Third Quarter Financial Report September 30, 2020

FRONTIER
FARM CREDIT
AGRICULTURE WORKS HERE.®

Frontier Farm Credit, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following commentary reviews the consolidated financial position and consolidated results of operations of Frontier Farm Credit, ACA, and its subsidiaries (Frontier Farm Credit). The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. You should also read our 2019 Annual Report for a description of our organization, operations and significant accounting policies.

CoBank, ACB's financial condition and results of operations materially affect shareholders' investment in Frontier Farm Credit, ACA. To request a free copy of the combined CoBank, ACB and affiliated associations' financial reports, contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905 or via email to $sr@frontierfarmcredit.com. You may also obtain copies by accessing CoBank, ACB's website at www.cobank.com.

Forward-Looking Information

Any forward-looking statements in this Quarterly Financial 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.

Commodity Review and Outlook Update

Loan repayment capacity for our loans is largely dependent upon income from corn, soybeans, wheat and cattle.

Profit margins for the primary industries we finance improved during the third quarter as the economy began to reopen and processing capacity recovered from the initial impacts of the COVID-19 pandemic. Plant capacities have generally returned to pre-COVID-19 levels and the backlog continues to work through the system. Beef prices have recovered and currently reflect breakeven to slightly positive profit margins. Pork margins are much more favorable, driven by reduced supply and the discovery of African Swine Fever in Germany, driving futures higher on an anticipated increase in export demand. The prolonged reduction in food service demand continues to impact the overall supply and demand dynamics as producers and processors continue to adjust to meet the change in consumer demand.

Price levels for wheat, corn and soybeans have improved significantly as the United States Department of Agriculture continues to reduce inventory levels as well as current crop production forecasts. Dry weather across portions of the upper Midwest continues to provide support for current price levels. In addition to the rebound in commodity prices, the announcement of a second round of Coronavirus Food Assistance Program payments will further improve net farm income levels for a majority of producers.

Refer to the Commodity Review and Outlook section of Management's Discussion & Analysis in the 2019 Annual Report for further analysis of farmland prices and industry conditions.

Refer to the last section of the Management's Discussion & Analysis in this report for further analysis of Other Matters, COVID-19.

Loan Portfolio

Loan volume increased by $134 million from year-end, an increase of 6.6 percent. The increase was primarily due to an increase in long-term agricultural mortgage loans.

We recorded a $2.0 million provision for credit losses (net of provision for loan losses and unfunded lending commitments) for the first nine months of 2020, as compared with a $0.5 million provision during the first nine months of 2019. The portfolio experienced improvement in the grain industry but this was offset by deterioration in the cow/calf and beef feedlot portfolios. Net charge-offs for the first nine months of 2020 were $610 thousand compared to net charge-offs of $100 thousand in the same period a year ago.

The following table summarizes risk assets and delinquency information (dollars in thousands):

	September 30, 2020	December 31, 2019
Risk loans:		
Nonaccrual	**$ 15,654**	$ 14,515
Restructured	**66**	728
90 days past due still accruing interest*	**782**	-
Total risk loans	**16,502**	15,243
Other property owned, net	**-**	-
Total risk assets	**$ 16,502**	$ 15,243
Risk loans as a percentage of total loans	**0.75%**	0.74%
Nonaccrual loans as a percentage of total loans	**0.71%**	0.70%
Current nonaccrual loans as a percentage of total nonaccrual loans	**59.5%**	51.5%
Total delinquencies as a percentage of total loans	**0.43%**	0.48%

*Accruing loans include accrued interest receivable.

Total risk loans have increased slightly since year-end. The increase is primarily due to an increase in nonaccrual loans in the swine portfolio however this was offset by movement of restructured loans in the renewable fuels portfolio to nonaccrual. It is our practice to transfer accruing loans that are past due 90 days or more into nonaccrual unless they are adequately secured and in the process of collection. Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection. Risk loans as a percentage of total loans remain at acceptable levels.

The allowance for loan losses is an estimate of losses on loans 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, portfolio quality, estimated collateral values, and current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

	September 30, 2020	December 31, 2019
Allowance as a percentage of:		
Total loans	**0.49%**	0.47%
Nonaccrual loans	**67.72%**	66.14%
Total risk loans	**64.23%**	62.98%
Net charge-offs (recoveries) as a percentage of average loans	**0.04%**	-
Adverse assets to risk funds*	**27.75%**	32.59%

**Risk funds includes permanent capital and allowance for loan losses.*

Our adversely classified assets decreased during the first nine months of 2020, ending the quarter at 5.61 percent of the portfolio, compared to 6.58 percent of the portfolio at December 31, 2019. Adversely classified are assets 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, and 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

The following table presents profitability information (dollars in thousands):

	For the nine months ended September 30, 2020	2019
Net income (in thousands)	**$33,016**	$33,102
Return on average assets	**2.00%**	2.12%
Return on average members' equity	**9.08%**	9.50%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Members' Equity section.

Major components of the changes in net income for the nine months ended September 30, 2020 compared to the same period in 2019 are outlined in the following table (dollars in thousands):

Increase (decrease) in net income	2020 vs. 2019
Net interest income	**$ (641)**
Provision for credit losses	**(1,510)**
Noninterest income	**2,658**
Noninterest expense	**(593)**
Provision for income taxes, net	**-**
Total change in net income	**$ (86)**

Net interest income was $40.6 million for the first nine months of 2020 compared to $41.3 million for the first nine months of 2019. The annualized net interest margin was 2.60 percent for the first nine months of 2020, compared to 2.82 percent for the same period in 2019.

The effects on net interest income from changes in average volumes and rates are quantified in the following table for the nine months ended September 30 (dollars in thousands):

	2020 vs. 2019
Change in volume	**$ 2,689**
Change in rates	**(3,126)**
Change in nonaccrual income	**(204)**
Net change	**$ (641)**

The decrease in net interest income is due to rate conversion activity to lower interest rates and lower cost of funds.

The variance in the provision for credit losses reflects our assessment of risk in the loan portfolio.

The increase in noninterest income is primarily due to an increase in loan fees from significant conversion activity due to lower long-term rates. The decrease in noninterest expense is primarily due to salary, benefits, occupancy and equipment expenses.

We may receive patronage from CoBank, ACB and other Farm Credit Institutions. Patronage distributions from those entities are declared solely at the discretion of each institution's Board of Directors.

	For the nine months ended September 30,	
	2020	2019
Wholesale patronage		
Cash	**$4,615**	$4,803
Stock	**28**	23
AgDirect partnership distribution	**532**	575
Other patronage	**72**	30
Total patronage income	**$5,247**	$5,431

Frontier recorded $10.8 million of operating expenses under the income and expense sharing provisions of the alliance agreement in the first nine months of 2020 compared to $10.9 million for the first nine months of 2019. Refer to Note 1 in our 2019 Annual Report for additional information on the alliance.

Funding, Liquidity and Members' Equity

We borrow from CoBank, ACB under a note payable, in the form of a line of credit. The note payable is collateralized by a pledge of substantially all our assets and is governed by a General Financing Agreement (GFA), which provides for an open-ended revolving line of credit. The line of credit matures on May 31, 2021, and we expect renewal at that time. Substantially all borrower loans are match-funded with CoBank, ACB which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as Frontier Farm Credit is a stockholder of CoBank, ACB, we expect this borrowing relationship to continue into the foreseeable future.

The interest rate may periodically be adjusted by CoBank, ACB based on the terms and conditions of the borrowing. CoBank, ACB has established limitations on our ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At September 30, 2020 and at December 31, 2019 we were within the specified limitations.

Our members' equity increased to $504.3 million at September 30, 2020 compared to $479.9 million at December 31, 2019. The increase was due to the net income recorded for the first nine months of 2020.

Farm Credit Administration 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 Farm Credit Administration 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 9 in our 2019 Annual Report for a more complete description of these ratios. The capital adequacy ratios are directly impacted by the changes in capital as more fully discussed in this section and the changes in assets as discussed in the Loan Portfolio section.

In January 2020, we implemented the Farm Credit Administration's exclusion of at-risk capital stock that is financed with a noninterest-bearing obligation from tier 1/tier 2 regulatory capital; the impact of the change on our regulatory capital ratios was immaterial. Additionally, the balance sheet treatment of the noninterest-bearing receivable is now reclassified to contra equity in the amount of $8.8 million as of September 30, 2020. This change did not have a material impact on our financial condition, results of operations, cash flows or financial statement disclosures.

	As of September 30, 2020	**As of December 31, 2019**	Regulatory Minimums	Capital Conservation Buffers	Total
Risk-adjusted:					
Common equity tier 1 ratio	**17.57%**	**18.52%**	4.5%	2.5%	7.0%
Tier 1 capital ratio	**17.57%**	**18.52%**	6.0%	2.5%	8.5%
Total capital ratio	**18.08%**	**18.95%**	8.0%	2.5%	10.5%
Permanent capital ratio	**17.65%**	**18.61%**	7.0%	- %	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**19.54%**	**20.27%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.47%**	**21.87%**	1.5%	- %	1.5%

Other Matters - COVID-19

The Association has not seen a material adverse impact from the COVID-19 pandemic. While various geographic locations continue to see elevated rates of infection and hospitalization rates, the primary recessionary pressures are showing signs of easing and federal aid to both agriculture and the general economy has provided financial support and assistance to partially mitigate the financial impact. Commodity prices for the primary industries financed have recovered with near term forecasts reflecting breakeven to positive profit margins for most producers.

The United States 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 United States Small Business Administration (SBA). We obtained approval from the SBA 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 provided for loan forgiveness under limited circumstances and loan payments were deferred up to six months. Since beginning the program, we have successfully processed $4.6 million in PPP loans for customers with Production and Intermediate Term type loans. To date, no loans have been forgiven and nearly all payments have been deferred.

Despite volatility and uncertainty in the market, we have weathered the significant initial challenges presented by the current operating environment and our operations are fully functioning. Our business continuity response has allowed us to continue to serve our customers and the 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.

We do not anticipate additional material deterioration in overall credit quality levels while delinquency and provision expense levels are projected to be stable.

Certification

This report has been prepared under the oversight of the Board Audit Committee. The undersigned certify that they have reviewed this report and it has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of their knowledge and belief.

Mark Jensen
President and CEO
October 29, 2020

Shane Tiffany
Chairperson, ACA Board of Directors
October 29, 2020

Craig P. Kinnison
Executive Vice-President & CFO
October 29, 2020

Frontier Farm Credit, ACA
Consolidated Balance Sheet
(dollars in thousands)

	September 30, 2020 (unaudited)	December 31, 2019
ASSETS		
Loans	**$2,176,983**	$2,042,932
Allowance for loan losses	**10,600**	9,600
Net loans	**2,166,383**	2,033,332
Accrued interest receivable	**32,299**	28,489
Investment in CoBank, ACB	**65,099**	65,069
Investment in AgDirect, LLP	**5,599**	4,420
Investment in RBIC	**298**	-
Premises and equipment, net	**19,763**	20,345
Prepaid benefit expense	**4,414**	3,584
Other assets	**7,878**	20,086
Total assets	**$2,301,733**	$2,175,325
LIABILITIES		
Notes payable	**$1,788,183**	$1,657,977
Accrued interest payable	**2,266**	3,537
Patronage payable	**-**	17,700
Reserve for unfunded lending commitments	**1,200**	800
Accrued benefits liability	**233**	250
Other liabilities	**5,595**	15,169
Total liabilities	**1,797,477**	1,695,433
MEMBERS' EQUITY		
At-risk capital:		
Class B common stock	**8,586**	8,299
Class C common stock	**219**	233
Less: Capital stock receivable	**(8,805)**	-
Retained earnings	**504,256**	471,360
Total members' equity	**504,256**	479,892
Total liabilities and members' equity	**$2,301,733**	$2,175,325

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

Frontier Farm Credit, ACA
Consolidated Statement of Income

(dollars in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
NET INTEREST INCOME				
Interest income	**$20,751**	$24,880	**$65,837**	$74,846
Interest expense	**7,119**	11,040	**25,196**	33,564
Net interest income	**13,632**	13,840	**40,641**	41,282
Provision for credit losses	**47**	(274)	**2,010**	500
Net interest income after provision for credit losses	**13,585**	14,114	**38,631**	40,782
NONINTEREST INCOME				
Patronage income from CoBank, ACB	**1,594**	1,597	**4,643**	4,826
Insurance fund refund	**-**	-	**454**	490
Loan fees	**1,110**	453	**4,051**	993
Insurance services	**606**	829	**768**	994
Distribution from AgDirect, LLP	**156**	155	**532**	575
Mineral income	**142**	302	**671**	992
Rural 1st program fees	**329**	88	**615**	88
Other noninterest income	**2**	23	**-**	118
Total noninterest income	**3,939**	3,447	**11,734**	9,076
NONINTEREST EXPENSE				
Salaries and employee benefits	**4,723**	3,748	**14,124**	12,244
Occupancy and equipment expense	**633**	519	**2,023**	1,574
Insurance fund premiums	**454**	341	**1,100**	1,033
Other operating expenses	**(353)**	1,423	**15**	1,905
Loss on RBIC	**11**	-	**24**	-
Other noninterest expense	**-**	-	**63**	-
Total noninterest expense	**5,468**	6,031	**17,349**	16,756
Income before income taxes	**12,056**	11,530	**33,016**	33,102
Provision for income taxes	**-**	-	**-**	-
Net income	**$ 12,056**	$ 11,530	**$33,016**	$33,102
COMPREHENSIVE INCOME				
Amortization of retirement costs	**-**	45	**-**	137
Comprehensive Income	**$ 12,056**	$ 11,575	**$33,016**	$33,239

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

Frontier Farm Credit, ACA
Consolidated Statement of Changes in Members' Equity

(dollars in thousands)
(unaudited)

	Accumulated Other Comprehensive Income/(Loss)	At-risk Capital: Capital Stock	At-risk Capital: Retained Earnings	Total Members' Equity
Balance at December 31, 2018	($193)	$8,258	$443,360	$451,425
Net income			33,102	33,102
Patronage accrual adjustment			113	113
Change in other comprehensive income	137			137
Capital stock:				
Issued		829		829
Retired		(635)		(635)
Balance at September 30, 2019	($56)	$8,452	$476,575	$484,971
Balance at December 31, 2019	$-	$8,532	$471,360	$479,892
Net income			**33,016**	**33,016**
Patronage accrual adjustment			**(120)**	**(120)**
Capital stock:				
Issuance of stock in exchange for customer stock receivable		**911**		**911**
Release of customer stock receivable associated with retired stock		**(638)**		**(638)**
Less: Capital stock receivable		**(8,805)**		**(8,805)**
Balance at September 30, 2020	**$-**	**$-**	**$504,256**	**$504,256**

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

Notes to Consolidated Financial Statements (unaudited)

Note 1 - Organization and Significant Accounting Policies

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Financial Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the year ended 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 2019 Annual Report for the year ended December 31, 2019.

The consolidated financial statements present the consolidated financial results of Frontier Farm Credit, ACA (the parent) and Frontier Farm Credit, FLCA and Frontier Farm Credit, PCA (the subsidiaries). 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 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 Farm Credit System Institutions.

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13 "Measurement of Credit Losses on Financial Instruments". The guidance was originally effective for non-United States Securities Exchange Commission filers for the first quarter of 2021. In November 2019, the Financial Accounting Standards Board 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 inform 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 2, 2023. We are currently assessing the impact this guidance will have on our financial statements upon adoption, which will be impacted by the composition of our portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. Implementation efforts are underway and include the development and testing of our system, data requirements, guidance interpretation and related accounting policy decisions, and consideration of relevant internal processes and controls. We are currently unable to estimate the impact on our financial statements.

Refer to Note 2 in our 2019 Annual Report for additional information on other accounting standards that have been issued but are not yet effective. We are currently evaluating the impact of the guidance on our Consolidated Financial Statements.

Note 2 – Loans and Allowance for Credit Losses

Loans consisted of the following (dollars in thousands):

	September 30, 2020		December 31, 2019	
	Amount	**Percentage**	Amount	Percentage
Long-term agricultural mortgage	**$1,276,860**	**58.7 %**	$1,135,499	55.6 %
Production and intermediate term	**510,077**	**23.4**	549,801	26.9
Agribusiness	**245,674**	**11.3**	216,970	10.6
Rural residential real estate	**79,477**	**3.6**	88,395	4.3
Rural infrastructure	**55,699**	**2.6**	46,671	2.3
Agricultural export finance	**9,196**	**0.4**	5,596	0.3
Total loans	**$2,176,983**	**100.0 %**	$2,042,932	100.0 %

Credit Quality

One credit quality indicator we utilize is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- acceptable – loans are expected to be fully collectible and represent the highest quality;
- other assets especially mentioned (OAEM) (special mention) – loans are currently collectible but exhibit some potential weakness;
- substandard – loans exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- doubtful – loans exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- loss – loans are considered uncollectible.

We had no loans categorized as loss at September 30, 2020 or December 31, 2019.

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type (dollars in thousands):

As of September 30, 2020

	Acceptable		**OAEM**		**Substandard/Doubtful**		**Total**
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**
Long-term agricultural mortgage	**$1,167,513**	**89.80%**	**$54,296**	**4.18%**	**$78,312**	**6.02%**	**$1,300,121**
Production and intermediate term	**422,633**	**81.58%**	**61,010**	**11.78%**	**34,395**	**6.64%**	**518,038**
Agribusiness	**228,238**	**92.64%**	**11,637**	**4.72%**	**6,490**	**2.64%**	**246,365**
Rural residential real estate	**75,661**	**94.85%**	**1,460**	**1.83%**	**2,647**	**3.32%**	**79,768**
Rural infrastructure	**52,895**	**94.83%**	**888**	**1.59%**	**1,995**	**3.58%**	**55,778**
Agricultural export finance	**9,212**	**100.00%**	**-**	**-**	**-**	**-**	**9,212**
Total	**$1,956,152**	**88.54%**	**$129,291**	**5.85%**	**$123,839**	**5.61%**	**$2,209,282**

As of December 31, 2019

	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Long-term agricultural mortgage	$1,024,353	88.81%	$47,344	4.10%	$81,792	7.09%	$1,153,489
Production and intermediate term	472,391	84.45%	38,594	6.90%	48,372	8.65%	559,357
Agribusiness	209,737	96.36%	4,564	2.10%	3,351	1.54%	217,652
Rural residential real estate	84,243	95.11%	1,478	1.67%	2,849	3.22%	88,570
Rural infrastructure	43,824	93.75%	2,923	6.25%	-	-	46,747
Agricultural export finance	5,606	100.00%	-	-	-	-	5,606
Total	$1,840,154	88.84%	$94,903	4.58%	$136,364	6.58%	$2,071,421

Delinquency

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (dollars 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 Loans	90 Days or More Past Due and Accruing
Long-term agricultural mortgage	$1,020	$ 3,593	$4,613	$1,295,508	$1,300,121	$165
Production and intermediate term	707	2,474	3,181	514,857	518,038	270
Agribusiness	-	231	231	246,134	246,365	-
Rural residential real estate	330	619	949	78,819	79,768	347
Rural infrastructure	590	-	590	55,188	55,778	-
Agricultural export finance	-	-	-	9,212	9,212	-
Total	$2,647	$6,917	$9,564	$2,199,718	$2,209,282	$782

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 Loans	90 Days or More Past Due and Accruing
Long-term agricultural mortgage	$3,699	$ 2,282	$5,981	$1,147,508	$1,153,489	$ -
Production and intermediate term	1,334	1,427	2,761	556,596	559,357	-
Agribusiness	8	518	526	217,126	217,652	-
Rural residential real estate	-	751	751	87,819	88,570	-
Rural infrastructure	-	-	-	46,747	46,747	-
Agricultural export finance	-	-	-	5,606	5,606	-
Total	$5,041	$4,978	$10,019	$2,061,402	$2,071,421	$ -

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. Accruing loans include principal and interest. The following tables present information concerning risk loans (dollars in thousands):

	As of September 30, 2020	2019
Risk loans with specific allowance	$ 3,266	$ 1,895
Risk loans without specific allowance	13,236	10,797
Total risk loans	$16,502	$12,692
Total specific allowance	$ 1,198	$ 830

	For the nine months ended September 30, 2020	2019
Interest income (reversal) recognized on nonaccrual loans	$ (87)	$ 117
Interest income on risk accrual loans	211	69
Interest income recognized on risk loans	$ 124	$ 186
Average risk loans	$19,630	$17,558

At September 30, 2020, there were approximately $907 thousand in commitments to lend additional funds to customers whose loans were at risk.

Troubled Debt Restructurings

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 troubled debt restructurings 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.

We recorded no troubled debt restructurings in the nine months ended September 30, 2020 and September 30, 2019.

The following table presents information regarding troubled debt restructurings that occurred within the previous twelve months for which there was a subsequent payment default during the period ended September 30 (dollars in thousands):

	2020	2019
	Recorded Investment	Recorded Investment
Long-term agricultural mortgage	**$644**	$-

Troubled debt restructurings outstanding at September 30, 2020, totaled $4.0 million, of which $4.0 million were in nonaccrual status. There were $0.5 million in additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring at September 30, 2020.

Allowance for Loan Losses

An analysis of changes in the allowance for credit losses follows (dollars in thousands):

	September 30,	
Allowance for loan losses	**2020**	2019
Balance at beginning of year	**$ 9,600**	$8,800
Provision for loan losses	**1,610**	400
Charge-offs	**(1,001)**	(322)
Recoveries	**391**	222
Balance at end of quarter	**$10,600**	$9,100

	September 30,	
Reserve for unfunded lending commitments	**2020**	2019
Balance at beginning of year	**$ 800**	$700
Addition of unfunded lending commitments	**400**	100
Balance at end of quarter	**$1,200**	$800

We recorded a $2.0 million provision for credit losses (net of provision for loan losses and unfunded lending commitments) for the first nine months of 2020, as compared with a $0.5 million provision during the first nine months of 2019. The portfolio experienced improvement in the grain industry but this was offset by deterioration in the cow/calf and beef feedlot portfolios. Net charge-offs for the first nine months of 2020 were $610 thousand compared to net charge-offs of $100 thousand in the same period a year ago.

The allowance for loan losses is an estimate of losses on loans 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, portfolio quality, estimated collateral values, and current economic and environmental conditions.

Note 3 – Investment in Rural Business Investment Company

We and other Farm Credit System institutions are among the limited partners invested in two Rural Business Investment Companies (RBICs). The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our total current commitment is $7 million with varying commitment end dates through December 2029. Certain commitments may have an option to extend under specific circumstances. Our investment in the RBICs totaled $298 thousand at September 30, 2020.

Note 4 – 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 levels of inputs 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. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (dollars in thousands):

	Fair Value Measurement Using			
As of September 30, 2020	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Loans	-	-	**$2,548**	**$2,548**
Other property owned	-	-	-	-

	Fair Value Measurement Using			
As of December 31, 2019	Level 1	Level 2	Level 3	Total Fair Value
Loans	-	-	$1,099	$1,099
Other property owned	-	-	-	-

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they fall under 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 fall under Level 3.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value 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 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 fall under Level 3.

Note 5- Commitments and Contingencies

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 accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, 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, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We are among the forming limited partners in a Rural Business Investment Company. Refer to Note 3 for additional discussion.

Note 6- Subsequent Events

We have evaluated subsequent events through October 29, 2020 which is the date the 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.