Farm Credit Illinois, ACA

Quarterly Report
March 31, 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:

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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 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

The end of the first quarter marked the Russian military invasion of Ukraine which will have a profound impact on the global outlook for agriculture. The conflict affects world grain supply and demand as well as input prices for American farmers. Ukraine's crop production prospects remain in limbo and predictions are for vastly reduced exports into the world trade market.

The March 9, 2022, United States Department of Agriculture (USDA) World Agricultural Supply and Demand Estimates incorporate some factors associated with the Russia-Ukraine conflict. Estimates reflect larger corn exports and smaller stocks relative to last month. Ethanol use is expected to rise with high oil prices and increased demand while South American production will be reduced given persistent drought conditions that have damaged corn and soybean yield potential. Export estimates were raised substantially reflecting sharply lower exports from Ukraine, which accounted for 13% of world corn exports in 2020/2021. The 2021/2022 season average farm price is estimated at $5.65 per bushel, up $0.20 per bushel from the February 2022 report and $1.12 per bushel from last year. Similarly, United States (U.S.) soybean exports are expected to increase with diminished production in South America. This resulted in soybean stock projections being lowered. The 2021/2022 season average farm price for soybeans was raised to $13.25 per bushel. This reflects a bump of $0.25 per bushel over last month's report and an increase of $2.45 per bushel compared to last year's estimate.

Supply chain issues which originated at the outset of the COVID-19 pandemic persist and affect not only input prices but also availability of supplies across the spectrum. Producers are having difficulty in purchasing crop inputs from suppliers as well as herbicides, insecticides, and farm machinery parts. Following the initial shut downs and natural disasters, it is taking much longer than expected to rebuild capacity with shippers and port operations, resolve labor shortages, and other domestic transportation issues. All are factors which have led to shortages and massive increases in prices.

Already high fertilizer prices will continue to increase in the face of Russia's military invasion of Ukraine. Russia is the world's largest exporter of fertilizers accounting for 23% of ammonia, 14% of urea, 10% of processed phosphate, and 21% of potash. For Illinois farmers, input costs have risen another 1% since the Russian invasion, pushing costs for nitrogen, phosphate, and potash to double last year's prices. Economic sanctions against Russia will have an impact on input prices going forward and may be a factor in planting decisions for the 2023 crop year.

As a new planting season gets underway, a second straight La Nina year continues to exacerbate dryness in the Plains and Upper Midwest while the Eastern Corn Belt is experiencing surplus rains heading into planting season. The National Weather Service released its forecast for April showing a cool and wet Corn Belt, which could slow planting progress. This forecast mirrors conditions as reported in the Illinois Crop Progress and Condition reports as of the end of quarter with temperatures below normal and rainfall exceeding averages.

The USDA's Prospective Plantings report indicates that U.S. farmers will plant more soybean acres than corn acres for only the third time in history. Much higher input costs, particularly in regions outside the Corn Belt, likely contributed to the acreage switch. In the typical corn producing regions, most have already applied fertilizer suggesting farmers largely have the supplies they need for the season. Crop rotations are not likely to change substantially in Illinois for 2022.

The U.S. Federal Reserve has begun to raise interest rates to dampen inflation. The market now expects six to seven rate hikes in 2022. According to University of Illinois agricultural economists, between 1982 and 2014, interest rate expense in the U.S. farm sector declined as a share of farm cash production expenses from 18.3% to 4.4%. Rising rates combined with increased debt would imply that farm interest expense is set to increase. In 2020, U.S. Farm interest expense was 5.3% of U.S. cash production expenses. A return of interest expense to its historical average of 9.5% share of cash production expenses would reduce net farm income by more than 10%, assuming no other change.

The benchmark study completed in July 2021 showed an average increase in land value of 8.5% from the previous year with multiple farms being up over 10% to 15%. An unofficial update of the benchmark farms was completed January 1, 2022, and showed an average increase of 22% from the July 2021 study. The strongest sales were in the central and northern area of our territory. The first quarter of 2022 reflected continued increases throughout our territory. Multiple auctions occurring during the first quarter showed land values have escalated well above the peak values seen in 2014.

Producer profitability across the industry will be challenged in the near term, however, higher commodity prices and land values in our territory are expected to mitigate the impact of rising production expenses faced by our membership.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $4.7 billion at March 31, 2022, a decrease of $81.3 million from December 31, 2021.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2021. Adversely classified loans decreased slightly to 1.8% of the portfolio at March 31, 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 March 31, 2022, $167.2 million of our loans were substantially guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**March 31, 2022**	December 31, 2021
Loans:		
Nonaccrual	**$ 2,243**	$ 3,630
Accruing restructured	**--**	--
Accruing loans 90 days or more past due	**--**	62
Total risk loans	**2,243**	3,692
Other property owned	**--**	--
Total risk assets	**$ 2,243**	$ 3,692
Total risk loans as a percentage of total loans	**0.0%**	0.1%
Nonaccrual loans as a percentage of total loans	**0.0%**	0.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	**96.9%**	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 decreased from December 31, 2021, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines. The decrease in nonaccrual loans was primarily due to payments made on one large agribusiness customer's nonaccrual loans during the quarter. Nonaccrual loans remained at an acceptable level at March 31, 2022, and December 31, 2021.

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:	**March 31, 2022**	December 31, 2021
Allowance as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**322.8%**	213.0%
Total risk loans	**322.8%**	209.4%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2022.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31	**2022**	2021
Net income	**$ 19,872**	$ 23,035
Return on average assets	**1.6%**	2.0%
Return on average members' equity	**7.1%**	8.6%

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 three months ended March 31	**2022**	2021	**Increase (decrease) in net income**
Net interest income	**$ 27,538**	$ 25,189	**$ 2,349**
(Reversal of) provision for loan losses	**(488)**	523	**1,011**
Non-interest income	**10,495**	14,619	**(4,124)**
Non-interest expense	**18,651**	16,250	**(2,401)**
Benefit from income taxes	**(2)**	--	**2**
Net income	**$ 19,872**	$ 23,035	**$ (3,163)**

(Reversal of) Provision for Loan Losses

The change in the (reversal of) provision for loan losses was primarily due to a current year reduction in the specific reserve balance of one Agribusiness customer.

Non-Interest Income

The change in non-interest income was primarily due to a decrease in fee and 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 three months ended March 31		**2022**		2021
Patronage from AgriBank	**$**	**6,296**	$	6,719
AgDirect partnership distribution		**605**		374
Other patronage		**198**		127
Total patronage income	**$**	**7,099**	$	7,220

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, purchased services, and depreciation and maintenance expenses. Salaries and employee benefits increased as a result of an increase in staffing levels and incentive compensation expense. The increase in purchased services was primarily due to various consulting engagements conducted in 2022. Depreciation and maintenance expenses increased compared to the prior year as a result of additional software and licensing costs associated with the loan origination software conversion that took place in fall 2021.

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 March 31, 2022, gross loans are funded 81.2% by the direct note and 18.8% 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 March 31, 2022, or December 31, 2021.

Total members' equity increased $20.0 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:	**March 31, 2022**	December 31, 2021	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**18.3%**	19.4%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**18.3%**	19.4%	6.0%	2.5%	8.5%
Total capital ratio	**18.5%**	19.5%	8.0%	2.5%	10.5%
Permanent capital ratio	**18.4%**	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 March 31, 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

May 9, 2022

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:	**March 31, 2022**	December 31, 2021
ASSETS		
Loans	**$ 4,741,887**	$ 4,823,197
Allowance for loan losses	**7,241**	7,732
Net loans	**4,734,646**	4,815,465
Investment in AgriBank, FCB	**142,574**	142,574
Investment securities	**37,694**	40,547
Accrued interest receivable	**39,717**	49,585
Other assets	**84,023**	87,995
Total assets	**$ 5,038,654**	$ 5,136,166
LIABILITIES		
Note payable to AgriBank, FCB	**$ 3,848,228**	$ 3,954,673
Accrued interest payable	**12,220**	11,535
Patronage distribution payable	**41,043**	42,975
Other liabilities	**9,693**	19,467
Total liabilities	**3,911,184**	4,028,650
Contingencies and commitments (Note 4)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**7,888**	7,878
Unallocated surplus	**1,121,244**	1,101,372
Accumulated other comprehensive loss	**(1,662)**	(1,734)
Total members' equity	**1,127,470**	1,107,516
Total liabilities and members' equity	**$ 5,038,654**	$ 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			
For the period ended March 31		**2022**		2021
Interest income	**$**	**39,758**	$	36,068
Interest expense		**12,220**		10,879
Net interest income		**27,538**		25,189
(Reversal of) provision for loan losses		**(488)**		523
Net interest income after provision for loan losses		**28,026**		24,666
Non-interest income				
Patronage income		**7,099**		7,220
Financially related services income		**2,076**		2,013
Fee income		**935**		4,950
Other non-interest income		**385**		436
Total non-interest income		**10,495**		14,619
Non-interest expense				
Salaries and employee benefits		**9,829**		8,980
Other operating expense		**8,822**		7,270
Total non-interest expense		**18,651**		16,250
Income before income taxes		**19,870**		23,035
Benefit from income taxes		**(2)**		--
Net income	**$**	**19,872**	$	23,035
Other comprehensive income				
Employee benefit plans activity	**$**	**72**	$	39
Total other comprehensive income		**72**		39
Comprehensive income	**$**	**19,944**	$	23,074

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	--	23,035	--	23,035
Other comprehensive income	--	--	39	39
Unallocated surplus designated for patronage distributions	--	(11)	--	(11)
Capital stock and participation certificates issued	215	--	--	215
Capital stock and participation certificates retired	(172)	--	--	(172)
Balance at March 31, 2021	$ 7,699	$ 1,079,979	$ (1,338)	$ 1,086,340
Balance at December 31, 2021	$ 7,878	$ 1,101,372	$ (1,734)	$ 1,107,516
Net income	**--**	**19,872**	**--**	**19,872**
Other comprehensive income	**--**	**--**	**72**	**72**
Capital stock and participation certificates issued	**175**	**--**	**--**	**175**
Capital stock and participation certificates retired	**(165)**	**--**	**--**	**(165)**
Balance at March 31, 2022	**$ 7,888**	**$ 1,121,244**	**$ (1,662)**	**$ 1,127,470**

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 three months ended March 31, 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. 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. The development and validation of our model to estimate credit losses for our loan portfolio is substantially complete. Processes and internal controls related to the model and the estimation of credit losses for loans are currently being designed. We are also evaluating the impact of the standard as it relates to our investment portfolio. We are in the process of drafting disclosures and accounting policies. 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.
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:		**March 31, 2022**			December 31, 2021	
		Amount	%		Amount	%
Real estate mortgage	**$**	**2,651,295**	**55.8%**	$	2,704,486	56.1%
Production and intermediate-term		**524,272**	**11.1%**		773,774	16.0%
Agribusiness		**1,192,776**	**25.2%**		996,237	20.7%
Other		**373,544**	**7.9%**		348,700	7.2%
Total	**$**	**4,741,887**	**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 March 31, 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	**$ 845**	**$ --**	**$ 845**	**$ 2,681,076**	**$ 2,681,921**	**$ --**
Production and intermediate-term	**2,732**	**1**	**2,733**	**527,145**	**529,878**	**--**
Agribusiness	**--**	**--**	**--**	**1,195,622**	**1,195,622**	**--**
Other	**--**	**--**	**--**	**373,978**	**373,978**	**--**
Total	**$ 3,577**	**$ 1**	**$ 3,578**	**$ 4,777,821**	**$ 4,781,399**	**$ --**

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:	**March 31, 2022**	December 31, 2021
Volume with specific allowance	**$ 1,703**	$ 3,082
Volume without specific allowance	**540**	610
Total risk loans	**$ 2,243**	$ 3,692
Total specific allowance	**$ 388**	$ 1,041
For the three months ended March 31	**2022**	2021
Income on accrual risk loans	**$ 1**	$ 6
(Reversal) income on nonaccrual loans	**(6)**	29
Total (loss) income on risk loans	**$ (5)**	$ 35
Average risk loans	**$ 3,187**	$ 4,387

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 March 31, 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.

There were no TDRs that occurred during the three months ended March 31, 2022, or 2021. In addition, there were no TDRs that defaulted during the three months ended March 31, 2022, or 2021, in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding in Nonaccrual Status

(in thousands) As of:		**March 31, 2022**		December 31, 2021
Real estate mortgage	**$**	**178**	$	505
Production and intermediate-term		**17**		21
Total TDRs	**$**	**195**	$	526

There were no commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2022.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Three months ended March 31		**2022**		2021
Balance at beginning of period	**$**	**7,732**	$	6,237
(Reversal of) provision for loan losses		**(488)**		523
Loan recoveries		**2**		5
Loan charge-offs		**(5)**		(2)
Balance at end of period	**$**	**7,241**	$	6,763

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $37.7 million at March 31, 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 March 31, 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 March 31, 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:		**March 31, 2022**		December 31, 2021
Amortized cost	**$**	**37,694**	$	40,547
Unrealized gains		**72**		90
Unrealized losses		**(427)**		(353)
Fair value	**$**	**37,339**	$	40,284
Weighted average yield		**1.1%**		1.4%

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $103 thousand and $186 thousand for the three months ended March 31, 2022, and 2021, respectively.

Contractual Maturities of Investment Securities

(in thousands) **As of March 31, 2022**		Amortized Cost
Five to ten years	**$**	**23,996**
More than ten years		**13,698**
Total	**$**	**37,694**

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 March 31, 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 March 31, 2022	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 1,381**	**$ 1,381**

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 May 9, 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.