



## Farm Credit Southeast Missouri, ACA

Quarterly Report  
March 31, 2021

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Southeast Missouri, ACA (the Association) 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, 2020 (2020 Annual Report).

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

Farm Credit Southeast Missouri, ACA  
1116 N. Main Street  
Sikeston, MO 63801  
(573) 471-0342  
[www.FarmCreditSEMO.com](http://www.FarmCreditSEMO.com)  
[info@farmcreditsemo.com](mailto:info@farmcreditsemo.com)

AgriBank, FCB  
30 East 7th Street, Suite 1600  
St. Paul, MN 55101  
(651) 282-8800  
[www.AgriBank.com](http://www.AgriBank.com)  
[FinancialReporting@AgriBank.com](mailto:FinancialReporting@AgriBank.com)

### FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2020 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.

### COVID-19 PANDEMIC

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 were taken early in 2020 by governments, businesses, and individuals to slow or contain the spread of COVID-19. Restrictions from 2020 have been eased and government, businesses and individuals have returned to a level of normalcy. A possible resurgence of cases makes the future impact of COVID-19 on companies 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 the possible resurgence of cases.

Despite volatility and uncertainty in the market, we have weathered the significant initial challenges presented by the current operating environment and operations of our Association are fully functioning. Our business continuity response allowed us to continue to serve our mission during the early stages of the pandemic. With the increase in vaccine availability and compliance with state and local regulations as well as the decline in cases, the majority of Association employees have returned to the office to work.

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. Overall, agriculture will adjust, providing an "essential service" to the U.S. and global consumer.

### AGRICULTURAL AND ECONOMIC CONDITIONS

**Commodity Prices:** U.S. grain markets have continued to strengthen in the first quarter of 2021 to the highest price levels we've seen in recent years. Record demand for agricultural exports to China, and other countries, have kept the grain market very bullish. Many farmers have been booking contracts at these higher prices which should help strengthen financial positions even further and offset a potential decline in direct government payments with uncertainty surrounding the future of United States Department of Agriculture (USDA) programs.

**Crop Conditions:** Average weather and rainfall in the first quarter has allowed for the planting season to begin on time and farmers are making good progress in the fields at the start of the 2021 crop season. While still early to say definitively, wheat planted in the fall of 2020 appears to have good yield potential.

**Land Values:** The average benchmark farmland value change in 2020 was a negative 0.69%, compared to a positive 0.37% and 1.55% in 2019 and 2018, respectively. The more moderate land value changes the past three years are indicative of lower commodity prices. With the substantial increase in commodity prices in 2021 over prior years, it is anticipated that farmland values will also see an increase in 2021.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were \$720.9 million at March 31, 2021, a decrease of \$30.6 million from December 31, 2020. The decrease was primarily due to normal seasonal loan repayments, which was partially offset by strong loan growth in the real estate mortgage loan portfolio.

The Paycheck Protection Program (PPP) is a guaranteed loan program administered by the U.S. Small Business Administration (SBA) created in response to the COVID-19 pandemic. We obtained approval from the SBA in 2020 to participate as a lender in the PPP. The PPP provides for payment deferral, and under limited circumstances, loan forgiveness. As of March 31, 2021, we had successfully processed \$4.2 million in PPP loans for customers with primarily production and intermediate-term type loans, of which \$2.1 million were processed during the first quarter of 2021. We are working with our customers gathering documentation and submitting applications for the forgiveness of the PPP loans, and \$2.1 million has been forgiven as of March 31, 2021.

### Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2020. Adversely classified loans increased slightly to 1.5% of the portfolio at March 31, 2021, from 1.4% of the portfolio at December 31, 2020. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At March 31, 2021, \$56.3 million of our loans were, to some level, guaranteed under these government programs.

### Risk Assets

#### Components of Risk Assets

(dollars in thousands)	March 31, 2021	December 31, 2020
As of:		
Loans:		
Nonaccrual	\$ 99	\$ 302
Accruing restructured	287	281
Accruing loans 90 days or more past due	446	1,066
Total risk loans	832	1,649
Other property owned	--	--
Total risk assets	\$ 832	\$ 1,649
Total risk loans as a percentage of total loans	0.1%	0.2%
Nonaccrual loans as a percentage of total loans	0.0%	0.0%
Current nonaccrual loans as a percentage of total nonaccrual loans	100.0%	17.9%
Total delinquencies as a percentage of total loans	0.6%	0.5%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2020 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 payment activity on outstanding nonaccrual loans and the payoff of one real estate mortgage nonaccrual loan during the first quarter of 2021. Nonaccrual loans remained at an acceptable level at March 31, 2021, and December 31, 2020.

Accruing loans 90 days or more past due decreased from \$1.1 million at December 31, 2020, to \$446 thousand at March 31, 2021. As of March 31, 2021, there was one 100% USDA guaranteed loan (principal and interest) that was over 90 days past due. The one 100% USDA guaranteed loan that was over 90 days past due as of December 31, 2020, was paid off during the first quarter of 2021. 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.

### 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, 2021	December 31, 2020
Allowance as a percentage of:		
Loans	0.1%	0.1%
Nonaccrual loans	996.0%	301.7%
Total risk loans	118.5%	55.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2021.

**RESULTS OF OPERATIONS****Profitability Information**

(dollars in thousands)

For the three months ended March 31	2021	2020
Net income	\$ 4,815	\$ 3,663
Return on average assets	2.5%	2.1%
Return on average members' equity	11.0%	9.0%

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)	2021	2020	Increase (decrease) in net income
For the three months ended March 31			
Net interest income	\$ 5,551	\$ 5,127	\$ 424
Provision for credit losses	104	224	120
Non-interest income	1,672	998	674
Non-interest expense	2,331	2,193	(138)
(Benefit from) provision for income taxes	(27)	45	72
Net income	\$ 4,815	\$ 3,663	\$ 1,152

**Net Interest Income****Changes in Net Interest Income**

(in thousands)

For the three months ended March 31	2021 vs 2020
Changes in volume	\$ 502
Changes in interest rates	(79)
Changes in nonaccrual income and other	1
Net change	\$ 424

**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 first quarter 2021 provision expense was primarily due to an increase in general reserves in response to slight credit quality deterioration experienced during the first quarter of 2021.

**Non-Interest Income**

The change in non-interest income was primarily due to other non-interest income, fee income, and patronage income, which was partially offset by a decrease in Allocated Insurance Reserve Accounts distribution.

**Other Non-interest Income:** The increase in other non-interest income was primarily due to a gain on the sale of one of our branch office buildings during the first quarter of 2021.

**Fee Income:** The increase in fee income was primarily due to fees collected from the SBA for originating PPP loans during the first quarter of 2021. No SBA PPP loan fees were collected during the first quarter of 2020.

**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	2021	2020
Patronage from AgriBank	\$ 929	\$ 757
Other patronage	23	--
Total patronage income	\$ 952	\$ 757

Patronage from AgriBank primarily includes wholesale patronage and pool program patronage. All patronage distributions from AgriBank are in the form of either cash or AgriBank stock and determined based on actual financial results, projections, and long-term capital goals.

**Allocated Insurance Reserve Accounts Distribution:** The change in the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) was due to our share of the distribution from AIRA of \$134 thousand during the three months ended March 31, 2020, and no distribution during the same period of 2021. The AIRA was established by FCSIC when premiums collected increased the level of the Farm Credit Insurance Fund beyond the required secured base amount of 2% of insured debt. Refer to the 2020 Annual Report for additional information about the FCSIC.

**Non-Interest Expense**

The change in non-interest expense was primarily related to an increase in Farm Credit System insurance expense. The Farm Credit System insurance expense increased in 2021 primarily due to a higher premium rate charged by FCSIC on accrual loans. The premium rate for the first quarter of 2021 was 16 basis points, which increased from 8 basis points compared to the same period in 2020. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

**(Benefit from) Provision for Income Taxes**

The variance in (benefit from) provision for income taxes was related to our estimate of taxes based on taxable income.

**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. 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 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, 2021, or December 31, 2020.

Total members' equity increased \$3.3 million from December 31, 2020, 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 2020 Annual Report for a more complete description of these ratios.

**Regulatory Capital Requirements and Ratios**

As of:	March 31, 2021	December 31, 2020	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	20.0%	19.5%	4.5%	2.5%	7.0%
Tier 1 capital ratio	20.0%	19.5%	6.0%	2.5%	8.5%
Total capital ratio	20.2%	19.7%	8.0%	2.5%	10.5%
Permanent capital ratio	20.1%	19.6%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	20.4%	19.2%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	21.2%	19.8%	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 2020 Annual Report.

**CERTIFICATION**

The undersigned have reviewed the March 31, 2021, 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



Gregory M. Cunningham  
President / Chief Executive Officer  
Farm Credit Southeast Missouri, ACA



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

May 5, 2021

# CONSOLIDATED STATEMENTS OF CONDITION

*Farm Credit Southeast Missouri, ACA*

*(in thousands)*

*(Unaudited)*

As of:	March 31, 2021	December 31, 2020
<b>ASSETS</b>		
Loans	\$ 720,892	\$ 751,512
Allowance for loan losses	986	911
Net loans	719,906	750,601
Investment in AgriBank, FCB	19,392	19,392
Investment securities	20,163	21,111
Accrued interest receivable	11,113	13,802
Other assets	9,677	10,030
Total assets	\$ 780,251	\$ 814,936
<b>LIABILITIES</b>		
Note payable to AgriBank, FCB	\$ 598,489	\$ 628,749
Accrued interest payable	2,326	2,393
Deferred tax liabilities, net	28	55
Patronage distribution payable	1,537	7,750
Other liabilities	1,870	3,292
Total liabilities	604,250	642,239
Contingencies and commitments (Note 4)		
<b>MEMBERS' EQUITY</b>		
Capital stock and participation certificates	1,612	1,623
Unallocated surplus	174,391	171,076
Accumulated other comprehensive loss	(2)	(2)
Total members' equity	176,001	172,697
Total liabilities and members' equity	\$ 780,251	\$ 814,936

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Southeast Missouri, ACA

(in thousands)

(Unaudited)

For the period ended March 31	Three Months Ended	
	2021	2020
<b>Interest income</b>	\$ 7,877	\$ 8,529
<b>Interest expense</b>	2,326	3,402
Net interest income	5,551	5,127
<b>Provision for credit losses</b>	104	224
Net interest income after provision for credit losses	5,447	4,903
<b>Non-interest income</b>		
Patronage income	952	757
Financially related services income	55	68
Fee income	188	35
Allocated Insurance Reserve Accounts distribution	--	134
Other non-interest income	477	4
Total non-interest income	1,672	998
<b>Non-interest expense</b>		
Salaries and employee benefits	1,165	1,160
Other operating expense	1,129	1,003
Other non-interest expense	37	30
Total non-interest expense	2,331	2,193
Income before income taxes	4,788	3,708
<b>(Benefit from) provision for income taxes</b>	(27)	45
Net income	\$ 4,815	\$ 3,663
<b>Other comprehensive income</b>		
Employee benefit plans activity	\$ --	\$ --
Total other comprehensive income	--	--
Comprehensive income	\$ 4,815	\$ 3,663

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	Accumulated Other Comprehensive Loss	Total Members' Equity
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)
<b>Balance at March 31, 2020</b>	<b>\$ 1,601</b>	<b>\$ 162,275</b>	<b>\$ --</b>	<b>\$ 163,876</b>
Balance at December 31, 2020	\$ 1,623	\$ 171,076	\$ (2)	\$ 172,697
Net income	--	4,815	--	4,815
Unallocated surplus designated for patronage distributions	--	(1,500)	--	(1,500)
Capital stock and participation certificates issued	43	--	--	43
Capital stock and participation certificates retired	(54)	--	--	(54)
<b>Balance at March 31, 2021</b>	<b>\$ 1,612</b>	<b>\$ 174,391</b>	<b>\$ (2)</b>	<b>\$ 176,001</b>

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

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

### NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

---

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the three months ended March 31, 2021, are not necessarily indicative of the results to be expected for the year ending December 31, 2021. 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, 2020 (2020 Annual Report).

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.

#### Significant Accounting Policies

---

Effective March 2021, a change in accounting policy was elected to use the fair value method for calculating the market related value of assets for the fixed-income pension assets. This change in accounting principle requires retrospective application. However, the financial statement impact was deemed immaterial to historical and current periods. Therefore, the change was recorded through earnings in the first quarter of 2021.

There have been no other changes in our accounting policies as disclosed in our 2020 Annual Report, except as described in the Recently Issued or Adopted Accounting Pronouncements.

#### Recently Issued or Adopted Accounting Pronouncements

---

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

Standard and effective date	Description	Adoption status and financial statement impact
In March 2020, the FASB issued Accounting Standards Update (ASU) 2020-04 "Reference Rate Reform, Topic 848." In January 2021, the FASB issued 2021-01 further amending Topic 848. This guidance may be elected and applied prospectively over time from March 12, 2020, through December 31, 2022, as reference rate reform activities occur.	The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate.	During March 2021, we adopted this standard. To date, the adoption of this standard has not had a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures.
In June 2016, the FASB issued 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 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. 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. 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, 2021		December 31, 2020	
	Amount	%	Amount	%
Real estate mortgage	\$ 450,450	62.5%	\$ 438,486	58.3%
Production and intermediate-term	222,736	30.9%	260,980	34.7%
Agribusiness	12,361	1.7%	14,328	1.9%
Other	35,345	4.9%	37,718	5.1%
Total	\$ 720,892	100.0%	\$ 751,512	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 related loans.

**Delinquency**

**Aging Analysis of Loans**

(in thousands) As of March 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	\$ 484	\$ --	\$ 484	\$ 456,958	\$ 457,442
Production and intermediate-term	31	--	31	226,275	226,306	--
Agribusiness	--	--	--	12,434	12,434	--
Other	3,461	446	3,907	31,800	35,707	446
Total	\$ 3,976	\$ 446	\$ 4,422	\$ 727,467	\$ 731,889	\$ 446

  

As of December 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	\$ 370	\$ 248	\$ 618	\$ 445,858	\$ 446,476	\$ --
Production and intermediate-term	18	--	18	266,088	266,106	--
Agribusiness	--	--	--	14,375	14,375	--
Other	2,163	1,066	3,229	35,007	38,236	1,066
Total	\$ 2,551	\$ 1,314	\$ 3,865	\$ 761,328	\$ 765,193	\$ 1,066

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, 2021	December 31, 2020
Volume with specific allowance	\$ --	\$ --
Volume without specific allowance	832	1,649
Total risk loans	\$ 832	\$ 1,649
Total specific allowance	\$ --	\$ --
For the three months ended March 31	2021	2020
Income on accrual risk loans	\$ 16	\$ 18
Income on nonaccrual loans	18	16
Total income on risk loans	\$ 34	\$ 34
Average risk loans	\$ 1,546	\$ 1,478

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, 2021.

## 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 related to the COVID-19 pandemic or 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, 2021, or 2020. In addition, there were no TDRs that defaulted during the three months ended March 31, 2021, or 2020 in which the modification was within twelve months of the respective reporting period.

TDRs outstanding in the real estate mortgage loan category totaled \$287 thousand and \$281 thousand, all of which were in accrual status at March 31, 2021, and December 31, 2020, respectively.

There were no commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2021.

## Allowance for Loan Losses

### Changes in Allowance for Loan Losses

(in thousands)			
Three months ended March 31			
	2021		2020
Balance at beginning of period	\$	911	\$ 668
Provision for loan losses		74	224
Loan recoveries		1	1
Balance at end of period	\$	986	\$ 893

The "Provision for credit losses" in the Consolidated Statements of Comprehensive Income includes a provision for loan losses as presented in the previous chart, as well as a provision for credit losses on unfunded commitments. The accrued credit loss reserve on unfunded commitments is recorded in "Other liabilities" in the Consolidated Statements of Condition. Typically, accrued credit losses are relieved and replaced with an allowance for loan loss as the related commitments are funded.

### Credit Loss Information on Unfunded Commitments

(in thousands)			
For the three months ended March 31			
	2021		2020
Provision for credit losses	\$	30	\$ --
		March 31,	December 31,
As of:		2021	2020
Accrued credit loss reserve	\$	120	\$ 90

## NOTE 3: INVESTMENT SECURITIES

We held investment securities of \$20.2 million at March 31, 2021, and \$21.1 million at December 31, 2020. Our investment securities consisted of securities containing pools of loans fully guaranteed by the Small Business Administration. 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, 2021, or December 31, 2020.

### Additional Investment Securities Information

(dollars in thousands)			
As of:			
	March 31,		December 31,
	2021		2020
Amortized cost	\$	20,163	\$ 21,111
Unrealized gains		154	156
Unrealized losses		(61)	(64)
Fair value	\$	20,256	\$ 21,203
Weighted average yield		1.2%	1.5%

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled \$64 thousand and \$149 thousand for the three months ended March 31, 2021, and 2020, respectively.

**Contractual Maturities of Investment Securities**

(in thousands)

<b>As of March 31, 2021</b>	Amortized Cost
Five to ten years	\$ 3,567
More than ten years	16,596
Total	<u>\$ 20,163</u>

**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 2020 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 or non-recurring basis at March 31, 2021, or December 31, 2020.

**NOTE 6: SUBSEQUENT EVENTS**

We have evaluated subsequent events through May 5, 2021, 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.