Farm Credit Southeast Missouri, ACA

Quarterly Report
March 31, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Southeast Missouri, ACA and its subsidiaries, Farm Credit Southeast Missouri, FLCA and Farm Credit Southeast Missouri, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2019 (2019 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2019 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

Land Values: The average benchmark farm land value change in 2019 was 0.37%, compared to 1.55% and 0.22% in 2018 and 2017, respectively. The more moderate land value changes the past three years are indicative of lower commodity prices.

Commodity Prices: Grain prices have fallen, on average, approximately 15% during the first quarter in response to COVID-19 concerns and related trade issues. Management will continue to monitor COVID-19 and potential impacts closely, but do not foresee any repayment issues at this time. See additional discussion regarding the impact of COVID-19 on commodity prices below.

Crop Conditions: A significantly wet first quarter reduced the opportunity for early field work and planting. Recent weather has been more favorable for farming and should allow for the chance to get back on track for spring planting. There are no major concerns about impact to 2020 production at this time.

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

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

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

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

LOAN PORTFOLIO

Loan Portfolio

Total loans were $665.8 million as of March 31, 2020, a $4.7 million decrease from December 31, 2019. The decrease is primarily due to normal seasonal loan repayments.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2019. Adversely classified loans increased to 2.0% of the portfolio at March 31, 2020, from 0.4% of the portfolio at December 31, 2019. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

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

In certain circumstances, Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At March 31, 2020, $55.8 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**March 31, 2020**	December 31, 2019
Loans:		
Nonaccrual	**$ 215**	$ 219
Accruing restructured	**325**	357
Accruing loans 90 days or more past due	**1,478**	--
Total risk loans	**2,018**	576
Other property owned	**--**	--
Total risk assets	**$ 2,018**	$ 576
Total risk loans as a percentage of total loans	**0.3%**	0.1%
Nonaccrual loans as a percentage of total loans	**0.0%**	0.0%
Current nonaccrual loans as a percentage of total nonaccrual loans	**3.3%**	3.7%
Total delinquencies as a percentage of total loans	**1.1%**	0.4%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2019, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

Nonaccrual loans remained at an acceptable level at March 31, 2020, and December 31, 2019.

The increase in accruing loans 90 days or more past due was primarily due to the delinquency of two 100% United States Department of Agriculture (USDA) guaranteed loans during the three months ended March 31, 2020. The principal and accrued interest on these loans are guaranteed by the USDA and therefore eligible to remain in accruing status. Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

The increase in total delinquencies as a percentage of total loans was primarily due to an increase in real estate mortgage and production and intermediate-term loans 30 to 89 days past due as well as an increase in USDA 100% guaranteed performing mortgage loans 90 days or more past due.

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, 2020**	December 31, 2019
Allowance as a percentage of:		
Loans	**0.1%**	0.1%
Nonaccrual loans	**415.3%**	305.0%
Total risk loans	**44.3%**	116.0%

We have not implemented a borrower relief program related to the COVID-19 pandemic. We continue to monitor the rapidly changing conditions and are prepared to act swiftly to work with each borrower on a case-by case basis to provide relief.

Allowance for loan losses totaled $893 thousand as of March 31, 2020, an increase of $225 thousand from December 31, 2019. This increase is primarily due to an increase in our general allowance in response to portfolio probability of default migration in the first quarter of 2020 and loan growth over 2019. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2020.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the three months ended March 31,	**2020**	2019
Net income	**$ 3,663**	$ 3,068
Return on average assets	**2.1%**	1.8%
Return on average members' equity	**9.0%**	8.0%

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,	**2020**	2019	**Increase (decrease) in net income**
Net interest income	**$ 5,127**	$ 4,982	**$ 145**
Provision for credit losses	**224**	74	**(150)**
Non-interest income	**998**	690	**308**
Non-interest expense	**2,193**	2,509	**316**
Provision for income taxes	**45**	21	**(24)**
Net income	**$ 3,663**	$ 3,068	**$ 595**

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the three months ended March 31,	**2020 vs 2019**
Changes in volume	**$ 117**
Changes in interest rates	**41**
Changes in nonaccrual income and other	**(13)**
Net change	**$ 145**

Provision for Credit Losses

The change in the provision for credit losses was related to our estimate of losses in our portfolio for the applicable years. The provision expense of $224 thousand includes an increase in general reserves in the first quarter of 2020, which was partially offset by $1 thousand in partial recoveries year to date on prior loan charge-offs.

Non-Interest Income

The change in non-interest income was primarily due to an increase in patronage income. We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

Patronage Income

(in thousands) For the three months ended March 31,	**2020**	2019
Wholesale patronage	**$ 689**	$ 434
Pool program patronage	**68**	--
Total patronage income	**$ 757**	$ 434
Form of patronage distributions:		
Cash	**$ 757**	$ 434
Total patronage income	**$ 757**	$ 434

The increase in patronage income was primarily due to an increase in wholesale patronage, which is largely a result of a higher patronage rate for the first three months of 2020 compared to the same period of 2019. In addition, we began participating in the AgriBank Asset Pool program during the third quarter of 2019. This is a pool program in which we sold participation interests in certain loans to AgriBank. As part of this program, we receive patronage income in an amount that approximates the net earnings of the loans, less certain expenses. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable.

Non-Interest Expense

The change in non-interest expense was primarily related to a $415 thousand decrease in salaries and employee benefits, which was partially offset by increases in operating expenses, such as public and member relation expense, purchased services expense, furniture and equipment expense, and other miscellaneous expense.

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 December 31, 2022. The note payable will be renegotiated no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity. The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at March 31, 2020, or December 31, 2019.

Total members' equity increased $2.1 million from December 31, 2019, primarily due to net income for the period partially offset by patronage distribution accruals.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 7 in our 2019 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**March 31, 2020**	December 31, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**21.2%**	20.8%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**21.2%**	20.8%	6.0%	2.5%	8.5%
Total capital ratio	**21.3%**	20.9%	8.0%	2.5%	10.5%
Permanent capital ratio	**21.2%**	20.8%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**21.2%**	20.2%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.5%**	20.5%	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.

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

OTHER MATTERS

Relationships with Other Farm Credit Institutions

SunStream Business Services: SunStream Business Services (SunStream) was previously a division of AgriBank. Effective April 1, 2020, SunStream is a System service corporation and we will be a partial owner and continue to purchase services from SunStream. We purchase various services from SunStream, which include certain financial and retail systems, tax reporting services, technology services, and insurance services. As of April 1, 2020, our investment in SunStream was $190 thousand. The entire investment was called on April 1, 2020, at which time $106 thousand was paid in cash and the remainder is due in January 2021.

COVID-19

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

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

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

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Stimulus (CARES) Act was passed by Congress and signed into law by the President. The CARES Act made $349 billion in funding available to the Small Business Administration (SBA) to provide relief to business concerns impacted by the COVID-19 pandemic. The association applied for authority to participate in the program. As of March 31, 2020, no loans had been processed under this program.

Our investments are not held for liquidity, but rather as a portfolio diversification tool. Our portfolio is substantially guaranteed by the U.S. government. No investments are anticipated to be other than temporarily impaired at this time.

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

CERTIFICATION

The undersigned have reviewed the March 31, 2020, Quarterly Report of Farm Credit Southeast Missouri, 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.

Markel D. Yarbro
Chairperson of the Board
Farm Credit Southeast Missouri, ACA

Robert E. Smith
President / Chief Executive Officer
Farm Credit Southeast Missouri, ACA

Michelle M. Beacham
Executive Vice President / Chief Financial Officer
Farm Credit Southeast Missouri, ACA

May 6, 2020

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Southeast Missouri, ACA
(in thousands)
(Unaudited)

As of:		March 31, 2020		December 31, 2019
ASSETS				
Loans	**$**	**665,798**	$	670,541
Allowance for loan losses		**893**		668
Net loans		**664,905**		669,873
Investment in AgriBank, FCB		**15,867**		15,867
Investment securities		**23,620**		24,239
Accrued interest receivable		**10,684**		14,822
Other assets		**8,531**		7,833
Total assets	**$**	**723,607**	$	732,634
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**553,395**	$	557,241
Accrued interest payable		**3,402**		3,901
Deferred tax liabilities, net		**117**		72
Patronage distribution payable		**1,500**		7,250
Other liabilities		**1,317**		2,427
Total liabilities		**559,731**		570,891
Contingencies and commitments (Note 4)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**1,601**		1,631
Unallocated surplus		**162,275**		160,112
Total members' equity		**163,876**		161,743
Total liabilities and members' equity	**$**	**723,607**	$	732,634

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

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Southeast Missouri, ACA
(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31,	**2020**	2019
Interest income	**$ 8,529**	$ 8,633
Interest expense	**3,402**	3,651
Net interest income	**5,127**	4,982
Provision for credit losses	**224**	74
Net interest income after provision for credit losses	**4,903**	4,908
Non-interest income		
Patronage income	**757**	434
Financially related services income	**68**	92
Fee income (expense), net	**35**	(11)
Allocated Insurance Reserve Accounts distribution	**134**	141
Other non-interest income	**4**	34
Total non-interest income	**998**	690
Non-interest expense		
Salaries and employee benefits	**1,160**	1,575
Other operating expense	**1,003**	908
Other non-interest expense	**30**	26
Total non-interest expense	**2,193**	2,509
Income before income taxes	**3,708**	3,089
Provision for income taxes	**45**	21
Net income	**$ 3,663**	$ 3,068

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Southeast Missouri, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2018	$ 1,733	$ 150,551	$ 152,284
Net income	--	3,068	3,068
Unallocated surplus designated for patronage distributions	--	(1,500)	(1,500)
Capital stock and participation certificates issued	28	--	28
Capital stock and participation certificates retired	(139)	--	(139)
Balance at March 31, 2019	$ 1,622	$ 152,119	$ 153,741
Balance at December 31, 2019	$ 1,631	$ 160,112	$ 161,743
Net income	**--**	**3,663**	**3,663**
Unallocated surplus designated for patronage distributions	**--**	**(1,500)**	**(1,500)**
Capital stock and participation certificates issued	**34**	**--**	**34**
Capital stock and participation certificates retired	**(64)**	**--**	**(64)**
Balance at March 31, 2020	**$ 1,601**	**$ 162,275**	**$ 163,876**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Income. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the three months ended March 31, 2020, are not necessarily indicative of the results to be expected for the year ending December 31, 2020. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2019 (2019 Annual Report).

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

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Southeast Missouri, ACA and its subsidiaries Farm Credit Southeast Missouri, FLCA and Farm Credit Southeast Missouri, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We are evaluating the deferral and have not yet determined if we will early adopt the standard. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	March 31, 2020		December 31, 2019	
	Amount	%	Amount	%
Real estate mortgage	**$ 387,193**	**58.2%**	$ 378,027	56.4%
Production and intermediate-term	**225,619**	**33.9%**	241,696	36.0%
Agribusiness	**15,374**	**2.3%**	11,393	1.7%
Other	**37,612**	**5.6%**	39,425	5.9%
Total	**$ 665,798**	**100.0%**	$ 670,541	100.0%

The other category is primarily composed of certain assets originated under the mission related investment authority as well as rural residential real estate loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of March 31, 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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 781**	**$ 147**	**$ 928**	**$ 392,132**	**$ 393,060**	**$ --**
Production and intermediate-term	**249**	**--**	**249**	**229,591**	**229,840**	**--**
Agribusiness	**--**	**--**	**--**	**15,484**	**15,484**	**--**
Other	**4,593**	**1,478**	**6,071**	**31,842**	**37,913**	**1,478**
Total	**$ 5,623**	**$ 1,625**	**$ 7,248**	**$ 669,049**	**$ 676,297**	**$ 1,478**

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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 211	$ --	$ 211	$ 385,685	$ 385,896	$ --
Production and intermediate-term	28	--	28	248,092	248,120	--
Agribusiness	--	--	--	11,467	11,467	--
Other	2,798	--	2,798	36,908	39,706	--
Total	$ 3,037	$ --	$ 3,037	$ 682,152	$ 685,189	$ --

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, 2020**	December 31, 2019
Volume with specific allowance	**$ 147**	$ 147
Volume without specific allowance	**1,871**	429
Total risk loans	**$ 2,018**	$ 576
Total specific allowance	**$ 33**	$ 37
For the three months ended March 31,	**2020**	2019
Income on accrual risk loans	**$ 18**	$ 32
Income on nonaccrual loans	**16**	30
Total income on risk loans	**$ 34**	$ 62
Average risk loans	**$ 1,478**	$ 2,483

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, 2020.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

There were no TDRs that occurred during the three months ended March 31, 2020, or 2019. In addition, there were no TDRs that defaulted during the three months ended March 31, 2020, or 2019 in which the modification was within twelve months of the respective reporting period.

TDRs outstanding in the real estate mortgage loan category totaled $325 thousand and $357 thousand, all of which were in accrual status at March 31, 2020, and December 31, 2019, respectively. There were no commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2020.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Three months ended March 31,		**2020**		2019
Balance at beginning of period	**$**	**668**	$	526
Provision for loan losses		**224**		74
Loan recoveries		**1**		1
Balance at end of period	**$**	**893**	$	601

The “Provision for credit losses” in the Consolidated Statements of Income includes a provision for loan losses as presented in the previous chart, and may also include a provision for or reversal of credit loss reserve on unfunded commitments. No provision for or reversal of credit losses on unfunded commitments was recorded for the three months ended March 31, 2020, or 2019. The accrued credit loss reserve on unfunded commitments are recorded in “Other liabilities” in the Consolidated Statements of Condition. The accrued credit loss reserve on unfunded commitments was $90 thousand at March 31, 2020, and December 31, 2019.

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $23.6 million at March 31, 2020, and $24.2 million at December 31, 2019. Our investment securities consisted of securities containing loans fully guaranteed by the Small Business Administration.

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, 2020, or December 31, 2019.

Additional Investment Securities Information

(dollars in thousands) As of:		**March 31, 2020**		December 31, 2019
Amortized cost	**$**	**23,620**	$	24,239
Unrealized gains		**154**		119
Unrealized losses		**(49)**		(82)
Fair value	**$**	**23,725**	$	24,276
Weighted average yield		**2.5%**		2.5%

Investment income is recorded in “Interest income” in the Consolidated Statements of Income and totaled $149 thousand and $41 thousand for the three months ended March 31, 2020, and 2019, respectively.

Contractual Maturities of Investment Securities

(in thousands) **As of March 31, 2020**		Amortized Cost
Less than one year	**$**	**5**
One to five years		**88**
Five to ten years		**4,237**
More than ten years		**19,290**
Total	**$**	**23,620**

NOTE 4: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2019 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2020, or December 31, 2019.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

As of March 31, 2020	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$ 120**	**$ 120**

As of December 31, 2019	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 115	$ 115

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 6, 2020, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.