Farm Credit Midsouth, ACA

Quarterly Report
June 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Midsouth, ACA and its subsidiaries Farm Credit Midsouth, FLCA and Farm Credit Midsouth, 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, 2018 (2018 Annual Report).

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

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2018 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

Delayed planting due to excessive rain has been the story for Northeast Arkansas. Flooding on the Mississippi river, along with excessive rainfall have caused some acres to go to preventative planting.

While we had a late start in planting for most of the association's territory, our local branch managers have indicated that those acres planted are looking good for corn and cotton. Early planted rice and soybeans seem to be doing well but later planted acres are struggling to catch up. The weather in Northeast Arkansas has been within normal temperature ranges during the second quarter according to the June 23, 2019 USDA Crop Progress report with the four-week departure from normal being -.1 to .7. According to the June 30, 2019 USDA Crop Progress report, 74% of the corn was silked as compared to the 5-year average of 86%; rice was 100% planted compared to the 5-year average of 100%; soybeans were 93% planted compared to the 5-year average of 97%. According to the USDA Arkansas Acreage report released June 28, 2019, corn acres are up 23% from 2018; cotton acres are up 20% from 2018; rice acreage is down 10% from 2018; soybean acres are down 9% from 2018 and peanut acres are up 19,000 from 2018 levels. Crop prices continue to be fluctuate as the United States and China work out their trade agreements. Offsetting low crop prices was President Trump's announcement of $16 Billion in Aid to farmers due to the prolonged China Trade war.

Delta Peanut is building a shelling operation in Jonesboro, Arkansas for which they are expecting approximately 90,000 tons of peanuts to be processed according to Arkansas Business News June 10, 2019 report. As part of this they are also opening two buying points within the associations' territory. This is a great boost for the agriculture economy in Northeast Arkansas which is highly dependent upon row crop operations. The Farm Credit system will have a significant hand in the financing of these operations and the borrowers' investment in the plant.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $906.6 million at June 30, 2019, an increase of $5.2 million from December 31, 2018. The increase was primarily due to our commercial portfolio, which had normal repayments offset by approximately $55.9 million of new loans for a net increase since year-end of $12.5 million. Our mortgage portfolio also had normal repayments offset by approximately $29.4 million in new loans resulting in a net decrease of $7.3 million.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2018. Adversely classified loans decreased to 2.0% of the portfolio at June 30, 2019, from 4.4% of the portfolio at December 31, 2018. 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, 2019, $7.7 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 2019**	December 31 2018
Loans:		
Nonaccrual	**$ 7,922**	$ 10,594
Accruing restructured	**401**	510
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**8,323**	11,104
Other property owned	**--**	534
Total risk assets	**$ 8,323**	$ 11,638
Total risk loans as a percentage of total loans	**0.9%**	1.2%
Nonaccrual loans as a percentage of total loans	**0.9%**	1.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	**6.0%**	55.7%
Total delinquencies as a percentage of total loans	**1.0%**	1.2%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2018, 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 reinstatements to accrual status and normal repayments. Nonaccrual loans remained at an acceptable level at June 30, 2019, and December 31, 2018.

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 2019**	December 31 2018
Allowance as a percentage of:		
Loans	**0.3%**	0.4%
Nonaccrual loans	**35.7%**	34.8%
Total risk loans	**34.0%**	33.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2019.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30	**2019**	2018
Net income	**$ 8,510**	$ 8,630
Return on average assets	**1.9%**	2.0%
Return on average members' equity	**7.6%**	8.2%

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	2019	2018	Increase (decrease) in net income
Net interest income	$ 12,765	$ 11,993	$ 772
(Reversal of) provision for loan losses	(874)	148	1,022
Patronage income	1,847	1,346	501
Other income, net	595	2,962	(2,367)
Operating expenses	7,343	7,065	(278)
Provision for income taxes	228	458	230
Net income	$ 8,510	$ 8,630	$ (120)

Changes in Net Interest Income

(in thousands) For the six months ended June 30	2019 vs 2018
Changes in volume	$ 435
Changes in interest rates	218
Changes in nonaccrual income and other	119
Net change	$ 772

The change in the (reversal of) provision for loan losses was necessary to reasonably reflect the estimated credit loss in our current loan portfolio.

Patronage Income

(in thousands) For the six months ended June 30	2019	2018
Wholesale patronage:		
Cash	$ 646	$ 1,145
Stock	1,045	--
Pool program patronage	156	201
Total patronage income	$ 1,847	$ 1,346

The change in patronage income from AgriBank was due to multiple factors. Patronage paid by AgriBank is based on the average balance of our note payable which increased $22.8 million since June 30, 2018. Also, the increase was due to AgriBank accruing patronage at 50.6 basis points for the first six months of 2019 compared to 35.0 bps for the same period of 2018. Wholesale patronage may be paid in cash or AgriBank stock. As discussed in our Annual Report, AgriBank will pay patronage in the form of allocated stock as necessary to meet all regulatory capital requirements, while optimizing capital throughout the District. The amount of stock patronage may vary from quarter-to-quarter as AgriBank updates their forecasts for the year, and the final amount of stock patronage will be determined at the end of the year.

The change in other income, net was primarily due to the 2018 reversal of a contingent liability in the amount of $2.0 million dollars. In addition, our share of the Allocated Insurance Reserve Accounts (AIRA) received from the Farm Credit System Insurance Corporation (FCSIC) was $210 thousand in 2019, compared to $519 thousand in 2018. The AIRA was established by FCSIC when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. Refer to the 2018 Annual Report for additional information about the FCSIC.

The change in operating expenses was primarily related to an increase in salaries, furniture/equipment expense, and public and member relations expenses.

The change in provision for income taxes was primarily related to a timing difference between book and tax income.

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 April 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, 2019, or December 31, 2018.

Total members' equity increased $5.2 million from December 31, 2018, primarily due to net income for the period, partially offset by patronage distribution accruals. 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 2018 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 leverage. Refer to Note 6 in our 2018 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**June 30 2019**	December 31 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**21.2%**	19.8%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**21.2%**	19.8%	6.0%	2.5%*	8.5%
Total capital ratio	**21.4%**	20.1%	8.0%	2.5%*	10.5%
Permanent capital ratio	**21.2%**	19.8%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**23.4%**	21.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**23.6%**	21.2%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums is being phased in over three years under the FCA capital requirements. The phase in period ends on December 31, 2019.

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.

CERTIFICATION

The undersigned have reviewed the June 30, 2019, Quarterly Report of Farm Credit Midsouth, 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.

Chris Roberts
Chairman of the Board
Farm Credit Midsouth, ACA

James McJunkins
President and Chief Executive Officer
Farm Credit Midsouth, ACA

Shari J. Wilson
Executive Vice President of Finance, Chief Financial Officer
Farm Credit Midsouth, ACA

August 9, 2019

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

As of:	June 30 2019	December 31 2018
ASSETS		
Loans	**$ 906,603**	$ 901,382
Allowance for loan losses	**2,830**	3,682
Net loans	**903,773**	897,700
Investment in AgriBank, FCB	**19,839**	18,794
Accrued interest receivable	**15,965**	21,209
Other property owned	**--**	534
Deferred tax assets, net	**295**	520
Other assets	**11,445**	12,035
Total assets	**$ 951,317**	$ 950,792
LIABILITIES		
Note payable to AgriBank, FCB	**$ 715,010**	$ 714,589
Accrued interest payable	**4,950**	5,178
Patronage distribution payable	**3,311**	6,500
Other liabilities	**2,425**	4,103
Total liabilities	**725,696**	730,370
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**1,869**	1,895
Unallocated surplus	**223,925**	218,714
Accumulated other comprehensive loss	**(173)**	(187)
Total members' equity	**225,621**	220,422
Total liabilities and members' equity	**$ 951,317**	$ 950,792

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2019**	2018	**2019**	2018
Interest income	**$ 11,456**	$ 10,359	**$ 22,431**	$ 19,886
Interest expense	**4,950**	4,220	**9,666**	7,893
Net interest income	**6,506**	6,139	**12,765**	11,993
Provision for (reversal of) loan losses	**--**	192	**(874)**	148
Net interest income after provision for (reversal of) loan losses	**6,506**	5,947	**13,639**	11,845
Other income				
Patronage income	**1,195**	702	**1,847**	1,346
Financially related services income	**38**	30	**77**	50
Fee income	**310**	222	**426**	317
Allocated Insurance Reserve Accounts distribution	**--**	--	**210**	519
Miscellaneous income (loss), net	**17**	2,020	**(118)**	2,076
Total other income	**1,560**	2,974	**2,442**	4,308
Operating expenses				
Salaries and employee benefits	**2,406**	2,333	**4,805**	4,620
Other operating expenses	**1,288**	1,180	**2,538**	2,445
Total operating expenses	**3,694**	3,513	**7,343**	7,065
Income before income taxes	**4,372**	5,408	**8,738**	9,088
(Benefit from) provision for income taxes	**(159)**	499	**228**	458
Net income	**$ 4,531**	$ 4,909	**$ 8,510**	$ 8,630
Other comprehensive income				
Employee benefit plans activity	**$ 7**	$ 10	**$ 14**	$ 21
Total other comprehensive income	**7**	10	**14**	21
Comprehensive income	**$ 4,538**	$ 4,919	**$ 8,524**	$ 8,651

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2017	$ 2	$ 1,904	$ 206,715	$ (286)	$ 208,335
Net income	--	--	8,630	--	8,630
Other comprehensive income	--	--	--	21	21
Unallocated surplus designated for patronage distributions	--	--	(2,799)	--	(2,799)
Capital stock and participation certificates issued	--	85	--	--	85
Capital stock and participation certificates retired	(2)	(96)	--	--	(98)
Balance at June 30, 2018	$ --	$ 1,893	$ 212,546	$ (265)	$ 214,174
Balance at December 31, 2018	$ --	$ 1,895	$ 218,714	$ (187)	$ 220,422
Net income	**--**	**--**	**8,510**	**--**	**8,510**
Other comprehensive income	**--**	**--**	**--**	**14**	**14**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(3,299)**	**--**	**(3,299)**
Capital stock and participation certificates issued	**--**	**67**	**--**	**--**	**67**
Capital stock and participation certificates retired	**--**	**(93)**	**--**	**--**	**(93)**
Balance at June 30, 2019	**$ --**	**$ 1,869**	**$ 223,925**	**$ (173)**	**$ 225,621**

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 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, 2019, are not necessarily indicative of the results to be expected for the year ending December 31, 2019. 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, 2018 (2018 Annual Report).

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

Recently Issued or Adopted Accounting Pronouncements

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

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 "Leases." In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements." The guidance is effective for public business 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. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019. The adoption of this guidance did not have a material impact on our financial condition, results of operations, and financial statement disclosures, and had no impact on cash flows
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 have reviewed the accounting standard and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include system development and testing, drafting of accounting policies, and designing processes and controls. We are currently unable to estimate the impact on the financial statements

NOTE 2: LOANS ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**June 30, 2019**			December 31, 2018		
		Amount	%		Amount	%
Real estate mortgage	**$**	**484,355**	**53.4%**	$	502,091	55.7%
Production and intermediate-term		**360,093**	**39.7%**		341,894	37.9%
Agribusiness		**60,768**	**6.7%**		56,084	6.2%
Other		**1,387**	**0.2%**		1,313	0.2%
Total	**$**	**906,603**	**100.0%**	$	901,382	100.0%

The other category is primarily comprised of rural residential real estate loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of June 30, 2019**		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less than 30 Days Past Due		Total
Real estate mortgage	**$**	**350**	**$**	**1,569**	**$**	**1,919**	**$**	**490,342**	**$**	**492,261**
Production and intermediate-term		**1,081**		**2,905**		**3,986**		**363,259**		**367,245**
Agribusiness		**291**		**2,974**		**3,265**		**58,405**		**61,670**
Other		**--**		**--**		**--**		**1,392**		**1,392**
Total	**$**	**1,722**	**$**	**7,448**	**$**	**9,170**	**$**	**913,398**	**$**	**922,568**

As of December 31, 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
Real estate mortgage	$	1,428	$	1,569	$	2,997	$	510,420	$	513,417
Production and intermediate-term		4,790		3,067		7,857		342,901		350,758
Agribusiness		--		--		--		57,099		57,099
Other		--		--		--		1,317		1,317
Total	$	6,218	$	4,636	$	10,854	$	911,737	$	922,591

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at June 30, 2019, or December 31, 2018.

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 2019**		December 31 2018
Volume with specific allowance	**$**	**2,836**	$	3,172
Volume without specific allowance		**5,487**		7,932
Total risk loans	**$**	**8,323**	$	11,104
Total specific allowance	**$**	**1,116**	$	1,009
For the six months ended June 30		**2019**		2018
Income on accrual risk loans	**$**	**44**	$	11
Income on nonaccrual loans		**279**		161
Total income on risk loans	**$**	**323**	$	172
Average risk loans	**$**	**10,742**	$	9,353

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, 2019.

Troubled Debt Restructurings (TDRs)

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

There were no TDRs that occurred during the six months ended June 30, 2019, or 2018.

There were no TDRs that defaulted during the six months ended June 30, 2019, or 2018 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding in the Production and intermediate-term Loan Category

(in thousands) As of:	June 30 2019	December 31 2018
TDRs in accrual status	$ 401	$ 510
TDRs in nonaccrual status	42	400
Total TDRs	$ 443	$ 910

There were no commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Six months ended June 30	2019	2018
Balance at beginning of period	$ 3,682	$ 2,593
(Reversal of) provision for loan losses	(874)	148
Loan recoveries	24	23
Loan charge-offs	(2)	--
Balance at end of period	$ 2,830	$ 2,764

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. In 2009, we were named as a counter-defendant based on various lender liability type of theories in an on-going foreclosure lawsuit. On October 26, 2015, the case was heard by a jury, and on November 3, 2015, a verdict was rendered against the Association. We appealed the verdict, and on April 4, 2018, the Arkansas Court of Appeals substantially reversed all of the verdict. The decision of the Arkansas Court of Appeals was subsequently upheld by the Arkansas Supreme Court on June 21, 2018, when the Court denied the defendants' Petition for Review. The judgment on that portion of the verdict that was not reversed has since been paid by the Association. Although some issues remain for resolution this decision effectively ends the lender liability portion of the litigation. We had previously recorded a $2.3 million liability for this lawsuit, of which $2.0 million has been overturned and therefore reversed. The difference is included in "Other liabilities" in the Consolidated Statements of Condition. 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 2018 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, 2019, or December 31, 2018.

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, 2019			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 1,806	$ 1,806
	As of December 31, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 2,272	$ 2,272
Other property owned	--	--	555	555

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 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.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. 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 property and other matters, they are classified as Level 3.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 9, 2019, 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.