Farm Credit Services of North Dakota, ACA

Quarterly Report
June 30, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Services of North Dakota, ACA and its subsidiaries, Farm Credit Services of North Dakota, FLCA and Farm Credit Services of North Dakota, 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:

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NOTICE OF SIGNIFICANT OR MATERIAL EVENTS

Under a memorandum of understanding, the Boards of Directors of AgCountry Farm Credit Services, ACA and Farm Credit Services of North Dakota, ACA made a strategic decision to pursue a merger of the two organizations. The consolidated association would be named AgCountry Farm Credit Services, ACA and would be headquartered in Fargo, ND. Upon completion of the merger, the Association would serve over 25,000 customers in 82 counties in Minnesota, North Dakota, and Wisconsin, and have assets of over $10 billion. In July, at a joint meeting of the Boards of Directors, the Boards unanimously approved a resolution in favor of merging the two associations. If related approvals are received from AgriBank and the Farm Credit Administration (FCA), customer-owners will vote on the merger in late 2021. If approved, the merger will be effective no earlier than January 1, 2022.

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

As domestic public health measures have been implemented to limit the spread of the virus, including the availability of vaccines, many locations across the United States have been able to lift many or all restrictions. While the emergence of COVID-19 variants may negatively impact economic conditions, the overall economy continues to recover, and the outlook is positive for many sectors, including agriculture.

The extent to which the COVID-19 pandemic continues to impact the Association will depend on future developments that are highly uncertain and cannot be predicted. However, we have weathered the significant challenges presented to date. Our business continuity response has allowed us to continue to serve our mission, and a remote work environment 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.

AGRICULTURAL AND ECONOMIC CONDITIONS

The vast majority of our territory ranges from severe to exceptional drought categories. Some areas received some precipitation which has aided in crops emerging since seeding time. Crop insurance and currently favorable grain prices should help the producers make up for any potential reduction in yields. The COVID-19 virus did create uncertainty, however, there does not appear to be an issue with any customers getting their commodities or supplies delivered. The livestock producers in our area are short of grass due to the drought conditions as well. Many are either partially or completely liquidating their herds as pasture conditions continue to deteriorate. Hay production will most likely be below average as well. The prices for livestock have declined below projected levels, but with the herd liquidation, producers should be generally able to meet their projected income levels in 2021. The challenge for cow/calf producers will be 2022 and beyond as they work to rebuild their herds.

Interest rates remaining low will modestly help producer expenses. The local economy did slow due to COVID-19 along with the drop in oil prices; however, with oil now increasing in price, off farm employment opportunities and other nonfarm income could increase in the territory.

The overall profitability of our producers is probably being challenged due to the dry conditions and decline in livestock prices. However, higher commodity prices, crop insurance and government payments will help producers who are modifying their operations to remain viable, obtain financing, and continue operating their farm or ranch.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.4 billion at June 30, 2021, an increase of $19.1 million from December 31, 2020. The increase was primarily due to increased purchases of loan participations, while there was little change in traditional commercial and mortgage loan volumes.

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 when certain requirements are fulfilled, loan forgiveness. As of June 30, 2021, we had $10.5 million outstanding PPP loans for customers with primarily production and intermediate-term type loans. We are working with our customers gathering documentation and submitting applications for the forgiveness of the PPP loans and $9.8 million has been forgiven as of June 30, 2021.

Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2020. Adversely classified loans decreased to 3.3% of the portfolio at June 30, 2021, from 3.6% 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, government agency guarantee programs are used to reduce the risk of loss. At June 30, 2021, $53.8 million of our loans were, substantially, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30, 2021**	December 31, 2020
Loans:		
Nonaccrual	**$ 3,430**	$ 3,798
Accruing restructured	**336**	362
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**3,766**	4,160
Other property owned	**--**	--
Total risk assets	**$ 3,766**	$ 4,160
Total risk loans as a percentage of total loans	**0.3%**	0.3%
Nonaccrual loans as a percentage of total loans	**0.3%**	0.3%
Current nonaccrual loans as a percentage of total nonaccrual loans	**42.0%**	15.5%
Total delinquencies as a percentage of total loans	**0.4%**	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.

Nonaccrual loans decreased slightly and remained at an acceptable level at June 30, 2021, and December 31, 2020.

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:	**June 30, 2021**	December 31, 2020
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**109.6%**	100.0%
Total risk loans	**99.8%**	91.3%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2021.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30		**2021**		2020
Net income	**$**	**15,375**	$	11,955
Return on average assets		**2.2%**		1.8%
Return on average members' equity		**8.8%**		7.3%

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 six months ended June 30		**2021**		2020		**Increase in net income**
Net interest income	**$**	**16,860**	$	15,784	**$**	**1,076**
Provision for loan losses		**--**		469		**469**
Non-interest income		**9,449**		7,841		**1,608**
Non-interest expense		**10,679**		10,825		**146**
Provision for income taxes		**255**		376		**121**
Net income	**$**	**15,375**	$	11,955	**$**	**3,420**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the six months ended June 30		**2021 vs 2020**
Changes in volume	**$**	**636**
Changes in interest rates		**187**
Changes in nonaccrual income and other		**253**
Net change	**$**	**1,076**

Provision for Loan Losses

The change in the provision for loan losses was related to changes in the estimate of losses in our portfolio, changes in specific reserves, charge-off and recovery activity, and change in loan volume.

Non-Interest Income

The change in non-interest income was primarily due to an increase in fee income, partially offset by a decrease in Allocated Insurance Reserve Accounts (AIRA) distribution.

Fee Income: The increase in fee income was primarily due to fees received for loans originated under the PPP administered by the SBA.

Allocated Insurance Reserve Accounts Distribution: The change in the AIRA distribution received from the Farm Credit System Insurance Corporation (FCSIC) was due to our share of the distribution from AIRA of $259 thousand during the six months ended June 30, 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 2.0% 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 due to a decrease in expenses related to purchased loan participations. This was partially offset by an increase in FCSIC premiums.

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, which is primarily impacted by System growth, was 16 basis points for the first half of 2021, compared to a premium rate of 8 basis points during 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.

Provision for Income Taxes

The change in provision for income taxes was primarily related to our estimate of taxes based on taxable income and the impact of implementing our patronage program.

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 September 30, 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 June 30, 2021, or December 31, 2020.

Total members' equity increased $11.5 million from December 31, 2020, primarily due to net income for the period partially offset by patronage distribution accruals.

The 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:	**June 30, 2021**	December 31, 2020	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**20.8%**	20.5%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**20.8%**	20.5%	6.0%	2.5%	8.5%
Total capital ratio	**21.1%**	20.7%	8.0%	2.5%	10.5%
Permanent capital ratio	**20.9%**	20.5%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**23.5%**	23.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**24.5%**	24.0%	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 June 30, 2021, Quarterly Report of Farm Credit Services of North Dakota, 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.

Bryan Ankenbauer
Chairperson of the Board
Farm Credit Services of North Dakota, ACA

Gordon D. Hanson
President and Chief Executive Officer
Farm Credit Services of North Dakota, ACA

Kent Huss
Senior Vice President - Chief Financial Officer
Farm Credit Services of North Dakota, ACA

August 3, 2021

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Services of North Dakota, ACA

(in thousands)

(Unaudited)

As of:	June 30, 2021	December 31, 2020
ASSETS		
Loans	**$ 1,355,384**	$ 1,336,241
Allowance for loan losses	**3,759**	3,798
Net loans	**1,351,625**	1,332,443
Investment in AgriBank, FCB	**32,039**	32,039
Accrued interest receivable	**10,179**	16,450
Premises and equipment, net	**18,515**	18,775
Other assets	**11,856**	8,854
Total assets	**$ 1,424,214**	$ 1,408,561
LIABILITIES		
Note payable to AgriBank, FCB	**$ 1,056,533**	$ 1,050,999
Accrued interest payable	**2,079**	2,094
Deferred tax liabilities, net	**419**	371
Patronage distribution payable	**3,913**	4,325
Other liabilities	**5,621**	6,672
Total liabilities	**1,068,565**	1,064,461
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**1,844**	1,857
Unallocated surplus	**354,317**	342,783
Accumulated other comprehensive loss	**(512)**	(540)
Total members' equity	**355,649**	344,100
Total liabilities and members' equity	**$ 1,424,214**	$ 1,408,561

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Services of North Dakota, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2021**	2020	**2021**	2020
Interest income	**$ 10,808**	$ 11,258	**$ 21,096**	$ 24,180
Interest expense	**2,079**	3,087	**4,236**	8,396
Net interest income	**8,729**	8,171	**16,860**	15,784
Provision for loan losses	**--**	189	**--**	469
Net interest income after provision for loan losses	**8,729**	7,982	**16,860**	15,315
Non-interest income				
Patronage income	**1,739**	1,703	**3,319**	3,363
Financially related services income	**1,592**	1,434	**2,935**	2,792
Fee income	**1,259**	790	**2,995**	1,192
Allocated Insurance Reserve Accounts distribution	**--**	--	**--**	259
Other non-interest income	**153**	64	**200**	235
Total non-interest income	**4,743**	3,991	**9,449**	7,841
Non-interest expense				
Salaries and employee benefits	**3,424**	3,263	**6,446**	6,488
Other operating expense	**2,076**	2,177	**4,204**	4,337
Other non-interest expense	**29**	--	**29**	--
Total non-interest expense	**5,529**	5,440	**10,679**	10,825
Income before income taxes	**7,943**	6,533	**15,630**	12,331
Provision for income taxes	**174**	264	**255**	376
Net income	**$ 7,769**	$ 6,269	**$ 15,375**	$ 11,955
Other comprehensive income				
Employee benefit plans activity	**$ 14**	$ 14	**$ 28**	$ 28
Total other comprehensive income	**14**	14	**28**	28
Comprehensive income	**$ 7,783**	$ 6,283	**$ 15,403**	$ 11,983

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Services of North Dakota, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2019	$ 1,895	$ 319,459	$ (542)	$ 320,812
Net income	--	11,955	--	11,955
Other comprehensive income	--	--	28	28
Capital stock and participation certificates issued	54	--	--	54
Capital stock and participation certificates retired	(90)	--	--	(90)
Balance at June 30, 2020	$ 1,859	$ 331,414	$ (514)	$ 332,759
Balance at December 31, 2020	$ 1,857	$ 342,783	$ (540)	$ 344,100
Net income	**--**	**15,375**	**--**	**15,375**
Other comprehensive income	**--**	**--**	**28**	**28**
Unallocated surplus designated for patronage distributions	**--**	**(3,841)**	**--**	**(3,841)**
Capital stock and participation certificates issued	**85**	**--**	**--**	**85**
Capital stock and participation certificates retired	**(98)**	**--**	**--**	**(98)**
Balance at June 30, 2021	**$ 1,844**	**$ 354,317**	**$ (512)**	**$ 355,649**

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 six months ended June 30, 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 Services of North Dakota, ACA and its subsidiaries Farm Credit Services of North Dakota, FLCA and Farm Credit Services of North Dakota, 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 did not have a material impact on the financial statements.

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 ASU 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 April 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:	June 30, 2021 Amount	%	December 31, 2020 Amount	%
Real estate mortgage	**$ 450,076**	**33.2%**	$ 454,514	34.0%
Production and intermediate-term	**429,540**	**31.7%**	429,356	32.1%
Agribusiness	**310,638**	**22.9%**	300,735	22.5%
Other	**165,130**	**12.2%**	151,636	11.4%
Total	**$ 1,355,384**	**100.0%**	$ 1,336,241	100.0%

The other category is primarily composed of rural infrastructure related loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of June 30, 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
Real estate mortgage	**$ 80**	**$ 269**	**$ 349**	**$ 454,296**	**$ 454,645**
Production and intermediate-term	**4,076**	**1,720**	**5,796**	**428,471**	**434,267**
Agribusiness	**--**	**--**	**--**	**311,274**	**311,274**
Other	**--**	**--**	**--**	**165,377**	**165,377**
Total	**$ 4,156**	**$ 1,989**	**$ 6,145**	**$ 1,359,418**	**$ 1,365,563**

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
Real estate mortgage	$ 452	$ 269	$ 721	$ 461,752	$ 462,473
Production and intermediate-term	3,100	2,942	6,042	431,049	437,091
Agribusiness	--	--	--	301,335	301,335
Other	--	--	--	151,792	151,792
Total	$ 3,552	$ 3,211	$ 6,763	$ 1,345,928	$ 1,352,691

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at June 30, 2021, or December 31, 2020.

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:	June 30, 2021	December 31, 2020
Volume with specific allowance	**$ 2,119**	$ 2,942
Volume without specific allowance	**1,647**	1,218
Total risk loans	**$ 3,766**	$ 4,160
Total specific allowance	**$ 582**	$ 892
For the six months ended June 30	**2021**	2020
Income on accrual risk loans	**$ 6**	$ 36
Income on nonaccrual loans	**330**	77
Total income on risk loans	**$ 336**	$ 113
Average risk loans	**$ 4,556**	$ 8,772

Note: Accruing loans include accrued interest receivable.

We had no material commitments to lend additional money to borrowers whose loans were classified as risk loans at June 30, 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 six months ended June 30, 2021, or 2020.

There were no TDRs that defaulted during the six months ended June 30, 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 $336 thousand and $362 thousand, all of which were in accrual status at June 30, 2021, and December 31, 2020, respectively.

There were no commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2021.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands)

Six months ended June 30	**2021**	2020
Balance at beginning of period	**$ 3,798**	$ 3,821
Provision for loan losses	**--**	469
Loan recoveries	**1**	41
Loan charge-offs	**(40)**	--
Balance at end of period	**$ 3,759**	$ 4,331

NOTE 3: 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 4: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three 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 basis at June 30, 2021, or December 31, 2020.

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 June 30, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 1,613**	**$ 1,613**

As of December 31, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 2,153	$ 2,153

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 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 3, 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.