Farm Credit Services of North Dakota, ACA

Quarterly Report
June 30, 2018

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, 2017 (2017 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 the AgriBank or the AgriBank District 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 2017 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

The crops are progressing well in the majority of the territory with some areas needing moisture. It appears at this time that most areas will still be able to meet projected yields. The recent trade disputes has created uncertainty in the commodity prices. The customers however have had opportunities to lock in prices at or above projected levels. The livestock producers in our area appear to have ample grass at this time. Hay production should be average as well. The prices for livestock have remained close to projected levels. The increases in the interest rates to this point have had minimal impact upon producer's expenses. Additional increases may start to impact cash flows and debt carrying capacity of some farm units. The local economy has been stimulated by additional oil activity. This provides off farm employment opportunities if desired. The demand for real estate has remained strong, however prices appear to have leveled off. These changes have not been dramatic, and have been anticipated with the current conditions.

Despite the above challenges, nearly all producers will continue to modify their operations to remain profitable, obtain financing, and continue operating their farm or ranch.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.2 billion at June 30, 2018, an increase of $47.9 million from December 31, 2017. The increase was primarily due to increased purchases of loan participations.

Portfolio Credit Quality

The credit quality of our portfolio declined slightly from December 31, 2017. Adversely classified loans increased to 2.9% of the portfolio at June 30, 2018, from 2.8% of the portfolio at December 31, 2017. 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 guarantee programs are used to reduce the risk of loss. At June 30, 2018, $42.0 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30 2018**	December 31 2017
Loans:		
Nonaccrual	**$ 8,853**	$ 8,251
Accruing restructured	**395**	422
Accruing loans 90 days or more past due	**632**	--
Total risk loans	**9,880**	8,673
Other property owned	**--**	--
Total risk assets	**$ 9,880**	$ 8,673
Total risk loans as a percentage of total loans	**0.8%**	0.7%
Nonaccrual loans as a percentage of total loans	**0.7%**	0.7%
Current nonaccrual loans as a percentage of total nonaccrual loans	**53.8%**	34.7%
Total delinquencies as a percentage of total loans	**0.5%**	0.7%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2017, 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 June 30, 2018, and December 31, 2017.

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 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 2018**	December 31 2017
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**37.6%**	39.5%
Total risk loans	**33.7%**	37.5%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2018.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30	**2018**	2017
Net income	**$ 11,370**	$ 9,580
Return on average assets	**1.9%**	1.6%
Return on average members' equity	**8.3%**	7.6%

Changes in the chart above relate directly to:

- Changes in income discussed below
- 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	2018	2017	Increase (decrease) in net income
Net interest income	$ 14,791	$ 14,775	$ 16
Provision for loan losses	69	581	512
Patronage income	1,639	1,503	136
Other income, net	5,428	4,506	922
Operating expenses	10,103	9,956	(147)
Provision for income taxes	316	667	351
Net income	$ 11,370	$ 9,580	$ 1,790

Changes in Net Interest Income

(in thousands) For the six months ended June 30	2018 vs 2017
Changes in volume	$ 667
Changes in interest rates	(707)
Changes in nonaccrual income and other	56
Net change	$ 16

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

The change in other income, net was primarily due to our share of distributions from Allocated Insurance Reserve Accounts (AIRA) of $692 thousand. The AIRA was recently established by the Farm Credit System Insurance Corporation (FCSIC) when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. There was no distribution in 2017. Refer to the 2017 Annual Report for additional information about the FCSIC.

The change in provision for income taxes was related to the decrease in the applicable federal tax rate under the Tax Cuts and Jobs Act and a decrease in the income of our taxable entities.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures on September 30, 2020, at which time the note will be renegotiated. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

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, 2018, or December 31, 2017.

Total members' equity increased $11.4 million from December 31, 2017, primarily due to net income for the period. Accumulated other comprehensive loss is the impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan. Refer to Note 8 in our 2017 Annual Report for more information on the Pension Restoration Plan.

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. Refer to Note 6 in our 2017 Annual Report for a more complete description of these ratios.

Select Capital Ratios

As of:	**June 30 2018**	December 31 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**18.8%**	17.8%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**18.8%**	17.8%	6.0%	2.5%*	8.5%
Total capital ratio	**19.0%**	18.0%	8.0%	2.5%*	10.5%
Permanent capital ratio	**18.9%**	17.8%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**21.2%**	19.9%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.7%**	20.4%	1.5%	N/A	1.5%

*The capital conservation buffer over risk-adjusted ratio minimums continues to be phased in under the Farm Credit Administration capital requirements, up to 2.5% beginning in 2020.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

RELATIONSHIP WITH AGRIBANK

Purchased Services

During 2016, District associations and AgriBank conducted research related to repositioning many business services offered by AgriBank into a separate entity jointly owned by AgriBank and participating associations. The long-term strategic objective of this initiative is to increase scale, improve operating efficiency, and enhance technology and business services. The proposed service entity will be named SunStream Business Services. An application to form the service entity was submitted to the FCA for approval in May 2017, and the FCA continues its due diligence on the charter request.

REGULATORY MATTERS

Investment Securities Eligibility

In May 2018, the FCA Board approved a final rule to revise the requirements governing the eligibility of investment securities for System Banks and Associations. The new regulation revises the eligibility purpose, type, and amount of investments that a System Association may hold. The regulation is effective January 1, 2019. We are currently working to update policies, procedures, and other documentation to ensure compliance by the effective date. We currently do not have investment securities on our Consolidated Statements of Condition.

CERTIFICATION

The undersigned have reviewed the June 30, 2018, 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.

Steve Perdue
Chairperson of the Board
Farm Credit Services of North Dakota, ACA

Claude Sem
President and Chief Executive Officer
Farm Credit Services of North Dakota, ACA

Kent Huss
Chief Financial Officer
Farm Credit Services of North Dakota, ACA

August 6, 2018

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:	June 30 2018	December 31 2017
ASSETS		
Loans	**$ 1,246,756**	$ 1,198,827
Allowance for loan losses	**3,328**	3,256
Net loans	**1,243,428**	1,195,571
Investment in AgriBank, FCB	**22,294**	22,294
Accrued interest receivable	**12,971**	20,582
Other assets	**20,709**	13,682
Total assets	**$ 1,299,402**	$ 1,252,129
LIABILITIES		
Note payable to AgriBank, FCB	**$ 1,008,145**	$ 972,874
Accrued interest payable	**5,552**	4,331
Deferred tax liabilities, net	**160**	127
Other liabilities	**4,534**	5,194
Total liabilities	**1,018,391**	982,526
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**1,981**	1,997
Unallocated surplus	**279,188**	267,818
Accumulated other comprehensive loss	**(158)**	(212)
Total members' equity	**281,011**	269,603
Total liabilities and members' equity	**$ 1,299,402**	$ 1,252,129

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	**2018**	2017	**2018**	2017
Interest income	**$ 12,906**	$ 11,190	**$ 25,175**	$ 21,684
Interest expense	**5,552**	3,762	**10,384**	6,909
Net interest income	**7,354**	7,428	**14,791**	14,775
Provision for loan losses	**420**	634	**69**	581
Net interest income after provision for loan losses	**6,934**	6,794	**14,722**	14,194
Other income				
Patronage income	**852**	760	**1,639**	1,503
Financially related services income	**2,054**	1,894	**3,605**	3,283
Fee income	**412**	531	**836**	1,041
Allocated insurance reserve accounts distribution	**--**	--	**692**	--
Miscellaneous income, net	**240**	2	**295**	182
Total other income	**3,558**	3,187	**7,067**	6,009
Operating expenses				
Salaries and employee benefits	**3,228**	3,261	**6,305**	6,190
Other operating expenses	**1,859**	1,875	**3,798**	3,766
Total operating expenses	**5,087**	5,136	**10,103**	9,956
Income before income taxes	**5,405**	4,845	**11,686**	10,247
Provision for income taxes	**80**	248	**316**	667
Net income	**$ 5,325**	$ 4,597	**$ 11,370**	$ 9,580
Other comprehensive income				
Employee benefit plans activity	**$ 27**	$ --	**$ 54**	$ --
Total other comprehensive income	**27**	--	**54**	--
Comprehensive income	**$ 5,352**	$ 4,597	**$ 11,424**	$ 9,580

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, 2016	$ 2,039	$ 243,782	$ --	$ 245,821
Net income	--	9,580	--	9,580
Capital stock and participation certificates issued	101	--	--	101
Capital stock and participation certificates retired	(116)	--	--	(116)
Balance at June 30, 2017	$ 2,024	$ 253,362	$ --	$ 255,386
Balance at December 31, 2017	$ 1,997	$ 267,818	$ (212)	$ 269,603
Net income	**--**	**11,370**	**--**	**11,370**
Other comprehensive income	**--**	**--**	**54**	**54**
Capital stock and participation certificates issued	**105**	**--**	**--**	**105**
Capital stock and participation certificates retired	**(121)**	**--**	**--**	**(121)**
Balance at June 30, 2018	**$ 1,981**	**$ 279,188**	**$ (158)**	**$ 281,011**

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 financial condition and consolidated results of operations. Our accounting 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, 2018, are not necessarily indicative of the results to be expected for the year ending December 31, 2018. 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, 2017 (2017 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 Services of North Dakota, ACA (the Association) and its subsidiaries Farm Credit Services of North Dakota, FLCA and Farm Credit Services of North Dakota, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, we generally adopt on the public entity required date to align with other Farm Credit System institutions. For recently issued and adopted accounting pronouncements disclosed, we plan to adopt on the public entity effective date.

Standard and effective date	Description	Adoption status and financial statement impact
In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09 "Revenue from Contracts with Customers." This guidance was effective for public entities on January 1, 2018.	The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this guidance. The guidance sets forth the requirement for new and enhanced disclosures.	We adopted this guidance on January 1, 2018, using the modified retrospective approach, as the majority of the Association's revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial condition, results of operations, equity, or cash flows.
In March 2017, the FASB issued ASU 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." This guidance was effective for public entities on January 1, 2018.	This guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. Specifically, the guidance requires non-service cost components of net benefit cost to be recognized in a non-operating income line item of the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization.	We adopted this guidance on January 1, 2018. Non-service cost components of net benefit cost were reclassified from salaries and employee benefits to other operating expenses on the Statements of Comprehensive Income. The change in classification was not material. There were no changes to the Association's financial condition, cash flows, or financial statement disclosures.
In January 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities." This guidance was effective for public business entities on January 1, 2018.	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial statements.	We adopted this guidance on January 1, 2018. The adoption of this guidance did not impact our financial condition, results of operations or cash flows, but did impact the Association's fair value disclosures.
In February 2016, the FASB issued ASU 2016-02 "Leases." The guidance is effective for public entities in its first quarter of 2019 and early adoption is permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. When this guidance is adopted, a liability for lease obligations and a corresponding right-of-use asset will be recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months.	We have no plans to early adopt this guidance. We are continuing to analyze the impact this guidance will have on the combined financial condition, results of operations, financial statement disclosures, and combined cash flows. We have initiated development and modification of certain procedures to adopt this guidance.

Standard and effective date	Description	Adoption status and financial statement impact
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments – Credit Losses." This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 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 have no plans to early adopt this guidance. We are in the process of reviewing the standard. Significant implementation matters yet to be addressed include system selection, drafting of accounting policies and disclosures, designing processes and controls. We are currently unable to estimate the impact on the financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**June 30, 2018**		December 31, 2017	
	Amount	%	Amount	%
Real estate mortgage	**$ 436,302**	**35.0%**	$ 438,632	36.6%
Production and intermediate-term	**486,462**	**39.0%**	466,813	38.9%
Agribusiness	**219,397**	**17.6%**	197,646	16.5%
Other	**104,595**	**8.4%**	95,736	8.0%
Total	**$ 1,246,756**	**100.0%**	$ 1,198,827	100.0%

The other category is primarily comprised of energy, communication, international, and water and waste water related loans.

Delinquency

Aging Analysis of Loans

(in thousands)

As of June 30, 2018	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	**$ --**	**$ 1,069**	**$ 1,069**	**$ 441,202**	**$ 442,271**	**$ 119**
Production and intermediate-term	**2,072**	**3,151**	**5,223**	**487,346**	**492,569**	**513**
Agribusiness	**--**	**--**	**--**	**220,112**	**220,112**	**--**
Other	**--**	**--**	**--**	**104,775**	**104,775**	**--**
Total	**$ 2,072**	**$ 4,220**	**$ 6,292**	**$ 1,253,435**	**$ 1,259,727**	**$ 632**

As of December 31, 2017	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	$ 643	$ 951	$ 1,594	$ 446,560	$ 448,154	$ --
Production and intermediate-term	3,331	3,547	6,878	470,185	477,063	--
Agribusiness	--	--	--	198,248	198,248	--
Other	--	--	--	95,944	95,944	--
Total	$ 3,974	$ 4,498	$ 8,472	$ 1,210,937	$ 1,219,409	$ --

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:		June 30 2018		December 31 2017
Volume with specific allowance	**$**	**1,920**	$	1,334
Volume without specific allowance		**7,960**		7,339
Total risk loans	**$**	**9,880**	$	8,673
Total specific allowance	**$**	**736**	$	403
For the six months ended June 30		**2018**		2017
Income on accrual risk loans	**$**	**21**	$	30
Income on nonaccrual loans		**164**		107
Total income on risk loans	**$**	**185**	$	137
Average risk loans	**$**	**9,091**	$	7,051

Note: Accruing loans include accrued interest receivable.

We did not have any material commitments to lend additional money to borrowers whose loans were classified as risk loans at June 30, 2018.

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.

We completed TDRs of certain production and intermediate term loans during the six months ended June 30, 2018, and 2017. Our recorded investment in these loans just prior to and immediately following restructuring was $19 thousand and $56 thousand during the six months ended June 30, 2018, and 2017, respectively. The recorded investment of the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off.

The primary types of modification included extension of maturity.

We had TDRs in the production and intermediate-term loan category of $30 thousand and $3 thousand that defaulted during the six months ended June 30, 2018, and 2017, respectively in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:		June 30 2018		December 31 2017
Accrual status:				
Real estate mortgage	**$**	**395**	$	414
Production and intermediate-term		**--**		8
Total TDRs in accrual status	**$**	**395**	$	422
Nonaccrual status:				
Real estate mortgage	**$**	**8**	$	18
Production and intermediate-term		**112**		113
Total TDRs in nonaccrual status	**$**	**120**	$	131
Total TDRs:				
Real estate mortgage	**$**	**403**	$	432
Production and intermediate-term		**112**		121
Total TDRs	**$**	**515**	$	553

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2018.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Six months ended June 30	**2018**	2017
Balance at beginning of period	**$ 3,256**	$ 2,886
Provision for loan losses	**69**	581
Loan recoveries	**56**	85
Loan charge-offs	**(53)**	(62)
Balance at end of period	**$ 3,328**	$ 3,490

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 levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2017 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, 2018, or December 31, 2017.

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 June 30, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 1,243**	**$ 1,243**
	As of December 31, 2017			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 978	$ 978

Valuation Techniques

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses independent appraisals and other 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 6, 2018, 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.