Farm Credit Illinois, ACA

Quarterly Report
September 30, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Illinois, ACA and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, 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, 2021 (2021 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:

Farm Credit Illinois, ACA
1100 Farm Credit Drive
Mahomet, IL 61853
(217) 590-2200
www.farmcreditIL.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.AgriBank.com
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 2021 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

For the week ending October 2, 2022, Illinois' harvest pace lagged the five-year average. The Illinois Crop Progress and Condition report showed corn at 13% harvested compared to 29% over the past 5 years, and soybeans at 10% versus 26% over the same period. A drier than normal forecast for October allowed for steady harvest progress in Illinois. The percentage of corn and soybeans rated good-to-excellent is only slightly lower than the ratings this time last year.

The September 12, 2022, Crop Production report from United States Department of Agriculture indicates projected corn yield for Illinois at 204.0 bushels per acre, up 2.0 bushels per acre from 2021. The soybean yield is projected at 64.0 bushels per acre, essentially unchanged from 2021.

The September 2022 World Agricultural Supply and Demand Estimate showed reduced yields and harvested acreage for both corn and soybeans. The market year average corn price is estimated at $6.75 per bushel compared to $5.95 per bushel for the 2021/2022 estimated average. An unexpectedly large reduction in soybean yield led to the market year average forecast price for soybeans to increase to $14.40 per bushel, up from $13.30 per bushel in the prior marketing year.

According to University of Illinois agricultural economists, even with solid yield potential and higher prices, higher input costs will reduce net income margins for Illinois farmers in 2022. In a 50/50 corn-soybean rotation in Central Illinois, non-land costs increased $115 per acre in 2022, 23% over 2021. Land costs in the form of cash rent increased as well. Crop budgets show an increase of $25 per acre from 2021.

Rising interest rates are an increasing concern among farmers. Coupled with increasing prices and costs for new construction, higher interest rates are causing many to rethink machinery and building purchases. Higher operating rates will add pressure with continuing high input costs.

Natural gas prices in the U.S. have risen nearly 350% over the past two years, while high European prices have led producers to shut down about 70% of ammonia production. Sanctions imposed by western countries against Belarus have eliminated 20% of the world supply of potash. China makes up 25% of the global phosphate market. Their self-imposed export quotas in 2021, which nearly shut off phosphate exports, were set to roll off in June of this year but have been extended. Anhydrous ammonia prices decreased from spring 2022, but remain at an all-time high. DAP prices are slightly lower than spring 2022 while Potash has remained consistently high through the year. In a comparison, between September 2021 and September 2022, fertilizer inputs for a 50/50 corn-soybean rotation have increased by $48.50 per acre, or 37%, from last year.

For the 2023 crop year, margins are expected to narrow further with an additional 11% increase in input costs. According to their mid-year update, the Illinois Society of Farm Managers and Rural Appraisers expect cash rents to increase another 4% for the 2023 crop year. A University of Illinois study suggests commodity price expectations for the 2023 crop year at $6.15 per bushel for corn and $13.45 per bushel for soybeans. Much depends on either a continuation or easing of the Ukraine-Russia conflict, Brazil growing conditions and the possibility of a world economy recession reducing demand for agricultural goods.

Our farmland Benchmark study was completed as of July 1, 2022. The 20 farms included in the annual study showed an average increase in value of 27.9% from 2021 appraised values. Cropland A farms led the way with a year-over-year jump of 38.3%. The current appraised value eclipses the previous high set in 2014 by 20.7% and indicates a 400%+ rise in the portfolio of Benchmark farms since 2000.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $5.0 billion at September 30, 2022, an increase of $145.9 million from December 31, 2021.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2021. Adversely classified loans decreased to 0.9% of the portfolio at September 30, 2022, from 1.9% of the portfolio at December 31, 2021. Adversely classified loans are loans we have identified as showing some credit weakness according to 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, 2022, $164.2 million of our loans were substantially guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**September 30, 2022**	December 31, 2021
Loans:		
Nonaccrual	**$ 4,414**	$ 3,630
Accruing restructured	**426**	--
Accruing loans 90 days or more past due	**--**	62
Total risk loans	**4,840**	3,692
Other property owned	**--**	--
Total risk assets	**$ 4,840**	$ 3,692
Total risk loans as a percentage of total loans	**0.1%**	0.1%
Nonaccrual loans as a percentage of total loans	**0.1%**	0.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	**89.3%**	87.9%
Total delinquencies as a percentage of total loans	**0.1%**	0.1%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2021, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans remained unchanged and were well within our established risk management guidelines.

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, 2022**	December 31, 2021
Allowance as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**192.7%**	213.0%
Total risk loans	**175.7%**	209.4%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2022.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30	2022	2021
Net income	**$ 64,138**	$ 66,654
Return on average assets	**1.7%**	1.9%
Return on average members' equity	**7.5%**	8.1%

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	2022	2021	Increase (decrease) in net income
Net interest income	**$ 88,195**	$ 77,684	**$ 10,511**
Provision for loan losses	**381**	92	**(289)**
Non-interest income	**34,495**	39,227	**(4,732)**
Non-interest expense	**58,173**	50,168	**(8,005)**
Benefit from income taxes	**(2)**	(3)	**(1)**
Net income	**$ 64,138**	$ 66,654	**$ (2,516)**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the nine months ended September 30	2022 vs 2021
Changes in volume	**$ 6,738**
Changes in interest rates	**3,592**
Changes in nonaccrual income and other	**181**
Net change	**$ 10,511**

Non-Interest Income

The change in non-interest income was primarily due to a decrease in fee income, partially offset by increased patronage income.

Fee Income: The decrease in fee income was primarily due to the end of the Paycheck Protection Program in which no fees were collected in 2022.

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. AgriBank may distribute patronage in the form of cash or stock. All other patronage from other Farm Credit institutions is typically distributed in cash.

Patronage Income

(in thousands) For the nine months ended September 30	2022	2021
Patronage from AgriBank	**$ 21,386**	$ 21,562
AgDirect partnership distribution	**1,711**	1,039
Other patronage	**197**	127
Total patronage income	**$ 23,294**	$ 22,728

Patronage from AgriBank primarily includes wholesale patronage and pool program patronage.

Non-Interest Expense

The change in non-interest expense was primarily related to an increase in salaries and employee benefits, Farm Credit System insurance, purchased services, and depreciation and maintenance expenses.

Salaries and Employee Benefits: The increase was a result of an increase in employee count and incentive compensation expense accrued.

Farm Credit System Insurance: The Farm Credit System insurance expense increased in 2022 primarily due to a higher premium rate charged by the Farm Credit System Insurance Corporation (FCSIC) on accrual loans. The premium rate, which is primarily impacted by System growth, was 20 basis points for the nine months ended September 30, 2022, compared to 16 basis points for the same period in 2021. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

Purchased Services: The increase in purchased services was primarily due to various consulting engagements conducted in 2022 in addition to an increase in expenses billed by our technology provider.

Depreciation and Maintenance: The increase in depreciation and maintenance expenses was primarily due to additional software and licensing costs associated with the loan origination software conversion that took place in fall 2021, as well as added depreciation from the completed construction and occupancy of a new branch office building in the second quarter of 2022, at which time the assets were placed into service.

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 July 31, 2024. We intend to renegotiate the note payable 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 unallocated surplus. At September 30, 2022, gross loans are funded 83.0% by the direct note and 17.0% by unallocated surplus.

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, 2022, or December 31, 2021.

Total members' equity increased $64.5 million from December 31, 2021, primarily due to net income for the period.

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 2021 Annual Report for a more complete description of these ratios. Effective January 1, 2022, the FCA regulations slightly modified the calculation of the unallocated retained earnings and equivalents leverage ratio to include certain additional deductions. The modification did not have a material impact on this ratio.

Regulatory Capital Requirements and Ratios

As of:	**September 30, 2022**	December 31, 2021	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**18.2%**	19.4%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**18.2%**	19.4%	6.0%	2.5%	8.5%
Total capital ratio	**18.3%**	19.5%	8.0%	2.5%	10.5%
Permanent capital ratio	**18.2%**	19.4%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**19.9%**	20.9%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.7%**	22.7%	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 disclosed in Note 11 in our 2021 Annual Report.

CERTIFICATION

The undersigned have reviewed the September 30, 2022, Quarterly Report of Farm Credit Illinois, 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.

David Haase

David Haase
Chairperson of the Board
Farm Credit Illinois, ACA

Aaron S. Johnson

Aaron S. Johnson
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Hunt

Kelly D. Hunt
Senior Vice President and Chief Financial Officer
Farm Credit Illinois, ACA

November 8, 2022

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Illinois, ACA
(in thousands)
(Unaudited)

As of:		**September 30, 2022**		December 31, 2021
ASSETS				
Loans	**$**	**4,969,124**	$	4,823,197
Allowance for loan losses		**8,506**		7,732
Net loans		**4,960,618**		4,815,465
Investment in AgriBank, FCB		**151,553**		142,574
Investment securities		**66,772**		40,547
Accrued interest receivable		**63,898**		49,585
Other assets		**95,012**		87,995
Total assets	**$**	**5,337,853**	$	5,136,166
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**4,126,693**	$	3,954,673
Accrued interest payable		**21,530**		11,535
Patronage distribution payable		**--**		42,975
Other liabilities		**17,618**		19,467
Total liabilities		**4,165,841**		4,028,650
Contingencies and commitments (Note 4)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**7,933**		7,878
Unallocated surplus		**1,165,603**		1,101,372
Accumulated other comprehensive loss		**(1,524)**		(1,734)
Total members' equity		**1,172,012**		1,107,516
Total liabilities and members' equity	**$**	**5,337,853**	$	5,136,166

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Illinois, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
For the period ended September 30	**2022**	2021	**2022**	2021
Interest income	**$ 53,216**	$ 37,556	**$ 137,363**	$ 110,437
Interest expense	**21,530**	11,044	**49,168**	32,753
Net interest income	**31,686**	26,512	**88,195**	77,684
Provision for (reversal of) loan losses	**757**	(259)	**381**	92
Net interest income after provision for (reversal of) loan losses	**30,929**	26,771	**87,814**	77,592
Non-interest income				
Patronage income	**8,344**	7,514	**23,294**	22,728
Financially related services income	**2,246**	2,228	**6,348**	6,339
Fee income	**1,558**	1,186	**3,681**	8,525
Other non-interest income	**428**	372	**1,172**	1,635
Total non-interest income	**12,576**	11,300	**34,495**	39,227
Non-interest expense				
Salaries and employee benefits	**9,917**	9,154	**29,610**	26,947
Other operating expense	**10,175**	8,281	**28,390**	23,221
Other non-interest expense	**78**	--	**173**	--
Total non-interest expense	**20,170**	17,435	**58,173**	50,168
Income before income taxes	**23,335**	20,636	**64,136**	66,651
Benefit from income taxes	**--**	--	**(2)**	(3)
Net income	**$ 23,335**	$ 20,636	**$ 64,138**	$ 66,654
Other comprehensive income				
Employee benefit plans activity	**$ 69**	$ 39	**$ 210**	$ 117
Total other comprehensive income	**69**	39	**210**	117
Comprehensive income	**$ 23,404**	$ 20,675	**$ 64,348**	$ 66,771

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Illinois, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2020	$ 7,656	$ 1,056,955	$ (1,377)	$ 1,063,234
Net income	--	66,654	--	66,654
Other comprehensive income	--	--	117	117
Unallocated surplus designated for patronage distributions	--	(134)	--	(134)
Capital stock and participation certificates issued	568	--	--	568
Capital stock and participation certificates retired	(428)	--	--	(428)
Balance at September 30, 2021	$ 7,796	$ 1,123,475	$ (1,260)	$ 1,130,011
Balance at December 31, 2021	$ 7,878	$ 1,101,372	$ (1,734)	$ 1,107,516
Net income	**--**	**64,138**	**--**	**64,138**
Other comprehensive income	**--**	**--**	**210**	**210**
Unallocated surplus designated for patronage distributions	**--**	**93**	**--**	**93**
Capital stock and participation certificates issued	**425**	**--**	**--**	**425**
Capital stock and participation certificates retired	**(370)**	**--**	**--**	**(370)**
Balance at September 30, 2022	**$ 7,933**	**$ 1,165,603**	**$ (1,524)**	**$ 1,172,012**

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 accompanying unaudited Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim financial information and conform to generally accepted accounting principles 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, 2022, are not necessarily indicative of the results to be expected for the year ending December 31, 2022. 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, 2021 (2021 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Illinois, ACA and its subsidiaries Farm Credit Illinois, FLCA and Farm Credit Illinois, 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 (Topic 326): Measurement of Credit Losses on Financial Instruments." 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 amended 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 inform credit loss estimates.	We expect to adopt the standard as of January 1, 2023. We have completed development and validation of our model to estimate credit losses for our loan portfolio. The implementation of processes, procedures, internal controls, and policy updates are substantially complete. We are also in the process of drafting disclosures. We are evaluating the impact of the standard as it relates to our investment portfolio. The extent of the impact on our financial statements will depend on economic conditions, forecasts and the composition of our loan and investment portfolios at the time of adoption. We do not expect the standard to have a significant impact on the financial statements related to our investment portfolio.
In March 2022, the FASB issued ASU 2022-02 “Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.” The guidance is effective at the same time that ASU 2016-13 is adopted.	This guidance eliminates the accounting guidance for troubled debt restructurings by creditors in Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings.	We intend to adopt the standard concurrently with the adoption of ASU 2016-13 as amended. The adoption of this guidance is not expected to have a material impact on our financial statements, but will modify certain disclosures required under ASU 2016-13.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**September 30, 2022**		December 31, 2021	
	Amount	%	Amount	%
Real estate mortgage	**$ 2,722,855**	**54.8%**	$ 2,704,486	56.1%
Production and intermediate-term	**671,592**	**13.5%**	773,774	16.0%
Agribusiness	**1,162,250**	**23.4%**	996,237	20.7%
Other	**412,427**	**8.3%**	348,700	7.2%
Total	**$ 4,969,124**	**100.0%**	$ 4,823,197	100.0%

The other category is primarily composed of rural infrastructure and agricultural export finance related loans and certain assets characterized as mission related investments.

Delinquency

Aging Analysis of Loans

(in thousands) **As of September 30, 2022**		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	**$**	**847**	**$**	**160**	**$**	**1,007**	**$**	**2,769,519**	**$**	**2,770,526**	**$**	**--**
Production and intermediate-term		**1,215**		**--**		**1,215**		**681,022**		**682,237**		**--**
Agribusiness		**567**		**--**		**567**		**1,165,885**		**1,166,452**		**--**
Other		**--**		**--**		**--**		**413,307**		**413,307**		**--**
Total	**$**	**2,629**	**$**	**160**	**$**	**2,789**	**$**	**5,029,733**	**$**	**5,032,522**	**$**	**--**
As of December 31, 2021		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	$	2,764	$	484	$	3,248	$	2,737,096	$	2,740,344	$	62
Production and intermediate-term		1,194		14		1,208		782,701		783,909		--
Agribusiness		--		--		--		999,166		999,166		--
Other		--		--		--		349,138		349,138		--
Total	$	3,958	$	498	$	4,456	$	4,868,101	$	4,872,557	$	62

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, 2022**		December 31, 2021
Volume with specific allowance	**$**	**3,907**	$	3,082
Volume without specific allowance		**933**		610
Total risk loans	**$**	**4,840**	$	3,692
Total specific allowance	**$**	**796**	$	1,041
For the nine months ended September 30		**2022**		2021
Income on accrual risk loans	**$**	**8**	$	69
Income on nonaccrual loans		**300**		119
Total income on risk loans	**$**	**308**	$	188
Average risk loans	**$**	**2,833**	$	5,421

Note: Accruing loans include accrued interest receivable.

We had no commitments to lend additional money to borrowers whose loans were classified as risk loans at September 30, 2022.

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 TDR, also known as a formally restructured loan for regulatory purposes. 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 in the normal course of business that would not be considered TDRs.

We completed a TDR of a production and intermediate-term loan during the nine months ended September 30, 2022. Our recorded investment in this loan was $422 thousand just prior to restructuring and $423 thousand immediately following the restructuring during the nine months ended September 30, 2022. The recorded investment 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, 2021.

The primary type of modification was deferral of principal.

There were no TDRs that defaulted during the nine months ended September 30, 2022, or 2021, in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	**September 30, 2022**	December 31, 2021
Accrual status:		
Real estate mortgage	**$ --**	$ --
Production and intermediate-term	**426**	--
Total TDRs in accrual status	**$ 426**	$ --
Nonaccrual status:		
Real estate mortgage	**$ 169**	$ 505
Production and intermediate-term	**--**	21
Total TDRs in nonaccrual status	**$ 169**	$ 526
Total TDRs:		
Real estate mortgage	**$ 169**	$ 505
Production and intermediate-term	**426**	21
Total TDRs	**$ 595**	$ 526

There were no commitments to lend to borrowers whose loans have been modified in a TDR at September 30, 2022.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Nine months ended September 30	**2022**	2021
Balance at beginning of period	**$ 7,732**	$ 6,237
Provision for loan losses	**381**	92
Loan recoveries	**411**	10
Loan charge-offs	**(18)**	(13)
Balance at end of period	**$ 8,506**	$ 6,326

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $66.8 million at September 30, 2022, and $40.5 million at December 31, 2021. 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, 2022, and December 31, 2021. Premiums paid to purchase the investment are not guaranteed and are amortized as a reduction of interest income.

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, 2022, or December 31, 2021.

Our investments are asset-backed securities, which are generally shorter-term investments.

Additional Investment Securities Information

(dollars in thousands) As of:	**September 30, 2022**	December 31, 2021
Amortized cost	**$ 66,772**	$ 40,547
Unrealized gains	**324**	90
Unrealized losses	**(845)**	(353)
Fair value	**$ 66,251**	$ 40,284
Weighted average yield	**1.7%**	1.4%

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled $489 thousand and $517 thousand for the nine months ended September 30, 2022, and 2021, respectively.

Contractual Maturities of Investment Securities

(in thousands) **As of September 30, 2022**		Amortized Cost
Five to ten years	**$**	**39,404**
More than ten years		**27,368**
Total	**$**	**66,772**

Actual maturity of the investment securities may be less than contractual maturity due to prepayments.

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.

Refer to Note 11 in our 2021 Annual Report for additional detail regarding contingencies and commitments.

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 2021 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, 2022, or December 31, 2021.

Non-Recurring Basis

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, 2022**	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 3,266**	**$ 3,266**
As of December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 2,143	$ 2,143

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.

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 8, 2022, 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.