FCS FINANCIAL
Growing Relationships. Creating Opportunities.™
A FARM CREDIT COOPERATIVE

Quarterly Report
March 31, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of FCS Financial, ACA and its subsidiaries, FCS Financial, FLCA and FCS Financial, 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.

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

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FORWARD-LOOKING INFORMATION

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

We are beginning to see a slow recovery from COVID-19, the global public-health crisis that stifled the world-wide economy, decreased liquidity in fixed income and equity markets, significantly increased unemployment levels and disrupted global supply and demand chains. Unemployment in Missouri is down to 4.2 percent which is about 2 percent below the national average and only 1.2 percent higher than our lowest rate since 2017. Currently, nearly 40 percent of Missouri's population has initiated the vaccination.

Due to the environment created by the pandemic, we reevaluated our remote work policy and our technical adaptability. Our business continuity response allowed us to continue to serve our mission while maintaining the health of our employees and operate without loss of key functions due to illness. We did not have any significant changes to internal controls over financial reporting due to working remotely or due to limited staff.

AGRICULTURAL AND ECONOMIC CONDITIONS

Missouri crop operations started 2021 with a sense of cautious optimism based on continued ad hoc government support programs along with strong commodity prices supported by unfavorable weather conditions in South America, solid Chinese demand, and a strong U.S. Dollar which have tightened the stocks-to-use ratio for both corn and soybeans. The University of Missouri Food and Agricultural Policy Research Institute's (FAPRI) most recent outlook forecasts potentially exceeding 6 million acres of soybeans and a steady level of predicted corn planting at 3.4 million acres. In addition, FAPRI predicts a return to normal planting conditions after decreases to total planted acreage due to flooding in 2015 and 2019.

The protein sector continues to face challenges from increased feed costs and supply chain difficulties due to COVID-19 which led to overall tighter margins. However, cattle and hog receipts are expected to increase, although below the peak values realized in 2014. Although fed cattle prices improved, market prices have generally not been sufficient to offset the increased feed costs.

Net farm income is forecasted to decrease in 2021 due to the ad hoc nature of a majority of the 2020 government support for agriculture in response to the pandemic; although 2021 net farm income is forecast to remain above levels seen in 2015-2019 due to increased cash receipts for both crops and livestock.

Farmland values in the Association's territory remain on a stable to positive trend as a result of a combination of factors including an increased demand for both crop and pasture land, low interest rates, and limited supply. Increased interest in real estate may also be driven by ongoing volatility in the stock market and uncertainty regarding the current political climate. Rural and recreational properties have also trended upward because of the low interest rate environment along with an increasing desire for some buyers to move out of or spend time away from more populated metropolitan areas due to the pandemic.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $4.9 billion at March 31, 2021, an increase of $30.8 million from December 31, 2020. The increase was primarily due to continued demand for mortgage loans across most segments of the portfolio partially offset by the seasonal decline in our production and intermediate-term 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 loan forgiveness if qualified under program guidelines. As of March 31, 2021, we had successfully processed $35.3 million in PPP loans for member-owners with primarily production and intermediate-term and agribusiness loans, of which $25.3 million were processed during the first quarter of 2021. We are working with our member-owners gathering documentation and submitting applications for the forgiveness of the PPP loans and $5.0 million has been forgiven as of March 31, 2021.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2020. Adversely classified loans decreased to 2.7% of the portfolio at March 31, 2021, from 2.9% 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 March 31, 2021, $311.0 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**March 31, 2021**	December 31, 2020
Loans:		
Nonaccrual	**$10,914**	$14,928
Accruing restructured	**1,595**	1,508
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**12,509**	16,436
Other property owned	**--**	--
Total risk assets	**$12,509**	$16,436
Total risk loans as a percentage of total loans	**0.3%**	0.3%
Nonaccrual loans as a percentage of total loans	**0.2%**	0.3%
Current nonaccrual loans as a percentage of total nonaccrual loans	**72.1%**	78.9%
Total delinquencies as a percentage of total loans	**0.1%**	0.1%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 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 the payoff of a few larger loans. Nonaccrual loans remained at an acceptable level at March 31, 2021, and December 31, 2020.

Allowance for Loan Losses

The allowance for loan losses is an estimate of inherent 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:	**March 31, 2021**	December 31, 2020
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**154.4%**	112.9%
Total risk loans	**134.7%**	102.5%

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	**$26,356**	$21,911
Return on average assets	**2.1%**	1.9%
Return on average members' equity	**10.7%**	9.5%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the three months ended March 31	**2021**	2020	**Increase (decrease) in net income**
Net interest income	**$29,786**	$26,795	**$2,991**
Non-interest income	**11,377**	7,751	**3,626**
Non-interest expense	**14,698**	12,441	**(2,257)**
Provision for income taxes	**109**	194	**85**
Net income	**$26,356**	$21,911	**$4,445**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the three months ended March 31	**2021 vs 2020**
Changes in volume	**$2,801**
Changes in interest rates	**(184)**
Changes in nonaccrual income and other	**374**
Net change	**$2,991**

Non-Interest Income

The change in non-interest income was primarily due to the increases in fee income and patronage income partially offset by a decrease in Allocated Insurance Reserve Accounts (AIRA) distribution.

Fee Income: The increase from 2020 to 2021 was primarily due to $2.8 million of fees received from SBA for PPP loans originated through March 31, 2021.

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	**$5,462**	$5,172
AgDirect partnership distribution	**342**	328
Other patronage	**135**	--
Total patronage income	**$5,939**	$5,500

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 AIRA distribution received from the Farm Credit System Insurance Corporation (FCSIC) was due to our share of the distribution from AIRA of $860 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 increases in salaries and employee benefits and other operating expenses.

The Farm Credit System insurance expense increased in 2021 primarily due to a higher premium rate charged by Farm Credit System Insurance Corporation (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.

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, 2023. 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 $17.7 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 6 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	**16.8%**	17.4%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**16.8%**	17.4%	6.0%	2.5%	8.5%
Total capital ratio	**17.1%**	17.7%	8.0%	2.5%	10.5%
Permanent capital ratio	**16.8%**	17.4%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**17.6%**	18.3%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.5%**	19.2%	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 10 in our 2020 Annual Report.

CERTIFICATION

The undersigned have reviewed the March 31, 2021, Quarterly Report of FCS Financial, 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.

Kenneth Bergmann
Chairperson of the Board
FCS Financial, ACA

David D. Janish
Chief Executive Officer
FCS Financial, ACA

Starla Harper
Chief Financial Officer
FCS Financial, ACA

May 7, 2021

CONSOLIDATED STATEMENTS OF CONDITION

FCS Financial, ACA
(in thousands)
(Unaudited)

As of:	**March 31, 2021**	December 31, 2020
ASSETS		
Loans	**$4,898,239**	$4,867,415
Allowance for loan losses	**16,851**	16,850
Net loans	**4,881,388**	4,850,565
Investment in AgriBank, FCB	**113,285**	110,034
Accrued interest receivable	**40,030**	44,925
Deferred tax assets, net	**499**	431
Other assets	**76,246**	73,845
Total assets	**$5,111,448**	$5,079,800
LIABILITIES		
Note payable to AgriBank, FCB	**$4,064,361**	$4,039,862
Accrued interest payable	**15,008**	14,745
Patronage distribution payable	**8,693**	30,710
Other liabilities	**30,684**	19,506
Total liabilities	**4,118,746**	4,104,823
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Protected members' equity	**6**	6
Capital stock and participation certificates	**12,224**	12,168
Unallocated surplus	**980,472**	962,803
Total members' equity	**992,702**	974,977
Total liabilities and members' equity	**$5,111,448**	$5,079,800

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

CONSOLIDATED STATEMENTS OF INCOME

FCS Financial, ACA
(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31	**2021**	2020
Interest income	**$44,795**	$49,658
Interest expense	**15,009**	22,863
Net interest income	**29,786**	26,795
Non-interest income		
Patronage income	**5,939**	5,500
Financially related services income	**259**	237
Fee income	**4,932**	861
Allocated Insurance Reserve Accounts distribution	**--**	860
Other non-interest income	**247**	293
Total non-interest income	**11,377**	7,751
Non-interest expense		
Salaries and employee benefits	**8,351**	7,224
Other operating expense	**6,346**	5,217
Other non-interest expense	**1**	--
Total non-interest expense	**14,698**	12,441
Income before income taxes	**26,465**	22,105
Provision for income taxes	**109**	194
Net income	**$26,356**	$21,911

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

FCS Financial, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2019	$6	$11,901	$901,696	$913,603
Net income	--	--	21,911	21,911
Unallocated surplus designated for patronage distributions	--	--	(7,372)	(7,372)
Capital stock and participation certificates issued	--	232	--	232
Capital stock and participation certificates retired	--	(288)	--	(288)
Balance at March 31, 2020	$6	$11,845	$916,235	$928,086
Balance at December 31, 2020	$6	$12,168	$962,803	$974,977
Net income	**--**	**--**	**26,356**	**26,356**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(8,687)**	**(8,687)**
Capital stock and participation certificates issued	**--**	**369**	**--**	**369**
Capital stock and participation certificates retired	**--**	**(313)**	**--**	**(313)**
Balance at March 31, 2021	**$6**	**$12,224**	**$980,472**	**$992,702**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Income. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the three months ended March 31, 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.

The Consolidated Financial Statements present the consolidated financial results of FCS Financial, ACA and its subsidiaries FCS Financial, FLCA and FCS Financial, 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 amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We 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	**$2,999,317**	**61.1%**	$2,928,921	60.2%
Production and intermediate-term	**595,360**	**12.2%**	653,480	13.4%
Agribusiness	**972,530**	**19.9%**	966,288	19.9%
Other	**331,032**	**6.8%**	318,726	6.5%
Total	**$4,898,239**	**100.0%**	$4,867,415	100.0%

The other category is primarily composed of rural infrastructure related loans and other diversified industries in our capital markets portfolio.

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
Real estate mortgage	**$688**	**$359**	**$1,047**	**$3,027,072**	**$3,028,119**
Production and intermediate-term	**1,327**	**273**	**1,600**	**601,670**	**603,270**
Agribusiness	**--**	**1,918**	**1,918**	**973,588**	**975,506**
Other	**--**	**--**	**--**	**331,374**	**331,374**
Total	**$2,015**	**$2,550**	**$4,565**	**$4,933,704**	**$4,938,269**

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	$2,752	$409	$3,161	$2,956,689	$2,959,850
Production and intermediate-term	882	170	1,052	662,998	664,050
Agribusiness	--	1,925	1,925	967,514	969,439
Other	--	--	--	319,001	319,001
Total	$3,634	$2,504	$6,138	$4,906,202	$4,912,340

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at March 31, 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:	**March 31, 2021**	December 31, 2020
Volume with specific allowance	**$2,502**	$2,776
Volume without specific allowance	**10,007**	13,660
Total risk loans	**$12,509**	$16,436
Total specific allowance	**$1,719**	$1,670
For the three months ended March 31	**2021**	2020
Income on accrual risk loans	**$18**	$43
Income on nonaccrual loans	**582**	208
Total income on risk loans	**$600**	$251
Average risk loans	**$13,452**	$17,209

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 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.

TDRs Outstanding

(in thousands) As of:	**March 31, 2021**	December 31, 2020
Accrual status:		
Real estate mortgage	**$1,171**	$1,058
Production and intermediate-term	**424**	450
Agribusiness	**--**	--
Total TDRs in accrual status	**$1,595**	$1,508
Nonaccrual status:		
Real estate mortgage	**$480**	$2,700
Production and intermediate-term	**381**	867
Agribusiness	**1,939**	1,951
Total TDRs in nonaccrual status	**$2,800**	$5,518
Total TDRs:		
Real estate mortgage	**$1,651**	$3,758
Production and intermediate-term	**805**	1,317
Agribusiness	**1,939**	1,951
Total TDRs	**$4,395**	$7,026

There were no material 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	**$16,850**	$17,013
Loan recoveries	**3**	204
Loan charge-offs	**(2)**	(35)
Balance at end of period	**$16,851**	$17,182

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 material assets or liabilities measured at fair value on a recurring basis at March 31, 2021, or December 31, 2020.

Non-Recurring

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

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands)

As of March 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$822**	**$822**

As of December 31, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$1,161	$1,161

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 May 7, 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.