Quarterly Report
June 30, 2019

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, 2018.

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

Weather has been the dominant issue in Missouri agricultural during the first half of 2019. Specifically, above average rainfall and flooding along the state's rivers have created challenges for many of the state's crop farmers. As of the third week of June, the United States Department of Agriculture weekly crop progress estimates reported Missouri corn planted acres at 92% complete, versus the prior five-year average of 99%. For soybeans, planting was 66% complete, versus 87% for the prior five-year average. Condition of the crops has also been impacted with 28% of corn and 36% of soybean crops rated "Good" or better, compared to 77% and 73%, respectively, for the 18 key crop-producing states last year.

The wet weather conditions across the state generally provided for abundant production of pasture and the first cutting hay crop. However, there were challenges in getting hay harvested in a timely manner resulting in some lower quality.

Given the wet conditions impacting most of the key Midwest crop producing states during spring planting season, commodity prices for the Association's major crops (corn and soybeans) increased through mid-year as compared to pre-planting price levels. Crop producers, however, face price concerns with the uncertain impacts from global feedstuff demand due to swine health issues in China and other Asian countries as well as tariff concerns. Protein demand supporting United States meat exports has been steady for beef, chicken, and pork. However, meat prices, as reported by the Chicago Mercantile Exchange, generally saw lower price levels during the second quarter of 2019.

Land sales in the state have experienced varied results depending on the type and location of the property. Tracts with pasture, recreational, or rural lifestyle attributes, especially if located close to a population center, have shown strengthened levels of demand, sales activity and price appreciation. Acreage tracts that are predominantly crop land have seen a steady to slower rate of activity as compared to recent years. The limited supply of crop land coming on the market has generally been met by a stable level of buyer interest that has resulted in steady crop land sale values. This has been especially true for higher quality crop tracts. Poorer quality crop tracts have seen a lower level of demand, creating the potential for lower sale values compared to the last several years.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $4.2 billion at June 30, 2019, an increase of $112.7 million from December 31, 2018. The increase was primarily due to continued demand for mortgage loans across most segments of the portfolio and a slower repayment rate.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2018. Adversely classified loans increased to 3.2% of the portfolio at June 30, 2019, from 2.1% 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, $243.2 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30 2019**	December 31 2018
Loans:		
Nonaccrual	**$13,982**	$7,850
Accruing restructured	**1,043**	1,151
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**15,025**	9,001
Other property owned	**--**	258
Total risk assets	**$15,025**	$9,259
Total risk loans as a percentage of total loans	**0.4%**	0.2%
Nonaccrual loans as a percentage of total loans	**0.3%**	0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans	**83.0%**	91.8%
Total delinquencies as a percentage of total loans	**0.2%**	0.1%

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 increase in nonaccrual loans was primarily due to the net effect of two larger loans from the commercial farmer segment that transferred to nonaccrual, offset by paydowns and payoffs. 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 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:	**June 30 2019**	December 31 2018
Allowance as a percentage of:		
Loans	**0.4%**	0.4%
Nonaccrual loans	**112.9%**	203.4%
Total risk loans	**105.1%**	177.4%

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	**$40,009**	$36,784
Return on average assets	**1.9%**	1.9%
Return on average members' equity	**9.2%**	9.0%

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	**$52,177**	$48,404	**$3,773**
Patronage income	**9,982**	7,166	**2,816**
Other income, net	**2,697**	4,213	**(1,516)**
Operating expenses	**24,802**	23,016	**(1,786)**
Provision for (benefit from) income taxes	**45**	(17)	**(62)**
Net income	**$40,009**	$36,784	**$3,225**

Changes in Net Interest Income

(in thousands) For the six months ended June 30	**2019 vs 2018**
Changes in volume	**$3,649**
Changes in interest rates	**395**
Changes in nonaccrual income and other	**(271)**
Net change	**$3,773**

Patronage Income

(in thousands) For the six months ended June 30	**2019**	2018
Wholesale patronage:		
Cash	**$3,143**	$5,405
Stock	**5,256**	--
Pool program patronage	**1,049**	1,440
AgDirect partnership distribution	**534**	321
Total patronage income	**$9,982**	$7,166

The increase in patronage income was primarily due to an increase in wholesale patronage. In total wholesale patronage increased primarily as a result of a higher patronage rate for the first six months of 2019 compared to the same period of 2018. Wholesale patronage may be paid in cash or AgriBank stock. All pool program patronage and AgDirect partnership distributions are paid in cash.

The change in other income, net was primarily due to our share of the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) of $879 thousand in 2019, compared to $2.1 million 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 and benefits expense.

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 December 31, 2021, 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 $27.2 million from December 31, 2018, 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 7 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	**17.9%**	18.4%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**17.9%**	18.4%	6.0%	2.5%*	8.5%
Total capital ratio	**18.3%**	18.8%	8.0%	2.5%*	10.5%
Permanent capital ratio	**18.0%**	18.5%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**18.9%**	19.3%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.5%**	19.9%	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.

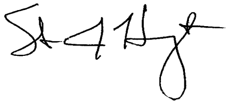
The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

CERTIFICATION

The undersigned have reviewed the June 30, 2019, Quarterly Report of 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



Steve Harrington
Chief Financial Officer
FCS Financial, ACA

August 9, 2019

CONSOLIDATED STATEMENTS OF CONDITION

FCS Financial, ACA
(in thousands)
(Unaudited)

As of:	**June 30 2019**	December 31 2018
ASSETS		
Loans	**$4,188,612**	$4,075,933
Allowance for loan losses	**15,789**	15,966
Net loans	**4,172,823**	4,059,967
Investment in AgriBank, FCB	**91,794**	83,006
Accrued interest receivable	**47,086**	45,027
Other property owned	**--**	258
Deferred tax assets, net	**983**	1,028
Other assets	**57,849**	64,602
Total assets	**$4,370,535**	$4,253,888
LIABILITIES		
Note payable to AgriBank, FCB	**$3,433,421**	$3,330,133
Accrued interest payable	**24,303**	21,775
Patronage distribution payable	**12,750**	24,010
Other liabilities	**13,658**	18,795
Total liabilities	**3,484,132**	3,394,713
Contingencies and commitments (Note 4)		
MEMBERS' EQUITY		
Protected members' equity	**7**	8
Capital stock and participation certificates	**11,900**	11,933
Unallocated surplus	**874,496**	847,234
Total members' equity	**886,403**	859,175
Total liabilities and members' equity	**$4,370,535**	$4,253,888

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		Six Months Ended	
For the period ended June 30	**2019**	2018	**2019**	2018
Interest income	**$50,514**	$43,737	**$99,679**	$85,780
Interest expense	**24,306**	19,580	**47,502**	37,376
Net interest income	**26,208**	24,157	**52,177**	48,404
Other income				
Patronage income	**6,384**	3,677	**9,982**	7,166
Financially related services income	**73**	145	**353**	439
Fee income	**636**	725	**1,292**	1,400
Allocated Insurance Reserve Accounts distribution	**--**	--	**879**	2,136
Miscellaneous income, net	**16**	35	**173**	238
Total other income	**7,109**	4,582	**12,679**	11,379
Operating expenses				
Salaries and employee benefits	**7,017**	6,952	**14,809**	13,855
Other operating expenses	**4,980**	4,750	**9,993**	9,161
Total operating expenses	**11,997**	11,702	**24,802**	23,016
Income before income taxes	**21,320**	17,037	**40,054**	36,767
(Benefit from) provision for income taxes	**(77)**	57	**45**	(17)
Net income	**$21,397**	$16,980	**$40,009**	$36,784

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, 2017	$8	$12,231	$789,516	$801,755
Net income	--	--	36,784	36,784
Unallocated surplus designated for patronage distributions	--	--	(11,444)	(11,444)
Capital stock and participation certificates issued	--	434	--	434
Capital stock and participation certificates retired	--	(657)	--	(657)
Balance at June 30, 2018	$8	$12,008	$814,856	$826,872
Balance at December 31, 2018	$8	$11,933	$847,234	$859,175
Net income	**--**	**--**	**40,009**	**40,009**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(12,747)**	**(12,747)**
Capital stock and participation certificates issued	**--**	**500**	**--**	**500**
Capital stock and participation certificates retired	**(1)**	**(533)**	**--**	**(534)**
Balance at June 30, 2019	**$7**	**$11,900**	**$874,496**	**$886,403**

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 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.

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

Significant Accounting Policies

Leases: We are the lessee in operating leases. We evaluate arrangements at inception to determine if it is a lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet with lease expense recognized on a straight-line basis over the lease term. For operating leases with terms greater than 12 months the right-of-use (ROU) assets are included in “Other assets” in the Consolidated Statements of Condition and the lease liabilities are included in “Other liabilities” in the Consolidated Statements of Condition.

The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease. The length of the lease term is modified to include the option when it is reasonably certain that we will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term.

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 August 2018, the FASB issued ASU 2018-15 “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract.” The guidance is effective for our first quarter of 2020 and early adoption is permitted.	The guidance clarifies that implementation costs incurred in a hosting arrangement that is a service contract should be accounted for in the same manner as implementation costs incurred to develop or obtain internal-use software.	We are in the process of reviewing the accounting standard. Based on our preliminary review and analysis, this new guidance is not expected to have a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures.

Standard and effective date	Description	Adoption status and financial statement impact
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments – Credit Losses." This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We have no plans to early adopt this guidance. We have reviewed the accounting standard, selected our system, 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:	**June 30, 2019**		December 31, 2018	
	Amount	%	Amount	%
Real estate mortgage	**$2,430,603**	**58.0%**	$2,342,822	57.5%
Production and intermediate-term	**652,033**	**15.6%**	671,044	16.5%
Agribusiness	**840,719**	**20.1%**	820,552	20.1%
Other	**265,257**	**6.3%**	241,515	5.9%
Total	**$4,188,612**	**100.0%**	$4,075,933	100.0%

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

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	**$1,885**	**$506**	**$2,391**	**$2,458,145**	**$2,460,536**
Production and intermediate-term	**2,706**	**888**	**3,594**	**660,837**	**664,431**
Agribusiness	**645**	**53**	**698**	**844,208**	**844,906**
Other	**108**	**2**	**110**	**265,715**	**265,825**
Total	**$5,344**	**$1,449**	**$6,793**	**$4,228,905**	**$4,235,698**

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	$1,349	$180	$1,529	$2,368,760	$2,370,289
Production and intermediate-term	1,278	175	1,453	682,614	684,067
Agribusiness	252	--	252	824,431	824,683
Other	224	--	224	241,697	241,921
Total	$3,103	$355	$3,458	$4,117,502	$4,120,960

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	**$5,346**	$2,547
Volume without specific allowance	**9,679**	6,454
Total risk loans	**$15,025**	$9,001
Total specific allowance	**$2,354**	$874
For the six months ended June 30	**2019**	2018
Income on accrual risk loans	**$32**	$32
Income on nonaccrual loans	**212**	483
Total income on risk loans	**$244**	$515
Average risk loans	**$9,711**	$7,857

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.

TDR Activity

(in thousands) Six months ended June 30	2018	
	Pre-modification	Post-modification
Real estate mortgage	$746	$746
Production and intermediate-term	21	21
Agribusiness	82	82
Total	$849	$849

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment in the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary types of modification included deferral of principal and extension of maturity.

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 thousands) As of:	June 30 2019	December 31 2018
Accrual status:		
Real estate mortgage	**$640**	$527
Production and intermediate-term	**403**	624
Agribusiness	**--**	--
Total TDRs in accrual status	**$1,043**	$1,151
Nonaccrual status:		
Real estate mortgage	**$1,232**	$1,725
Production and intermediate-term	**630**	503
Agribusiness	**59**	116
Total TDRs in nonaccrual status	**$1,921**	$2,344
Total TDRs:		
Real estate mortgage	**$1,872**	$2,252
Production and intermediate-term	**1,033**	1,127
Agribusiness	**59**	116
Total TDRs	**$2,964**	$3,495

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	**$15,966**	$15,915
Loan recoveries	**138**	175
Loan charge-offs	**(315)**	(63)
Balance at end of period	**$15,789**	$16,027

NOTE 3: OTHER INVESTMENTS

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Our total commitment is $8.0 million with varying commitment end dates through November 2023. Certain commitments may have an option to extend under certain circumstances. Our investment in the RBICs are recorded in “Other assets” in the Consolidated Statements of Condition, and totaled $1.7 million at June 30, 2019, and $555 thousand at December 31, 2018.

The investments were evaluated for impairment. No investments were impaired as of June 30 2019, and December 31, 2018.

NOTE 4: 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 5: 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	**$ --**	**$ --**	**$3,142**	**$3,142**
Other property owned	**--**	**--**	**--**	**--**

	As of December 31, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$1,757	$1,757
Other property owned	--	--	268	268

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 6: 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.