Farm Credit Illinois, 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 Illinois, ACA and its subsidiaries Farm Credit Illinois, FLCA and Farm Credit Illinois, 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:

Farm Credit Illinois, ACA
1100 Farm Credit Drive
Mahomet, IL 61853
(217) 590-2200
www.farmcreditIL.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 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

The United States Department of Agriculture's (USDA) World Agricultural Supply and Demand Estimates report released March 8, 2019, projected lower use and higher ending stocks for corn. The midpoint season-average farm price for corn is $3.55 per bushel, up $0.25 per bushel from this time last year and down from $3.60 in December. The report projects higher crush and lower ending stocks for soybeans compared to last month's report. The estimated midpoint season-average price for soybeans is $8.60, unchanged from December and down from $9.30 at this time last year.

According to the March 29, 2019, USDA Prospective Plantings report, corn acres are expected to be up 4% from last year with soybean acreage down 5% nationwide. In Illinois, total acres planted are projected to be down slightly from the 2018 projection, with corn acres up 2% and soybean acres down less than 3% from last year. Across the Midwest, the first quarter of 2019 was one of the top 10 wettest quarters on record. This included our territory, as another wet March has led to area flooding. Central and Southern Illinois have seen above average rainfall with very few days suitable for fieldwork.

According to survey results from the 2019 Illinois Farmland Values and Lease Trends publication provided by the Illinois Society of Farm Managers and Rural Appraisers, the Illinois agricultural economy remains in a holding pattern. Cash rents in Illinois are projected to be very slightly lower again in 2019 but stable on the better land. Land values and returns are expected to be stable for the year. Farm operators continue to be the primary buyers in most of our market area.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $4.1 billion at March 31, 2019, a decrease of $92.1 million from December 31, 2018. The decrease was primarily due to our commercial volume, which was down due to seasonal paydowns of our operating loans.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2018. Adversely classified loans decreased to 2.5% of the portfolio at March 31, 2019, from 2.6% 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.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:		**March 31** **2019**		December 31 2018
Loans:				
Nonaccrual	**$**	**6,805**	$	6,635
Accruing restructured		**42**		67
Accruing loans 90 days or more past due		**355**		--
Total risk loans		**7,202**		6,702
Other property owned		**--**		--
Total risk assets	**$**	**7,202**	$	6,702
Total risk loans as a percentage of total loans		**0.2%**		0.2%
Nonaccrual loans as a percentage of total loans		**0.2%**		0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans		**55.7%**		51.0%
Total delinquencies as a percentage of total loans		**0.4%**		0.4%

Note: Accruing loans include accrued interest receivable.

Nonaccrual loans remained at an acceptable level at March 31, 2019, and December 31, 2018.

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.

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	**0.2%**	0.2%
Nonaccrual loans	**120.1%**	132.6%
Total risk loans	**113.4%**	131.3%

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	**$**	**16,539**	$	19,533
Return on average assets		**1.5%**		1.9%
Return on average members' equity		**6.7%**		8.4%

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		(Decrease) increase in net income
Net interest income	$	**23,201**	$	24,351	$	**(1,150)**
(Reversal of) provision for loan losses		**(635)**		1,614		**2,249**
Patronage income		**4,869**		4,558		**311**
Other income, net		**3,322**		4,687		**(1,365)**
Operating expenses		**14,838**		13,028		**(1,810)**
Provision for (benefit from) income taxes		**650**		(579)		**(1,229)**
Net income	$	**16,539**	$	19,533	$	**(2,994)**

Changes in Net Interest Income

(in thousands) For the three months ended March 31		2019 vs 2018
Changes in volume	$	**896**
Changes in interest rates		**(2,003)**
Changes in nonaccrual income and other		**(43)**
Net change	$	**(1,150)**

The change in the (reversal of) provision for loan losses was primarily due to lower volume in our short-term operating and equipment portfolio due to seasonal paydowns as well as an upgraded loss given default classification of a large relationship. This was partially offset by our long-term real estate portfolio which had an increase in volume and some downgrades in credit classifications, including a capital markets relationship involving three electric cooperative loans that were downgraded during the quarter.

Patronage Income

(in thousands) For the three months ended March 31		2019		2018
Wholesale patronage	$	**2,773**	$	2,692
Pool program patronage		**1,811**		1,604
AgDirect partnership distribution		**285**		262
Total patronage income	$	**4,869**	$	4,558

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 $939 thousand in 2019, compared to $2.3 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 purchased services due to monthly fees paid to Farm Credit Financial Partners, Inc.

The change in provision for (benefit from) income taxes was primarily related to our estimate of taxes based on taxable 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 July 31, 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. At March 31, 2019, gross loans are funded 79.6% by the direct note and 20.4% by 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 $16.5 million from December 31, 2018, primarily due to net income for the period. 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 9 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 7 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	**19.3%**	18.9%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**19.3%**	18.9%	6.0%	2.5%*	8.5%
Total capital ratio	**19.5%**	19.2%	8.0%	2.5%*	10.5%
Permanent capital ratio	**19.4%**	19.0%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**20.6%**	20.3%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**22.2%**	21.6%	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 Illinois, 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.

Eric J. Mosbey
Chairperson of the Board
Farm Credit Illinois, ACA

Thomas H. Tracy
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Loschen
Chief Financial Officer
Farm Credit Illinois, ACA

May 10, 2019

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:	March 31 2019	December 31 2018
ASSETS		
Loans	**$ 4,100,911**	$ 4,193,053
Allowance for loan losses	**8,170**	8,798
Net loans	**4,092,741**	4,184,255
Investment in AgriBank, FCB	**109,647**	109,647
Accrued interest receivable	**46,744**	54,569
Deferred tax assets, net	**455**	1,120
Other assets	**52,545**	66,072
Total assets	**$ 4,302,132**	$ 4,415,663
LIABILITIES		
Note payable to AgriBank, FCB	**$ 3,262,437**	$ 3,387,272
Accrued interest payable	**22,590**	22,244
Patronage distribution payable	**20,000**	20,000
Other liabilities	**9,070**	14,597
Total liabilities	**3,314,097**	3,444,113
Contingencies and commitments (Note 4)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**7,466**	7,554
Unallocated surplus	**981,244**	964,705
Accumulated other comprehensive loss	**(675)**	(709)
Total members' equity	**988,035**	971,550
Total liabilities and members' equity	**$ 4,302,132**	$ 4,415,663

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Three Months Ended	
For the period ended March 31	**2019**	2018
Interest income	**$ 45,791**	$ 42,020
Interest expense	**22,590**	17,669
Net interest income	**23,201**	24,351
(Reversal of) provision for loan losses	**(635)**	1,614
Net interest income after (reversal of) provision for loan losses	**23,836**	22,737
Other income		
Patronage income	**4,869**	4,558
Financially related services income	**1,590**	1,743
Fee income	**712**	537
Allocated Insurance Reserve Accounts distribution	**939**	2,318
Miscellaneous income, net	**81**	89
Total other income	**8,191**	9,245
Operating expenses		
Salaries and employee benefits	**7,992**	7,544
Other operating expenses	**6,846**	5,484
Total operating expenses	**14,838**	13,028
Income before income taxes	**17,189**	18,954
Provision for (benefit from) income taxes	**650**	(579)
Net income	**$ 16,539**	$ 19,533
Other comprehensive income		
Employee benefit plans activity	**$ 34**	$ 40
Total other comprehensive income	**34**	40
Comprehensive income	**$ 16,573**	$ 19,573

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Illinois, 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	$ 4	$ 7,922	$ 912,270	$ (1,085)	$ 919,111
Net income	--	--	19,533	--	19,533
Other comprehensive income	--	--	--	40	40
Capital stock and participation certificates issued	--	151	--	--	151
Capital stock and participation certificates retired	--	(515)	--	--	(515)
Balance at March 31, 2018	$ 4	$ 7,558	$ 931,803	$ (1,045)	$ 938,320
Balance at December 31, 2018	$ --	$ 7,554	$ 964,705	$ (709)	$ 971,550
Net income	**--**	**--**	**16,539**	**--**	**16,539**
Other comprehensive income	**--**	**--**	**--**	**34**	**34**
Capital stock and participation certificates issued	**--**	**114**	**--**	**--**	**114**
Capital stock and participation certificates retired	**--**	**(202)**	**--**	**--**	**(202)**
Balance at March 31, 2019	**$ --**	**$ 7,466**	**$ 981,244**	**$ (675)**	**$ 988,035**

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 Illinois, ACA (the Association) and its subsidiaries Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA (the subsidiaries). 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 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. 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, 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:	March 31, 2019 Amount	%	December 31, 2018 Amount	%
Real estate mortgage	**$ 2,392,949**	**58.4%**	$ 2,412,305	57.5%
Production and intermediate-term	**617,730**	**15.1%**	747,936	17.8%
Agribusiness	**833,756**	**20.3%**	788,801	18.8%
Other	**256,476**	**6.2%**	244,011	5.9%
Total	**$ 4,100,911**	**100.0%**	$ 4,193,053	100.0%

The other category is primarily comprised of rural infrastructure and agricultural export finance related loans and certain assets originated under the mission related investment authority.

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	**$ 10,353**	**$ 2,567**	**$ 12,920**	**$ 2,414,102**	**$ 2,427,022**	**$ --**
Production and intermediate-term	**3,036**	**750**	**3,786**	**622,450**	**626,236**	**355**
Agribusiness	**--**	**--**	**--**	**837,319**	**837,319**	**--**
Other	**--**	**--**	**--**	**257,078**	**257,078**	**--**
Total	**$ 13,389**	**$ 3,317**	**$ 16,706**	**$ 4,130,949**	**$ 4,147,655**	**$ 355**

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	$ 13,939	$ 2,207	$ 16,146	$ 2,433,127	$ 2,449,273	$ --
Production and intermediate-term	1,319	744	2,063	759,523	761,586	--
Agribusiness	--	--	--	792,319	792,319	--
Other	890	--	890	243,554	244,444	--
Total	$ 16,148	$ 2,951	$ 19,099	$ 4,228,523	$ 4,247,622	$ --

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	**$ 2,767**	$ 2,273
Volume without specific allowance	**4,435**	4,429
Total risk loans	**$ 7,202**	$ 6,702
Total specific allowance	**$ 805**	$ 713
For the three months ended March 31	**2019**	2018
Income on accrual risk loans	**$ 4**	$ 9
Income on nonaccrual loans	**55**	98
Total income on risk loans	**$ 59**	$ 107
Average risk loans	**$ 7,237**	$ 6,425

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.

We did not complete any TDRs during the three months ended March 31, 2019. We completed TDRs of certain production and intermediate-term loans during the three months ended March 31, 2018. Our recorded investment in these loans just prior to and immediately following restructuring was $42 thousand. 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.

We had no TDRs that defaulted during the three months ended March 31, 2019, 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 $96 thousand that defaulted during the three months ended March 31, 2018, 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 2019**	December 31 2018
TDRs in accrual status	**$ 42**	$ 67
TDRs in nonaccrual status	**9**	9
Total TDRs	**$ 51**	$ 76

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	**$ 8,798**	$ 7,111
(Reversal of) provision for loan losses	**(635)**	1,614
Loan recoveries	**7**	223
Loan charge-offs	**--**	(15)
Balance at end of period	**$ 8,170**	$ 8,933

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 $4.0 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 $506 thousand at March 31, 2019, and $143 thousand at December 31, 2018.

The investments were evaluated for impairment. No investments were impaired as of March 31, 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 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	**$ --**	**$ --**	**$ 2,060**	**$ 2,060**
	As of December 31, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 1,638	$ 1,638

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.

NOTE 6: 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.