



Delta Agricultural Credit Association

Quarterly Report
June 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Delta Agricultural Credit Association and its subsidiaries Delta Agricultural Credit Association, FLCA and Delta Agricultural Credit Association, 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:

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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 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

Our territory is located in rural southeast Arkansas. Crop, timber, and poultry production are the primary agricultural enterprises that influence our portfolio. Commodity markets are being negatively affected by the current U.S. tariff threats.

Field crops are still experiencing economic stress as a result of continued low commodity values. There is an ongoing income and/or an expense adjustment for these enterprises. The current Farm Bill and previous strong crop earnings have provided some cushion to the decline of field crop commodity prices. The crop land rents have declined slightly and are tied to the equivalence of the predominant share crop rent values. Crop rents are still attractive to land owners and investors are still buying farmland. Poultry production continues to show profitable margins but new grower contracts and new poultry facility construction has declined significantly from the peak four years ago. Cattle prices have stabilized at a profitable level from the price collapse several years ago.

The overall field crops, livestock, poultry, and timber economies are sustainable. The borrowers' capital erosion has been limited in the stressed field crop sector. The farm, poultry, and timberland real estate values remain stable. Despite current economic stress, our Association is experiencing a favorable economic environment.

LOAN PORTFOLIO

Loan Portfolio

Total loans were \$55.7 million at June 30, 2018, an increase of \$6.0 million from December 31, 2017. The increase was primarily due to seasonal credit needs of borrowers with production and intermediate-term loans, which was partially offset by annual repayments on real estate loans.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2017. Adversely classified loans increased to 2.8% of the portfolio at June 30, 2018, from 0.9% of the portfolio at December 31, 2017. The decline in credit quality was a result of down grading one customer in our real estate portfolio and loans for another customer in our production and intermediate-term portfolio being restructured during the second quarter of 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 guarantee programs are used to reduce the risk of loss. At June 30, 2018, \$28.1 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)	June 30	December 31
As of:	2018	2017
Loans:		
Nonaccrual	\$ --	\$ 160
Accruing restructured	342	--
Accruing loans 90 days or more past due	--	--
Total risk loans	342	160
Other property owned	--	--
Total risk assets	\$ 342	\$ 160
Total risk loans as a percentage of total loans	0.6%	0.3%
Nonaccrual loans as a percentage of total loans	--	0.3%
Current nonaccrual loans as a percentage of total nonaccrual loans	--	--
Total delinquencies as a percentage of total loans	--	0.3%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2017, 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 due to the payoff of two loans through the collection of the Farm Service Agency guarantee.

The increase in accruing restructured loans was primarily due to production and intermediate-term loans with one borrower being restructured during the second quarter of 2018.

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:	June 30	December 31
	2018	2017
Allowance as a percentage of:		
Loans	0.2%	0.2%
Nonaccrual loans	--	65.6%
Total risk loans	30.4%	65.6%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2018.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)	2018	2017
For the six months ended June 30		
Net income	\$ 220	\$ 344
Return on average assets	0.9%	1.3%
Return on average members' equity	4.1%	6.7%

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)				(Decrease)
For the six months ended June 30	2018	2017	increase in net income	
Net interest income	\$ 863	\$ 920	\$ (57)	
Patronage income	73	73	--	
Other income, net	27	14	13	
Operating expenses	743	663	(80)	
Net income	<u>\$ 220</u>	<u>\$ 344</u>	<u>\$ (124)</u>	

Changes in Net Interest Income

(in thousands)		
For the six months ended June 30	2018 vs 2017	
Changes in volume	\$	(16)
Changes in interest rates		(41)
Net change	<u>\$</u>	<u>(57)</u>

The change in other income was primarily due to our share of distributions from Allocated Insurance Reserve Accounts (AIRA) of \$19 thousand. The AIRA was recently established 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 was no distribution in 2017. Refer to the 2017 Annual Report for additional information about the FCSIC.

The change in operating expenses was primarily related to increases in purchased and vendor services expense due to a rise in accounting and auditing fees.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matured on March 31, 2018, and was renewed for \$60.0 million with a maturity date of March 31, 2019. The note payable will be renegotiated no later than the maturity date. 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

Effective January 1, 2018, we were subject to a 3 basis point risk premium. We were subject to a 2 basis point risk premium in 2017. The risk premiums in 2018 and 2017 were triggered by a decline in our risk score.

Total members' equity increased \$162 thousand from December 31, 2017, primarily due to net income for the period partially offset by a decrease in capital stock and participation certificates.

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. Refer to Note 6 in our 2017 Annual Report for a more complete description of these ratios.

Select Capital Ratios

As of:	June 30 2018	December 31 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	21.7%	20.0%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	21.7%	20.0%	6.0%	2.5%*	8.5%
Total capital ratio	22.0%	20.3%	8.0%	2.5%*	10.5%
Permanent capital ratio	26.6%	24.3%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	15.5%	14.6%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	15.0%	14.1%	1.5%	N/A	1.5%

*The capital conservation buffer over risk-adjusted ratio minimums continues to be phased in under the Farm Credit Administration capital requirements, up to 2.5% beginning in 2020.

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.

REGULATORY MATTERS

Investment Securities Eligibility

In May 2018, the FCA Board approved a final rule to revise the requirements governing the eligibility of investment securities for System Banks and associations. The new regulation revises the eligibility purpose, type, and amount of investments that a System association may hold. The regulation is effective January 1, 2019. We are currently working to update policies, procedures, and other documentation to ensure compliance by the effective date. We currently do not have investment securities on our Consolidated Statements of Condition.

CERTIFICATION

The undersigned have reviewed the June 30, 2018, Quarterly Report of Delta Agricultural Credit Association, 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.



Mike Norris
Chairperson of the Board
Delta Agricultural Credit Association



Mark W. Kaufman
Chief Executive Officer
Delta Agricultural Credit Association



Mary Ann Johnson
Chief Financial Officer
Delta Agricultural Credit Association

August 9, 2018

CONSOLIDATED STATEMENTS OF CONDITION

Delta Agricultural Credit Association

(in thousands)

(Unaudited)

As of:	June 30 2018	December 31 2017
ASSETS		
Loans	\$ 55,661	\$ 49,709
Allowance for loan losses	104	105
Net loans	55,557	49,604
Investment in AgriBank, FCB	1,196	1,196
Accrued interest receivable	889	976
Other assets	409	457
Total assets	\$ 58,051	\$ 52,233
LIABILITIES		
Note payable to AgriBank, FCB	\$ 46,705	\$ 40,948
Accrued interest payable	278	263
Patronage distribution payable	--	81
Other liabilities	119	154
Total liabilities	47,102	41,446
Contingencies and commitments (Note 4)		
MEMBERS' EQUITY		
Protected members' equity	7	12
Capital stock and participation certificates	1,804	1,857
Unallocated surplus	9,138	8,918
Total members' equity	10,949	10,787
Total liabilities and members' equity	\$ 58,051	\$ 52,233

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

CONSOLIDATED STATEMENTS OF INCOME

Delta Agricultural Credit Association

(in thousands)

(Unaudited)

For the period ended June 30	Three Months Ended		Six Months Ended	
	2018	2017	2018	2017
Interest income	\$ 725	\$ 736	\$ 1,373	\$ 1,400
Interest expense	275	254	510	480
Net interest income	450	482	863	920
Provision for loan losses	--	--	--	--
Net interest income after provision for loan losses	450	482	863	920
Other income				
Patronage income	40	39	73	73
Financially related services income	2	3	2	4
Fee income	2	2	4	6
Allocated insurance reserve accounts distribution	--	--	19	--
Miscellaneous income, net	--	--	2	4
Total other income	44	44	100	87
Operating expenses				
Salaries and employee benefits	201	225	445	440
Other operating expenses	147	103	298	223
Total operating expenses	348	328	743	663
Income before income taxes	146	198	220	344
Provision for income taxes	--	--	--	--
Net income	\$ 146	\$ 198	\$ 220	\$ 344

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Delta Agricultural Credit Association

(in thousands)

(Unaudited)

		Protected Members' Equity		Capital Stock and Participation Certificates		Unallocated Surplus		Total Members' Equity
Balance at December 31, 2016	\$	12	\$	1,760	\$	8,183	\$	9,955
Net income		--		--		344		344
Capital stock and participation certificates issued		--		349		--		349
Capital stock and participation certificates retired		--		(240)		--		(240)
Balance at June 30, 2017	\$	12	\$	1,869	\$	8,527	\$	10,408
Balance at December 31, 2017	\$	12	\$	1,857	\$	8,918	\$	10,787
Net income		--		--		220		220
Capital stock and participation certificates issued		--		310		--		310
Capital stock and participation certificates retired		(5)		(363)		--		(368)
Balance at June 30, 2018	\$	7	\$	1,804	\$	9,138	\$	10,949

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 six months ended June 30, 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 Delta Agricultural Credit Association (the Association) and its subsidiaries Delta Agricultural Credit Association, FLCA and Delta Agricultural Credit Association, 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 condition, 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, results of operations, cash flows, or 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. 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.	We have no plans to early adopt this guidance. We are in the process of system selection, drafting accounting policies, and designing processes and controls to implement this standard. The necessary disclosures will be determined during 2018. 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 cash flows.

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 are in the process of reviewing the standard. Significant implementation matters yet to be addressed include system selection, drafting of accounting policies and disclosures, 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, 2018		December 31, 2017	
	Amount	%	Amount	%
Real estate mortgage	\$ 33,447	60.1%	\$ 34,531	69.5%
Production and intermediate-term	22,159	39.8%	15,122	30.4%
Agribusiness	55	0.1%	56	0.1%
Total	\$ 55,661	100.0%	\$ 49,709	100.0%

Delinquency

Aging Analysis of Loans

(in thousands)	90 Days or More Past Due		Total Past Due		Not Past Due or Less than 30 Days Past Due	
	90 Days or More Past Due	Total Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	
As of June 30, 2018						
Real estate mortgage	\$ --	\$ --	\$ 34,019	\$ 34,019	\$ 34,019	
Production and intermediate-term	--	--	22,475	22,475	22,475	
Agribusiness	--	--	56	56	56	
Total	\$ --	\$ --	\$ 56,550	\$ 56,550	\$ 56,550	
As of December 31, 2017						
Real estate mortgage	\$ --	\$ --	\$ 35,287	\$ 35,287	\$ 35,287	
Production and intermediate-term	160	160	15,179	15,339	15,339	
Agribusiness	--	--	59	59	59	
Total	\$ 160	\$ 160	\$ 50,525	\$ 50,685	\$ 50,685	

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at June 30, 2018, and December 31, 2017.

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)	June 30	December 31
As of:	2018	2017
Volume with specific allowance	\$ --	\$ 160
Volume without specific allowance	342	--
Total risk loans	<u>\$ 342</u>	<u>\$ 160</u>
Total specific allowance	\$ --	\$ 16
For the six months ended June 30	2018	2017
Income on accrual risk loans	\$ 5	\$ --
Income on nonaccrual loans	--	--
Total income on risk loans	<u>\$ 5</u>	<u>\$ --</u>
Average risk loans	\$ 215	\$ 299

Note: Accruing loans include accrued interest receivable.

We had \$652 thousand of commitments to lend additional money to borrowers whose loans were classified as risk loans at June 30, 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.

We completed TDRs of certain production and intermediate-term loans during the six months ended June 30, 2018. Our recorded investment in these loans just prior to restructuring was \$450 thousand. Our recorded investment in these loans immediately following the restructuring was \$341 thousand during the six months ended June 30, 2018. The recorded investment of 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. There were no TDRs that occurred during the six months ended June 30, 2017.

The primary type of modification included deferral of principal. There were no TDRs that defaulted during the six months ended June 30, 2018, or 2017 in which the modification was within twelve months of the respective reporting period.

TDRs outstanding in the production and intermediate-term loan category totaled \$342 thousand, all of which were in accrual status at June 30, 2018. There were no TDRs outstanding at December 31, 2017.

Additional commitments to lend to borrowers whose loans have been modified in a TDR were \$652 thousand at June 30, 2018.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands)	2018	2017
Six months ended June 30		
Balance at beginning of period	\$ 105	\$ 105
Loan charge-offs	(1)	--
Balance at end of period	<u>\$ 104</u>	<u>\$ 105</u>

NOTE 3: CAPITAL**Capitalization Requirements**

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. Effective July 1, 2018, our capital bylaws were amended to reflect changes to the stock purchase requirement. The stock purchase requirement for obtaining a loan is 2.0% of the customer's total loan(s) up to a maximum of one thousand dollars per shareholder for all loan types. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

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 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 June 30, 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 December 31, 2017				Total Fair Value
	Fair Value Measurement Using				
	Level 1	Level 2	Level 3		
Impaired loans	\$ --	\$ --	\$ 151	\$	151

There were no impaired loans which were required to be measured at fair value on a non-recurring basis at June 30, 2018.

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.

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 9, 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.