ 18,279	\$ 34,811	\$ 35,461
<b>Interest expense</b>	6,336	8,346	14,214	16,109
Net interest income	10,500	9,933	20,597	19,352
<b>Provision for credit losses</b>	1,074	79	1,735	783
Net interest income after provision for credit losses	9,426	9,854	18,862	18,569
<b>Non-interest income</b>				
Patronage income	1,938	2,012	3,625	3,049
Financially related services income	35	39	65	74
Fee income	1,274	422	2,203	1,053
Allocated Insurance Reserve Accounts distribution	--	--	305	297
Other non-interest income	58	82	87	177
Total non-interest income	3,305	2,555	6,285	4,650
<b>Non-interest expense</b>				
Salaries and employee benefits	2,409	2,360	4,836	4,776
Other operating expense	1,645	1,821	3,513	3,509
Other non-interest expense	12	--	21	159
Total non-interest expense	4,066	4,181	8,370	8,444
Income before income taxes	8,665	8,228	16,777	14,775
<b>Provision for income taxes</b>	79	349	345	503
Net income	\$ 8,586	\$ 7,879	\$ 16,432	\$ 14,272
<b>Other comprehensive income</b>				
Employee benefit plans activity	\$ 25	\$ 15	\$ 50	\$ 29
Total other comprehensive income	25	15	50	29
Comprehensive income	\$ 8,611	\$ 7,894	\$ 16,482	\$ 14,301

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, 2018	\$ 1	\$ 2,839	\$ 297,588	\$ (480)	\$ 299,948
Net income	--	--	14,272	--	14,272
Other comprehensive income	--	--	--	29	29
Unallocated surplus designated for patronage distributions	--	--	(2,051)	--	(2,051)
Cumulative effect of change in accounting principle	--	--	(5)	--	(5)
Capital stock and participation certificates issued	--	145	--	--	145
Capital stock and participation certificates retired	--	(98)	--	--	(98)
<b>Balance at June 30, 2019</b>	<b>\$ 1</b>	<b>\$ 2,886</b>	<b>\$ 309,804</b>	<b>\$ (451)</b>	<b>\$ 312,240</b>
Balance at December 31, 2019	\$ 1	\$ 2,943	\$ 321,852	\$ (825)	\$ 323,971
Net income	--	--	16,432	--	16,432
Other comprehensive income	--	--	--	50	50
Unallocated surplus designated for patronage distributions	--	--	(2,604)	--	(2,604)
Capital stock and participation certificates issued	--	187	--	--	187
Capital stock and participation certificates retired	(1)	(151)	--	--	(152)
<b>Balance at June 30, 2020</b>	<b>\$ --</b>	<b>\$ 2,979</b>	<b>\$ 335,680</b>	<b>\$ (775)</b>	<b>\$ 337,884</b>

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 and reporting 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 six months ended June 30, 2020, are not necessarily indicative of the results to be expected for the year ending December 31, 2020. 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, 2019 (2019 Annual Report).

Certain amounts in prior periods' financial statements have been reclassified to conform to the current period's presentation.

The Consolidated Financial Statements present the consolidated financial results of AgHeritage Farm Credit Services, ACA 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.

#### 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 in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023, 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.	We do not expect to early adopt the standard. We have reviewed the accounting standard, selected and substantially completed development and testing of our system and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include 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:	June 30, 2020		December 31, 2019	
	Amount	%	Amount	%
Real estate mortgage	\$ 825,023	51.1%	\$ 764,070	52.3%
Production and intermediate-term	460,453	28.5%	423,335	29.0%
Agribusiness	260,950	16.2%	205,642	14.1%
Other	68,153	4.2%	66,931	4.6%
Total	\$ 1,614,579	100.0%	\$ 1,459,978	100.0%

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

## Delinquency

### Aging Analysis of Loans

(in thousands)	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
<b>As of June 30, 2020</b>					
Real estate mortgage	\$ 1,008	\$ 5,510	\$ 6,518	\$ 828,926	\$ 835,444
Production and intermediate-term	1,069	1,734	2,803	463,525	466,328
Agribusiness	--	--	--	262,510	262,510
Other	189	274	463	67,804	68,267
Total	\$ 2,266	\$ 7,518	\$ 9,784	\$ 1,622,765	\$ 1,632,549
<b>As of December 31, 2019</b>					
Real estate mortgage	\$ 1,521	\$ 3,140	\$ 4,661	\$ 773,615	\$ 778,276
Production and intermediate-term	1,037	2,444	3,481	430,863	434,344
Agribusiness	--	--	--	207,089	207,089
Other	190	271	461	66,574	67,035
Total	\$ 2,748	\$ 5,855	\$ 8,603	\$ 1,478,141	\$ 1,486,744

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at June 30, 2020, or December 31, 2019.

## 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)	June 30, 2020	December 31, 2019
As of:		
Volume with specific allowance	\$ 1,779	\$ 2,008
Volume without specific allowance	11,965	8,047
Total risk loans	\$ 13,744	\$ 10,055
Total specific allowance	\$ 377	\$ 738
For the six months ended June 30,	2020	2019
Income on accrual risk loans	\$ --	\$ 1
Income on nonaccrual loans	173	315
Total income on risk loans	\$ 173	\$ 316
Average risk loans	\$ 11,553	\$ 12,023

Note: Accruing loans include accrued interest receivable.

We had no material commitments to lend additional money to borrowers whose loans were classified as risk loans at June 30, 2020.

## 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 six months ended June 30, 2020, or 2019. There were no TDRs that defaulted during the six months ended June 30, 2020, or 2019 in which the modification was within twelve months of the respective reporting period.

TDRs outstanding in the other loan category totaled \$234 thousand and \$244 thousand, all of which were in nonaccrual status at June 30, 2020, and December 31, 2019, respectively.

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2020.

### Allowance for Loan Losses

#### Changes in Allowance for Loan Losses

(in thousands)		
Six months ended June 30,	2020	2019
Balance at beginning of period	\$ 7,693	\$ 4,458
Provision for loan losses	1,633	772
Loan recoveries	5	84
Loan charge-offs	(554)	(81)
Balance at end of period	<u>\$ 8,777</u>	<u>\$ 5,233</u>

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 six months ended June 30,	2020	2019
Provision for credit losses	\$ 102	\$ 11
	June 30,	December 31,
As of:	2020	2019
Accrued credit losses	\$ 180	\$ 78

### NOTE 3: INVESTMENT SECURITIES

We held investment securities of \$736 thousand at June 30, 2020, and \$982 thousand at December 31, 2019. 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 June 30, 2020, and December 31, 2019.

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 June 30, 2020, or December 31, 2019.

#### Additional Investment Securities Information

(dollars in thousands)		
As of:	June 30,	December 31,
	2020	2019
Amortized cost	\$ 736	\$ 982
Unrealized gains	18	28
Fair value	<u>\$ 754</u>	<u>\$ 1,010</u>
Weighted average yield	4.5%	5.8%

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled \$9 thousand and \$15 thousand for the six months ended June 30, 2020, and 2019, 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 2019 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 June 30, 2020, or December 31, 2019.

### 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 June 30, 2020	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	\$ --	\$ --	\$ 1,472	\$ 1,472
Other property owned	--	--	177	177

  

As of December 31, 2019	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	\$ --	\$ --	\$ 1,333	\$ 1,333
Other property owned	--	--	--	--

### Valuation Techniques

**Impaired loans:** Represents the carrying amount 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.

**Other property owned:** Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals or other indications based on sales of similar properties. 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 property and other matters, they are classified as Level 3.

### NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 7, 2020, 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.