Farm Credit Midsouth, ACA

Quarterly Report
March 31, 2018

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, 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:

Farm Credit Midsouth, ACA
3000 Prosperity Drive
Jonesboro, AR 72404
(870) 932-2288
www.farmcreditmidsouth.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

FORWARD-LOOKING INFORMATION

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

Northeast Arkansas saw some rain during the first quarter of 2018 which has delayed planting in some areas. However, the United States Department of Agriculture's Arkansas Crop Progress and Condition reports for March 26, 2018, and April, 2, 2018, indicate that Northeast Arkansas was at or below the 5-year average for rainfall during this time. For the week ending April 1, 2018, topsoil moisture supplies were 65% adequate and 28% surplus, and corn was 24% planted compared to the 5-year average of 22%.

Crop prices have held steady despite the discussion around potential tariffs to be imposed upon China. Arkansas is a major oilseed and grain exporter to China, and any tariffs that would be imposed on imports of these crops by China could have a significant impact on the overall Arkansas economy. A preliminary study by the Department of Agricultural Economics and Agribusiness and the Center for Agricultural and Rural Sustainability at the University of Arkansas dated March 6, 2018, states the following:

> If the value of Arkansas' oilseed and grain sectors each fell by 14% from the 2017 preliminary estimates reported by NASS, the result would be a loss of $243,652,500 in the oilseed farming sector and a $190,931,440 loss in the grain farming sector. It is estimated that these losses could adversely affect Arkansas employment by around 4,438 jobs, reduce labor income by $261 million and reduce overall value-added to the state economy of $383 million.

We are early in the planting cycle and based on customers' reported intentions, we anticipate an increase in corn and rice planting for 2018.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $805.7 million at March 31, 2018, a decrease of $52.6 million from December 31, 2017. The decrease was primarily due to our commercial portfolio, which had normal repayments offset by approximately $23 million in new loan volume, resulting in a net decrease since year-end of $52.4 million. Our mortgage portfolio also had normal repayments offset by approximately $20 million in new loan volume, resulting in a net decrease since year-end of $208 thousand.

Portfolio Credit Quality

The credit quality of our portfolio increased from December 31, 2017. Adversely classified loans decreased to 2.5% of the portfolio at March 31, 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 March 31, 2018, $5.7 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:		**March 31 2018**		December 31 2017
Loans:				
Nonaccrual	**$**	**8,754**	$	9,677
Accruing restructured		**492**		12
Accruing loans 90 days or more past due		**684**		--
Total risk loans		**9,930**		9,689
Other property owned		**11**		40
Total risk assets	**$**	**9,941**	$	9,729
Total risk loans as a percentage of total loans		**1.2%**		1.1%
Nonaccrual loans as a percentage of total loans		**1.1%**		1.1%
Current nonaccrual loans as a percentage of total nonaccrual loans		**5.9%**		82.1%
Total delinquencies as a percentage of total loans		**1.7%**		0.3%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2017, but 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.

The decrease in nonaccrual loans was primarily due to normal repayments and reinstatements to accrual status. Nonaccrual loans remained at an acceptable level at March 31, 2018, and December 31, 2017.

The increase in accruing restructured loans was due to an addition of one loan in our production and intermediate-term loan category.

The increase in accruing loans 90 days or more past due was due to one loan in our production and intermediate-term loan category. 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.

The increase in total delinquencies as a percentage of total loans was primarily due to a majority of our payments being due during the first quarter of the year.

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:	**March 31 2018**	December 31 2017
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**29.1%**	26.8%
Total risk loans	**25.7%**	26.8%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2018.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31		2018		2017
Net income	$	3,721	$	3,139
Return on average assets		1.8%		1.5%
Return on average members' equity		7.1%		6.3%

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 three months ended March 31		2018		2017		(Decrease) increase in net income
Net interest income	$	5,854	$	6,011	$	(157)
(Reversal of) provision for loan losses		(44)		106		150
Patronage income		644		618		26
Other income, net		690		195		495
Operating expenses		3,552		3,280		(272)
(Benefit from) provision for income taxes		(41)		299		340
Net income	$	3,721	$	3,139	$	582

Changes in Net Interest Income

(in thousands) For the three months ended March 31		2018 vs 2017
Changes in volume	$	94
Changes in interest rates		(76)
Changes in nonaccrual income and other		(175)
Net change	$	(157)

The change in other income was primarily due to our share of distributions from Allocated Insurance Reserve Accounts (AIRA) of $519 thousand. These reserve accounts were established in previous years 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 were no distributions in 2017.

The change in operating expenses was primarily related to an increase in purchased services and salaries and employee benefits. This was partially offset by a decrease in FCSIC expense in 2018, primarily due to a lower premium rate charged by FCSIC on accrual loans from 15 basis points in 2017 to 9 basis points in 2018. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

The change in (benefit from) provision for income taxes was primarily due to timing differences.

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 March 31, 2018, or December 31, 2017.

Total members’ equity increased $2.3 million from December 31, 2017, 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 2017 Annual Report for more information on the Pension Restoration Plan.

The Farm Credit Administration (FCA) Regulations require us to maintain a certain level 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:	**March 31 2018**	December 31 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**20.7%**	19.6%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**20.7%**	19.6%	6.0%	2.5%*	8.5%
Total capital ratio	**21.0%**	19.9%	8.0%	2.5%*	10.5%
Permanent capital ratio	**20.8%**	19.7%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**23.2%**	21.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**23.4%**	21.2%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years under the FCA capital requirements.

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.

CERTIFICATION

The undersigned have reviewed the March 31, 2018, 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

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

May 10, 2018

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:		March 31 2018		December 31 2017
ASSETS				
Loans	**$**	**805,665**	$	858,247
Allowance for loan losses		**2,550**		2,593
Net loans		**803,115**		855,654
Investment in AgriBank, FCB		**18,794**		18,794
Accrued interest receivable		**10,240**		16,975
Other property owned		**11**		40
Deferred tax assets, net		**663**		620
Other assets		**8,145**		8,684
Total assets	**$**	**840,968**	$	900,767
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**620,996**	$	677,222
Accrued interest payable		**3,673**		3,883
Patronage distribution payable		**1,400**		5,400
Other liabilities		**4,230**		5,927
Total liabilities		**630,299**		692,432
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Protected members' equity		**2**		2
Capital stock and participation certificates		**1,906**		1,904
Unallocated surplus		**209,037**		206,715
Accumulated other comprehensive loss		**(276)**		(286)
Total members' equity		**210,669**		208,335
Total liabilities and members' equity	**$**	**840,968**	$	900,767

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	
For the period ended March 31	**2018**	2017
Interest income	**$ 9,527**	$ 9,136
Interest expense	**3,673**	3,125
Net interest income	**5,854**	6,011
(Reversal of) provision for loan losses	**(44)**	106
Net interest income after (reversal of) provision for loan losses	**5,898**	5,905
Other income		
Patronage income	**644**	618
Financially related services income	**20**	23
Fee income	**95**	108
Allocated insurance reserve accounts distribution	**519**	--
Miscellaneous income, net	**56**	64
Total other income	**1,334**	813
Operating expenses		
Salaries and employee benefits	**2,287**	2,167
Other operating expenses	**1,265**	1,113
Total operating expenses	**3,552**	3,280
Income before income taxes	**3,680**	3,438
(Benefit from) provision for income taxes	**(41)**	299
Net income	**$ 3,721**	$ 3,139
Other comprehensive income		
Employee benefit plans activity	**$ 10**	$ --
Total other comprehensive income	**10**	--
Comprehensive income	**$ 3,731**	$ 3,139

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, 2016	$ 2	$ 1,994	$ 195,941	$ --	$ 197,937
Net income	--	--	3,139	--	3,139
Unallocated surplus designated for patronage distributions	--	--	(1,074)	--	(1,074)
Capital stock and participation certificates issued	--	38	--	--	38
Capital stock and participation certificates retired	--	(73)	--	--	(73)
Balance at March 31, 2017	$ 2	$ 1,959	$ 198,006	$ --	$ 199,967
Balance at December 31, 2017	$ 2	$ 1,904	$ 206,715	$ (286)	$ 208,335
Net income	**--**	**--**	**3,721**	**--**	**3,721**
Other comprehensive income	**--**	**--**	**--**	**10**	**10**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(1,399)**	**--**	**(1,399)**
Capital stock and participation certificates issued	**--**	**49**	**--**	**--**	**49**
Capital stock and participation certificates retired	**--**	**(47)**	**--**	**--**	**(47)**
Balance at March 31, 2018	**$ 2**	**$ 1,906**	**$ 209,037**	**$ (276)**	**$ 210,669**

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 three months ended March 31, 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).

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 (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 position, 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. The adoption of the guidance did not impact the Association’s financial condition or cash flows, but did change the classification of certain items in the results of operations. The change in classification was not material and did not result in a reclassification on the Statement of Comprehensive Income. There were no changes to the 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.	We have no plans to early adopt this guidance. We have determined after preliminary review, this guidance will not have a material impact on our financial condition, results of operations, and financial statement disclosures, and will have no impact on combined 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 are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands) As of:	March 31, 2018			December 31, 2017		
		Amount	%		Amount	%
Real estate mortgage	**$**	**477,023**	**59.2%**	$	476,739	55.5%
Production and intermediate-term		**270,158**	**33.5%**		323,535	37.7%
Agribusiness		**57,326**	**7.1%**		56,803	6.6%
Other		**1,158**	**0.2%**		1,170	0.2%
Total	**$**	**805,665**	**100.0%**	$	858,247	100.0%

The other category is primarily comprised of rural residential real estate loans and certain assets originated under the mission related investment authority.

Delinquency

Aging Analysis of Loans

(in thousands) **As of March 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		Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$**	**2,983**	**$**	**--**	**$**	**2,983**	**$**	**480,593**	**$**	**483,576**	**$**	**--**
Production and intermediate-term		**5,131**		**3,821**		**8,952**		**264,220**		**273,172**		**684**
Agribusiness		**293**		**1,612**		**1,905**		**56,091**		**57,996**		**--**
Other		**--**		**--**		**--**		**1,161**		**1,161**		**--**
Total	**$**	**8,407**	**$**	**5,433**	**$**	**13,840**	**$**	**802,065**	**$**	**815,905**	**$**	**684**

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	$	--	$	--	$	--	$	486,439	$	486,439	$	--
Production and intermediate-term		1,250		129		1,379		328,596		329,975		--
Agribusiness		--		1,606		1,606		56,028		57,634		--
Other		--		--		--		1,174		1,174		--
Total	$	1,250	$	1,735	$	2,985	$	872,237	$	875,222	$	--

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:		March 31 2018		December 31 2017
Volume with specific allowance	**$**	**5,662**	$	5,674
Volume without specific allowance		**4,268**		4,015
Total risk loans	**$**	**9,930**	$	9,689
Total specific allowance	**$**	**780**	$	786
For the three months ended March 31		**2018**		2017
Income on accrual risk loans	**$**	**5**	$	2
Income on nonaccrual loans		**137**		312
Total income on risk loans	**$**	**142**	$	314
Average risk loans	**$**	**9,740**	$	7,253

Note: Accruing loans include accrued interest receivable.

We had no commitments to lend additional money to borrowers whose loans were classified as risk loans at March 31, 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.

There were no TDRs that occurred during the three months ended March 31, 2018, or 2017.

There were no TDRs that defaulted during the three months ended March 31, 2018, in which the modifications were within twelve months of the respective reporting period. We had TDRs in the production and intermediate-term loan category of $589 thousand that defaulted during the three months ended March 31, 2017, in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding in the Production and Intermediate-Term Loan Category

(in thousands) As of:	**March 31** **2018**	December 31 2017
TDRs in accrual status	**$ 492**	$ 12
TDRs in nonaccrual status	**646**	1,296
Total TDRs	**$ 1,138**	$ 1,308

There were no commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2018.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Three months ended March 31	**2018**	2017
Balance at beginning of period	**$ 2,593**	$ 1,634
(Reversal of) provision for loan losses	**(44)**	106
Loan recoveries	**1**	1
Loan charge-offs	**--**	(362)
Balance at end of period	**$ 2,550**	$ 1,379

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 in an on-going lawsuit. On October 26, 2015, the case was heard by a jury, and on November 3, 2015, a verdict was issued against the Association. We subsequently appealed the verdict, and on April 4, 2018, the Arkansas Court of Appeals reversed nearly all claims. At this time, we are not reversing any of the recorded liability since the plaintiff has filed a Petition for Rehearing before the Arkansas Court of Appeals and a Petition for Review before the Arkansas Supreme Court. As of March 31, 2018, the total liability recorded for this matter was $2.3 million. This amount is included in "Other liabilities" in the Consolidated Statements of Condition. We recorded $192 thousand of loss contingency related to this matter in 2017 and none so far in 2018. These amounts are included in "Miscellaneous income, net" in the Consolidated Statements of Comprehensive Income. As additional information becomes available, the potential liability related to the pending litigation will be assessed and estimates will be revised as necessary. At the date of these Consolidated Financial Statements, our management team was not aware of any other 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 March 31, 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 March 31, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 5,126**	**$ 5,126**
Other property owned	**--**	**--**	**11**	**11**
	As of December 31, 2017			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 5,132	$ 5,132
Other property owned	--	--	42	42

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.

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 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 property and other matters, they are classified as Level 3.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 10, 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.