AgHeritage Farm Credit Services, ACA

Quarterly Report
September 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:

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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 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

As we observed while renewing operating loans for the 2020 crop year, the majority of our row crop customers had positive returns for the 2019 crop. The 2020 planting season was delayed somewhat due to wet weather conditions causing the crops to be slightly behind our multi-year averages. While crop harvest is currently behind our multi-year averages, early indications are that we will generally realize good yields and good quality. Markets have been disrupted during 2020 due to the COVID-19 situation, but to date this has not had a material impact to our credit quality. Commodity prices during 2020 have been weak relative to historical averages, however, prices have strengthened recently due to improved export markets. We expect stable credit quality in the short term assuming current conditions remain in place. Land values in our area are stable.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.7 billion at September 30, 2020, an increase of $283.7 million from December 31, 2019. The increase was primarily due to growth in the real estate mortgage, production and intermediate-term 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. To date, no loans have been forgiven and nearly all payments have been deferred.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2019. Adversely classified loans decreased to 2.6% of the portfolio at September 30, 2020, from 3.2% of the portfolio at 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.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At September 30, 2020, $24.3 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, 2020**	December 31, 2019
Loans:		
Nonaccrual	**$ 9,720**	$ 10,055
Accruing restructured	**--**	--
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**9,720**	10,055
Other property owned	**45**	--
Total risk assets	**$ 9,765**	$ 10,055
Total risk loans as a percentage of total loans	**0.5%**	0.7%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.7%
Current nonaccrual loans as a percentage of total nonaccrual loans	**12.8%**	41.1%
Total delinquencies as a percentage of total loans	**0.8%**	0.6%

Note: Accruing loans include accrued interest receivable.

Our risk assets have not changed significantly from December 31, 2019, 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, 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 six 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:	**September 30, 2020**	December 31, 2019
Allowance as a percentage of:		
Loans	**0.6%**	0.5%
Nonaccrual loans	**110.2%**	76.5%
Total risk loans	**110.2%**	76.5%

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

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30	**2020**	2019
Net income	**$ 25,721**	$ 21,154
Return on average assets	**2.1%**	1.9%
Return on average members' equity	**10.2%**	9.1%

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	2020	2019	Increase (decrease) in net income
Net interest income	$ 33,267	$ 30,119	$ 3,148
Provision for credit losses	3,889	2,648	(1,241)
Non-interest income	9,788	7,104	2,684
Non-interest expense	12,791	12,501	(290)
Provision for income taxes	654	920	266
Net income	$ 25,721	$ 21,154	$ 4,567

Net Interest Income

Changes in Net Interest Income

(in thousands) For the nine months ended September 30	2020 vs 2019
Changes in volume	$ 3,320
Changes in interest rates	(615)
Changes in nonaccrual income and other	443
Net change	$ 3,148

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 nine months ended September 30	2020	2019
Wholesale patronage	$ 5,381	$ 4,299
Pool program patronage	348	363
Other patronage	492	50
Total patronage income	$ 6,221	$ 4,712
Form of patronage distributions:		
Cash	$ 6,221	$ 2,030
Stock	--	2,682
Total patronage income	$ 6,221	$ 4,712

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 nine 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 September 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 the cost of our funding of longer term loans was impacted.

Total members' equity increased $22.0 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 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:	**September 30, 2020**	December 31, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**16.9%**	18.0%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**16.9%**	18.0%	6.0%	2.5%	8.5%
Total capital ratio	**17.4%**	18.4%	8.0%	2.5%	10.5%
Permanent capital ratio	**17.0%**	18.1%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**18.1%**	19.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.8%**	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, as discussed in Note 11 in our 2019 Annual Report.

REGULATORY MATTERS

Criteria to Reinstate Nonaccrual Loans

In August 2020, the FCA Board approved a final rule to revise how high-risk loans for Farm Credit System banks and associations are classified by clarifying the factors used to place loans in nonaccrual status and revising reinstatement criteria. The stated objectives of the revised requirements are to:

- Enhance the usefulness of high-risk loan categories
- Replace the subjective measure of "reasonable doubt" used for reinstating loans to accrual status with a measurable standard
- Improve the timely recognition of a change in a loan's status
- Update existing terminology and make other grammatical changes

The final rule became effective October 21, 2020. We have updated our policies, procedures, and other documentation to ensure compliance with the amended regulation. The impact of the revisions has not been material to our financial statements.

Investment Securities Eligibility

In August 2020, the FCA Board approved a final rule to amend the investment eligibility regulation. The final rule allows associations to purchase portions of loans in the secondary market that are fully and unconditionally guaranteed by the United States Department of Agriculture. The final rule is not yet effective, but will take effect 30 days after publication in the Federal Register during which either body of Congress is in session. Notice of the effective date will be published in the Federal Register. We are updating our policies, procedures, and other documentation to ensure compliance with the amended regulation. The amendment is not expected to have a material impact to our financial statements.

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 Farm Credit 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 September 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 the 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 September 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

November 9, 2020

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:		**September 30, 2020**		December 31, 2019
ASSETS				
Loans	**$**	**1,743,654**	$	1,459,978
Allowance for loan losses		**10,713**		7,693
Net loans		**1,732,941**		1,452,285
Investment in AgriBank, FCB		**37,576**		32,968
Investment securities		**665**		982
Accrued interest receivable		**24,830**		26,805
Deferred tax assets, net		**524**		510
Other assets		**13,547**		11,765
Total assets	**$**	**1,810,083**	$	1,525,315
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**1,448,650**	$	1,181,941
Accrued interest payable		**5,492**		8,319
Patronage distribution payable		**3,900**		5,000
Other liabilities		**6,028**		6,084
Total liabilities		**1,464,070**		1,201,344
Contingencies and commitments (Note 4)				
MEMBERS' EQUITY				
Protected members' equity		**--**		1
Capital stock and participation certificates		**3,047**		2,943
Unallocated surplus		**343,716**		321,852
Accumulated other comprehensive loss		**(750)**		(825)
Total members' equity		**346,013**		323,971
Total liabilities and members' equity	**$**	**1,810,083**	$	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)

	Three Months Ended		Nine Months Ended	
For the period ended September 30	**2020**	2019	**2020**	2019
Interest income	**$ 18,162**	$ 19,569	**$ 52,973**	$ 55,030
Interest expense	**5,492**	8,802	**19,706**	24,911
Net interest income	**12,670**	10,767	**33,267**	30,119
Provision for credit losses	**2,154**	1,865	**3,889**	2,648
Net interest income after provision for credit losses	**10,516**	8,902	**29,378**	27,471
Non-interest income				
Patronage income	**2,561**	1,663	**6,221**	4,712
Financially related services income	**121**	108	**186**	182
Fee income	**814**	680	**3,017**	1,733
Allocated Insurance Reserve Accounts distribution	**--**	--	**305**	297
Other non-interest income	**7**	3	**59**	180
Total non-interest income	**3,503**	2,454	**9,788**	7,104
Non-interest expense				
Salaries and employee benefits	**2,461**	2,273	**7,297**	7,049
Other operating expense	**1,904**	1,768	**5,417**	5,277
Other non-interest expense	**56**	16	**77**	175
Total non-interest expense	**4,421**	4,057	**12,791**	12,501
Income before income taxes	**9,598**	7,299	**26,375**	22,074
Provision for income taxes	**309**	417	**654**	920
Net income	**$ 9,289**	$ 6,882	**$ 25,721**	$ 21,154
Other comprehensive income				
Employee benefit plans activity	**$ 25**	$ 15	**$ 75**	$ 44
Total other comprehensive income	**25**	15	**75**	44
Comprehensive income	**$ 9,314**	$ 6,897	**$ 25,796**	$ 21,198

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	--	--	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
Balance at December 31, 2019	$ 1	$ 2,943	$ 321,852	$ (825)	$ 323,971
Net income	**--**	**--**	**25,721**	**--**	**25,721**
Other comprehensive income	**--**	**--**	**--**	**75**	**75**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(3,857)**	**--**	**(3,857)**
Capital stock and participation certificates issued	**--**	**303**	**--**	**--**	**303**
Capital stock and participation certificates retired	**(1)**	**(199)**	**--**	**--**	**(200)**
Balance at September 30, 2020	**$ --**	**$ 3,047**	**$ 343,716**	**$ (750)**	**$ 346,013**

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 nine months ended September 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 March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides relief from certain requirements under GAAP, was signed into law.	Section 4013 of the CARES act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs.	We have adopted this relief for qualifying loan modifications. However, modifications of this nature have not been material.
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 expect to adopt the standard as of January 1, 2023. 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:	**September 30, 2020**			December 31, 2019		
		Amount	%		Amount	%
Real estate mortgage	**$**	**881,561**	**50.6%**	$	764,070	52.3%
Production and intermediate-term		**525,771**	**30.2%**		423,335	29.0%
Agribusiness		**271,395**	**15.6%**		205,642	14.1%
Other		**64,927**	**3.6%**		66,931	4.6%
Total	**$**	**1,743,654**	**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) **As of September 30, 2020**	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
Real estate mortgage	**$ 5,337**	**$ 5,106**	**$ 10,443**	**$ 885,386**	**$ 895,829**
Production and intermediate-term	**158**	**888**	**1,046**	**533,759**	**534,805**
Agribusiness	**1,500**	**--**	**1,500**	**271,317**	**272,817**
Other	**202**	**267**	**469**	**64,544**	**65,013**
Total	**$ 7,197**	**$ 6,261**	**$ 13,458**	**$ 1,755,006**	**$ 1,768,464**

As of December 31, 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
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 September 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) As of:	**September 30, 2020**	December 31, 2019
Volume with specific allowance	**$ 1,928**	$ 2,008
Volume without specific allowance	**7,792**	8,047
Total risk loans	**$ 9,720**	$ 10,055
Total specific allowance	**$ 679**	$ 738
For the nine months ended September 30	**2020**	2019
Income on accrual risk loans	**$ --**	$ 1
Income on nonaccrual loans	**901**	458
Total income on risk loans	**$ 901**	$ 459
Average risk loans	**$ 11,769**	$ 11,682

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 September 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 may be modifications made related to the COVID-19 pandemic or in the normal course of business that would not be considered TDRs.

We completed TDRs of certain rural residential real estate loans during the nine months ended September 30, 2020. Our recorded investment in these loans just prior to restructuring was $196 thousand and our recorded investment in these loans immediately following the restructuring was $194 thousand during the nine months ended September 30, 2020. 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 occurred during the nine months ended September 30, 2019. The type of modifications were interest rate reductions below market.

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

TDRs outstanding in the rural residential real estate loan category totaled $421 thousand and $244 thousand, all of which were in nonaccrual status at September 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 September 30, 2020.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Nine months ended September 30		**2020**		2019
Balance at beginning of period	**$**	**7,693**	$	4,458
Provision for loan losses		**3,772**		2,674
Loan recoveries		**32**		93
Loan charge-offs		**(784)**		(122)
Balance at end of period	**$**	**10,713**	$	7,103

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 (reversal of) 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		**2020**		2019
Provision for (reversal of) credit losses	**$**	**117**	$	(26)
As of:		**September 30, 2020**		December 31, 2019
Accrued credit losses	**$**	**194**	$	78

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $665 thousand at September 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 September 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 September 30, 2020, or December 31, 2019.

Additional Investment Securities Information

(dollars in thousands) As of:		**September 30, 2020**		December 31, 2019
Amortized cost	**$**	**665**	$	982
Unrealized gains		**16**		28
Unrealized losses		**--**		--
Fair value	**$**	**681**	$	1,010
Weighted average yield		**4.3%**		5.8%

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $12 thousand and $5 thousand for the nine months ended September 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 September 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 September 30, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 1,311**	**$ 1,311**
Other property owned	**--**	**--**	**47**	**47**

As of December 31, 2019	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
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 November 9, 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.