Farm Credit Midsouth, ACA

Quarterly Report
March 31, 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

Northeast Arkansas has seen cooler than normal temperatures combined with rain during the first quarter, which has delayed planting in some areas. While the crop conditions reports for March 17, 2019, and April 1, 2019, indicate that northeast Arkansas is at or slightly above the four-week departure from normal. For the week ending April 1, 2019, topsoil moisture supplies were 77% adequate and 22% surplus, according to the USDA Arkansas Crop Progress and Condition report. This report also shows that corn is 13% planted compared to the 5-year average of 20%.

The University of Arkansas Planted Acres projection as of March 2019 shows a decline in soybeans and long-grain rice planting over 2018 with offsetting increases in corn and cotton for the area. The USDA Commodity Price Outlook report for 2019 projects soybeans to average $8.80, long-grain rice at $4.86, medium grain rice at $5.45, corn at $3.65, and cotton at $0.67. The majority of the price projections show an increase over 2018 levels. China has been a major purchaser of soybeans, as trade talks approach a year in the making there is hope on the horizon that an agreement will be made soon.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $841.7 million at March 31, 2019, a decrease of $59.7 million from December 31, 2018. This decrease was primarily due to our commercial portfolio, which had normal repayments offset by approximately $33.2 million of new loan money for a net decrease from December 31, 2018 of $51.7 million. Our mortgage portfolio also had normal repayments offset by approximately $12.5 million in new loans resulting in a net decrease of $8 million.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2018. Adversely classified loans decreased to 3.0% of the portfolio at March 31, 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 March 31, 2019, $6.2 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 2019	December 31 2018
Loans:		
Nonaccrual	$ 9,885	$ 10,594
Accruing restructured	396	510
Accruing loans 90 days or more past due	1,940	--
Total risk loans	12,221	11,104
Other property owned	279	534
Total risk assets	$ 12,500	$ 11,638
Total risk loans as a percentage of total loans	1.4%	1.2%
Nonaccrual loans as a percentage of total loans	1.2%	1.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	6.7%	55.7%
Total delinquencies as a percentage of total loans	2.0%	1.2%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2018, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The decrease in nonaccrual loans was primarily due to reinstatements to accrual status and normal repayments. Nonaccrual loans remained at an acceptable level at March 31, 2019, and December 31, 2018.

As of year-end, there were no accruing loans 90 days or more past due; however, as of March 31, 2019, there were 5 loans totaling $1.9 million. These loans were all adequately collateralized and in the process of collection. 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 the 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 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:	March 31 2019	December 31 2018
Allowance as a percentage of:		
Loans	0.3%	0.4%
Nonaccrual loans	28.6%	34.8%
Total risk loans	23.1%	33.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2019.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31	2019	2018
Net income	$ 3,979	$ 3,721
Return on average assets	1.8%	1.8%
Return on average members' equity	7.2%	7.1%

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	2019	2018	Increase (decrease) in net income
Net interest income	**$ 6,259**	$ 5,854	**$ 405**
Reversal of loan losses	**(874)**	(44)	**830**
Patronage income	**652**	644	**8**
Other income, net	**230**	690	**(460)**
Operating expenses	**3,649**	3,552	**(97)**
Provision for (benefit from) income taxes	**387**	(41)	**(428)**
Net income	**$ 3,979**	$ 3,721	**$ 258**

Changes in Net Interest Income

(in thousands) For the three months ended March 31	2019 vs 2018
Changes in volume	**$ 305**
Changes in interest rates	**105**
Changes in nonaccrual income and other	**(5)**
Net change	**$ 405**

The change in the reversal of loan losses was necessary to reasonably reflect the estimated credit loss in our loan portfolio.

Patronage Income

(in thousands) For the three months ended March 31	2019	2018
Wholesale patronage	**$ 564**	$ 532
Pool program patronage	**88**	112
Total patronage income	**$ 652**	$ 644

The change in other income, net was primarily due to our share of the Allocated Insurance Reserve Accounts (AIRA) received from the Farm Credit System Insurance Corporation (FCSIC) of $210 thousand in 2019, compared to $519 thousand in 2018. The Association recorded an expected loss on Acquired Property, which offset the amount received from the FCSIC refund. 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 expense.

The change in provision for (benefit from) 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 March 31, 2019, or December 31, 2018.

Total members' equity increased $2.3 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:	**March 31 2019**	December 31 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**20.9%**	19.8%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**20.9%**	19.8%	6.0%	2.5%*	8.5%
Total capital ratio	**21.3%**	20.1%	8.0%	2.5%*	10.5%
Permanent capital ratio	**21.0%**	19.8%	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 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 March 31, 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

May 10, 2019

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:	March 31 2019	December 31 2018
ASSETS		
Loans	**$ 841,660**	$ 901,382
Allowance for loan losses	**2,829**	3,682
Net loans	**838,831**	897,700
Investment in AgriBank, FCB	**18,794**	18,794
Accrued interest receivable	**13,271**	21,209
Other property owned	**279**	534
Deferred tax assets, net	**160**	520
Other assets	**11,040**	12,035
Total assets	**$ 882,375**	$ 950,792
LIABILITIES		
Note payable to AgriBank, FCB	**$ 650,589**	$ 714,589
Accrued interest payable	**4,716**	5,178
Patronage distribution payable	**1,650**	6,500
Other liabilities	**2,689**	4,103
Total liabilities	**659,644**	730,370
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**1,867**	1,895
Unallocated surplus	**221,044**	218,714
Accumulated other comprehensive loss	**(180)**	(187)
Total members' equity	**222,731**	220,422
Total liabilities and members' equity	**$ 882,375**	$ 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	
For the period ended March 31	**2019**	2018
Interest income	**$ 10,975**	$ 9,527
Interest expense	**4,716**	3,673
Net interest income	**6,259**	5,854
Provision for (reversal of) loan losses	**(874)**	(44)
Net interest income after provision for (reversal of) loan losses	**7,133**	5,898
Other income		
Patronage income	**652**	644
Financially related services income	**39**	20
Fee income	**116**	95
Allocated Insurance Reserve Accounts distribution	**210**	519
Miscellaneous (loss) income, net	**(135)**	56
Total other income	**882**	1,334
Operating expenses		
Salaries and employee benefits	**2,399**	2,287
Other operating expenses	**1,250**	1,265
Total operating expenses	**3,649**	3,552
Income before income taxes	**4,366**	3,680
Provision for (benefit from) income taxes	**387**	(41)
Net income	**$ 3,979**	$ 3,721
Other comprehensive income		
Employee benefit plans activity	**$ 7**	$ 10
Total other comprehensive income	**7**	10
Comprehensive income	**$ 3,986**	$ 3,731

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	--	--	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
Balance at December 31, 2018	$ --	$ 1,895	$ 218,714	$ (187)	$ 220,422
Net income	**--**	**--**	**3,979**	**--**	**3,979**
Other comprehensive income	**--**	**--**	**--**	**7**	**7**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(1,649)**	**--**	**(1,649)**
Cumulative effect of change in accounting principle	**--**	**--**	**--**	**--**	**--**
Capital stock and participation certificates issued	**--**	**35**	**--**	**--**	**35**
Capital stock and participation certificates retired	**--**	**(63)**	**--**	**--**	**(63)**
Balance at March 31, 2019	**$ --**	**$ 1,867**	**$ 221,044**	**$ (180)**	**$ 222,731**

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 three months ended March 31, 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. When this guidance is adopted, a liability for lease obligations and a corresponding right-of-use asset will be recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. 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 AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:		**March 31, 2019**			December 31, 2018	
		Amount	%		Amount	%
Real estate mortgage	**$**	**494,465**	**58.7%**	$	502,091	55.7%
Production and intermediate-term		**291,719**	**34.7%**		341,894	37.9%
Agribusiness		**54,095**	**6.4%**		56,084	6.2%
Other		**1,381**	**0.2%**		1,313	0.2%
Total	**$**	**841,660**	**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 March 31, 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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 4,909**	**$ 1,569**	**$ 6,478**	**$ 495,582**	**$ 502,060**	**$ --**
Production and intermediate-term	**2,508**	**5,017**	**7,525**	**288,873**	**296,398**	**1,940**
Agribusiness	**610**	**2,738**	**3,348**	**51,739**	**55,087**	**--**
Other	**--**	**--**	**--**	**1,386**	**1,386**	**--**
Total	**$ 8,027**	**$ 9,324**	**$ 17,351**	**$ 837,580**	**$ 854,931**	**$ 1,940**

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	Accruing Loans 90 Days or More Past Due
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.

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 2019**	December 31 2018
Volume with specific allowance	**$ 2,824**	$ 3,172
Volume without specific allowance	**9,397**	7,932
Total risk loans	**$ 12,221**	$ 11,104
Total specific allowance	**$ 1,069**	$ 1,009
For the three months ended March 31	**2019**	2018
Income on accrual risk loans	**$ 36**	$ 5
Income on nonaccrual loans	**131**	137
Total income on risk loans	**$ 167**	$ 142
Average risk loans	**$ 12,482**	$ 9,740

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 March 31, 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 three months ended March 31, 2019, or 2018.

There were no TDRs that defaulted during the three months ended March 31, 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:		March 31 2019		December 31 2018
TDRs in accrual status	$	**396**	$	510
TDRs in nonaccrual status		**398**		400
Total TDRs	$	**794**	$	910

There were no commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Three months ended March 31		2019		2018
Balance at beginning of period	$	**3,682**	$	2,593
(Reversal of) provision for loan losses		**(874)**		(44)
Loan recoveries		**23**		1
Loan charge-offs		**(2)**		--
Balance at end of period	$	**2,829**	$	2,550

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. 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 March 31, 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 March 31, 2019							
	Fair Value Measurement Using							Total Fair
		Level 1		Level 2		Level 3		Value
Impaired loans	$	**--**	$	**--**	$	**1,843**	$	**1,843**
Other property owned		**--**		**--**		**290**		**290**

	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 May 10, 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.