Farm Credit Southeast Missouri, ACA

Quarterly Report
March 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Southeast Missouri, ACA and its subsidiaries Farm Credit Southeast Missouri, FLCA and Farm Credit Southeast Missouri, 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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30 East 7th Street, Suite 1600
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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

Land Values: The average benchmark farm land value change in 2017 was 0.2%, compared to 2.1% and 1.2% in 2016 and 2015, respectively. The more moderate land value changes the past three years are indicative of lower commodity prices to more historical levels.

Commodity Prices: Recent tariff announcement by United States (U.S.) on many Chinese imports (and those from other countries), as well China's response to place tariffs on many U.S. imports, including corn and soybeans (China is major importer of U.S. soybeans) have created significantly more uncertainty and volatility in the markets.

Weather Conditions: The last few weeks of the quarter had quite a bit of rain, preventing access to the fields for early rice and corn planting. This is not a significant concern at this time.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $575.7 million at March 31, 2018, a decrease of $54.3 million from December 31, 2017. The decrease was primarily due to seasonal loan repayments that were higher than usual after the above-average yields of 2017.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2017. Adversely classified loans decreased to 0.8% of the portfolio at March 31, 2018, from 1.0% of the portfolio at December 31, 2017. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At March 31, 2018, $68.2 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 2018**	December 31 2017
Loans:		
Nonaccrual	**$ 2,485**	$ 2,988
Accruing restructured	**452**	482
Accruing loans 90 days or more past due	**2,730**	1,368
Total risk loans	**5,667**	4,838
Other property owned	**--**	--
Total risk assets	**$ 5,667**	$ 4,838
Total risk loans as a percentage of total loans	**1.0%**	0.8%
Nonaccrual loans as a percentage of total loans	**0.4%**	0.5%
Current nonaccrual loans as a percentage of total nonaccrual loans	**84.3%**	69.5%
Total delinquencies as a percentage of total loans	**0.9%**	0.9%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2017, but remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The decrease in nonaccrual loans was primarily due to the payoff of four nonaccrual local credits in the first quarter of 2018. Nonaccrual loans remained at an acceptable level at March 31, 2018, and December 31, 2017.

The increase in accruing loans 90 days or more past due was primarily due to six fully guaranteed United States Department of Agriculture (USDA) guaranteed loans becoming over 90 days past due during the quarter ended March 31, 2018. The principal and accruing interest on these loans are guaranteed by the USDA and therefore eligible to remain in accruing status. 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 in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	**March 31 2018**	December 31 2017
Allowance as a percentage of:		
Loans	**0.1%**	0.1%
Nonaccrual loans	**19.8%**	17.9%
Total risk loans	**8.7%**	11.0%

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

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31	**2018**	2017
Net income	**$ 3,061**	$ 2,878
Return on average assets	**2.0%**	1.9%
Return on average members' equity	**8.5%**	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		2018		2017		Increase (decrease) in net income
Net interest income	$	**4,575**	$	4,548	$	**27**
(Reversal of) provision for credit losses		**(24)**		44		**68**
Patronage income		**391**		384		**7**
Other income, net		**419**		99		**320**
Operating expenses		**2,318**		2,039		**(279)**
Provision for income taxes		**30**		70		**40**
Net income	$	**3,061**	$	2,878	$	**183**

Changes in Net Interest Income

(in thousands) For the three months ended March 31		2018 vs 2017
Changes in volume	$	**37**
Changes in interest rates		**(1)**
Changes in nonaccrual income and other		**(9)**
Net change	$	**27**

The change in the (reversal of) provision for credit losses was related to a specific reserve reversal and a partial loan recovery on a nonaccrual credit pay off in the first quarter of 2018. In addition, we had a $90 thousand provision for credit losses to establish a reserve for unfunded commitments on our loan portfolio during the first quarter of 2018.

The change in patronage income was primarily related to increased patronage received from AgriBank due to a higher patronage rate compared to the prior year.

The change in other income was primarily due to our share of distributions from Allocated Insurance Reserve Accounts of $352 thousand. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation (FCSIC) when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. There were no distributions in 2017.

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

The change in provision for income taxes was primarily related to a higher reserve for 2018 patronage compared to the first quarter of 2017.

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 June 30, 2020, at which time the note will be renegotiated. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at March 31, 2018, or December 31, 2017.

Total members' equity increased $1.6 million from December 31, 2017, primarily due to net income for the period partially offset by patronage distribution accruals.

The Farm Credit Administration (FCA) regulations require us to maintain a certain level for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents. Refer to Note 7 in our 2017 Annual Report for a more complete description of these ratios.

Select Capital Ratios

As of:	**March 31 2018**	December 31 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**21.7%**	20.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**21.7%**	20.2%	6.0%	2.5%*	8.5%
Total capital ratio	**21.8%**	20.2%	8.0%	2.5%*	10.5%
Permanent capital ratio	**21.7%**	20.2%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**22.0%**	19.6%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**22.1%**	19.6%	1.5%	N/A	1.5%

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

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

RELATIONSHIP WITH AGRIBANK

Purchased Services

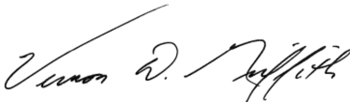
During 2016, District associations and AgriBank conducted research related to repositioning many business services offered by AgriBank into a separate entity jointly owned by AgriBank and participating associations. The long-term strategic objective of this initiative is to increase scale, improve operating efficiency, and enhance technology and business services. The proposed service entity will be named SunStream Business Services. An application to form the service entity was submitted to the FCA for approval in May 2017, and the FCA continues its due diligence on the charter request.

CERTIFICATION

The undersigned have reviewed the March 31, 2018, Quarterly Report of Farm Credit Southeast Missouri, 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.

Markel D. Yarbro
Chairperson of the Board
Farm Credit Southeast Missouri, ACA

Robert E. Smith
President / Chief Executive Officer
Farm Credit Southeast Missouri, ACA



Vernon D. Griffith
Executive Vice President / Chief Financial Officer
Farm Credit Southeast Missouri, ACA

May 9, 2018

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Southeast Missouri, ACA

(in thousands)
(Unaudited)

As of:	March 31 2018	December 31 2017
ASSETS		
Loans	**$ 575,672**	$ 629,942
Allowance for loan losses	**492**	534
Net loans	**575,180**	629,408
Investment in AgriBank, FCB	**12,865**	12,865
Investment securities	**1,298**	1,509
Accrued interest receivable	**7,739**	11,142
Deferred tax assets, net	**70**	100
Other assets	**4,701**	5,424
Total assets	**$ 601,853**	$ 660,448
LIABILITIES		
Note payable to AgriBank, FCB	**$ 451,423**	$ 504,826
Accrued interest payable	**2,703**	2,890
Patronage distribution payable	**1,500**	7,000
Other liabilities	**1,231**	2,305
Total liabilities	**456,857**	517,021
Contingencies and commitments (Note 4)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**1,712**	1,713
Unallocated surplus	**143,284**	141,714
Total members' equity	**144,996**	143,427
Total liabilities and members' equity	**$ 601,853**	$ 660,448

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

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Southeast Missouri, ACA

(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31	**2018**	2017
Interest income	**$ 7,278**	$ 6,689
Interest expense	**2,703**	2,141
Net interest income	**4,575**	4,548
(Reversal of) provision for credit losses	**(24)**	44
Net interest income after (reversal of) provision for credit losses	**4,599**	4,504
Other income		
Patronage income	**391**	384
Financially related services income	**94**	69
Fee expense, net	**(20)**	(16)
Allocated insurance reserve accounts distribution	**352**	--
Miscellaneous (loss) income, net	**(7)**	46
Total other income	**810**	483
Operating expenses		
Salaries and employee benefits	**1,399**	1,271
Other operating expenses	**919**	768
Total operating expenses	**2,318**	2,039
Income before income taxes	**3,091**	2,948
Provision for income taxes	**30**	70
Net income	**$ 3,061**	$ 2,878

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Southeast Missouri, ACA

(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2016	$ 1,715	$ 133,866	$ 135,581
Net income	--	2,878	2,878
Unallocated surplus designated for patronage distributions	--	(1,250)	(1,250)
Capital stock and participation certificates issued	27	--	27
Capital stock and participation certificates retired	(21)	--	(21)
Balance at March 31, 2017	$ 1,721	$ 135,494	$ 137,215
Balance at December 31, 2017	$ 1,713	$ 141,714	$ 143,427
Net income	**--**	**3,061**	**3,061**
Unallocated surplus designated for patronage distributions	**--**	**(1,491)**	**(1,491)**
Capital stock and participation certificates issued	**31**	**--**	**31**
Capital stock and participation certificates retired	**(32)**	**--**	**(32)**
Balance at March 31, 2018	**$ 1,712**	**$ 143,284**	**$ 144,996**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the three months ended March 31, 2018, are not necessarily indicative of the results to be expected for the year ending December 31, 2018. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2017, (2017 Annual Report).

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

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, we generally adopt on the public entity required date to align with other Farm Credit System institutions. For recently issued and adopted accounting pronouncements disclosed, we plan to adopt on the public entity effective date.

Standard and effective date	Description	Adoption status and financial statement impact
In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09 “Revenue from Contracts with Customers." This guidance was effective for public entities on January 1, 2018.	The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this guidance. The guidance sets forth the requirement for new and enhanced disclosures.	We adopted this guidance on January 1, 2018, using the modified retrospective approach, as the majority of the Association’s revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial position, results of operations, equity, or cash flows.
In March 2017, the FASB issued ASU 2017-07 “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost.” This guidance was effective for public entities on January 1, 2018.	This guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. Specifically, the guidance requires non-service cost components of net benefit cost to be recognized in a non-operating income line item of the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization.	We adopted this guidance on January 1, 2018. The adoption of the guidance did not impact the Association’s financial condition, 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.	We have no plans to early adopt this guidance. We have determined after preliminary review, this guidance will not have a material impact on our financial condition, results of operations, and financial statement disclosures, and will have no impact on combined cash flows.
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses.” This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We have no plans to early adopt this guidance. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**March 31, 2018**		December 31, 2017	
	Amount	%	Amount	%
Real estate mortgage	**$ 343,643**	**59.7%**	$ 353,371	56.1%
Production and intermediate-term	**172,968**	**30.0%**	218,676	34.7%
Agribusiness	**10,953**	**1.9%**	7,444	1.2%
Other	**48,108**	**8.4%**	50,451	8.0%
Total	**$ 575,672**	**100.0%**	$ 629,942	100.0%

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

Delinquency

Aging Analysis of Loans

(in thousands) **As of March 31, 2018**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 198**	**$ 282**	**$ 480**	**$ 347,737**	**$ 348,217**	**$ --**
Production and intermediate-term	**271**	**5**	**276**	**175,420**	**175,696**	**--**
Agribusiness	**--**	**--**	**--**	**11,049**	**11,049**	**--**
Other	**1,779**	**2,730**	**4,509**	**43,931**	**48,440**	**2,730**
Total	**$ 2,248**	**$ 3,017**	**$ 5,265**	**$ 578,137**	**$ 583,402**	**$ 2,730**

As of December 31, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 183	$ 499	$ 682	$ 358,748	$ 359,430	$ --
Production and intermediate-term	59	396	455	222,870	223,325	--
Agribusiness	--	--	--	7,520	7,520	--
Other	2,988	1,369	4,357	46,441	50,798	1,368
Total	$ 3,230	$ 2,264	$ 5,494	$ 635,579	$ 641,073	$ 1,368

Note: Accruing loans include accrued interest receivable.

Risk Loans

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

Risk Loan Information

(in thousands) As of:	**March 31 2018**	December 31 2017
Volume with specific allowance	**$ --**	$ 391
Volume without specific allowance	**5,667**	4,447
Total risk loans	**$ 5,667**	$ 4,838
Total specific allowance	**$ --**	$ 42
For the three months ended March 31	**2018**	2017
Income on accrual risk loans	**$ 44**	$ 9
Income on nonaccrual loans	**63**	72
Total income on risk loans	**$ 107**	$ 81
Average risk loans	**$ 5,643**	$ 3,616

Note: Accruing loans include accrued interest receivable.

We had $674 thousand of commitments to lend additional money to borrowers whose loans were classified as risk loans at March 31, 2018.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

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

There were no TDRs that defaulted during the three months ended March 31, 2018, or 2017 in which the modification was within twelve months of the respective reporting period.

TDRs outstanding in the Real Estate Mortgage loan category totaled $452 thousand and $482 thousand, all of which were in accrual status at March 31, 2018, and December 31, 2017.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Three months ended March 31	**2018**	2017
Balance at beginning of period	**$ 534**	$ 482
(Reversal of) provision for loan losses	**(114)**	44
Loan recoveries	**73**	1
Loan charge-offs	**(1)**	--
Balance at end of period	**$ 492**	$ 527

Credit Loss Information on Unfunded Commitments

(in thousands) For the three months ended March 31	**2018**	2017
Provision for credit losses	**$ 90**	$ --

As of:	**March 31 2018**	December 31 2017
Accrued credit losses	**$ 90**	$ --

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $1.3 million at March 31, 2018, and $1.5 million at December 31, 2017. Our investment securities consisted of securities containing loans fully guaranteed by the Small Business Administration (SBA).

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. No investments within the portfolio were impaired as of March 31, 2018, and December 31, 2017.

Additional Investment Securities Information

(dollars in thousands) As of:	**March 31 2018**	December 31 2017
Amortized cost	**$ 1,298**	$ 1,509
Unrealized gains	**35**	48
Fair value	**$ 1,333**	$ 1,557
Weighted average yield	**4.0%**	3.8%

Investment income is recorded in "Interest income" in the Consolidated Statements of Income and totaled $14 thousand and $32 thousand for the three months ended March 31, 2018, and 2017, respectively.

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 beyond the provision for credit losses reported in Note 2.

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 March 31, 2018, or December 31, 2017.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

	As of March 31, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ --**	**$ --**
	As of December 31, 2017			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 367	$ 367

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 May 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.