



## Farm Credit Services of Mandan, 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 Services of Mandan, ACA and its subsidiaries Farm Credit Services of Mandan, FLCA and Farm Credit Services of Mandan, 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

The predominant commodities produced in our 20 county service area are small grains, corn, and beef cattle. Many producers also raise sunflowers, soybeans, and canola in order to rotate crops and diversify their operations.

Most counties in our territory had varying levels of drought conditions during 2017. Of significant concern will be adequate spring and summer moisture to improve current soil conditions for spring planting.

Average to below average production, combined with low commodity prices, provided limited profitability for grain producers in 2017. Many producers received crop insurance payments to help offset crop production and revenue losses.

Livestock prices have moderated after experiencing a significant decline during the past two years. Producers with cow/calf operations realized modest profitability in 2017 and should be able to project viability in 2018.

The demand for real estate remains strong, however land prices have somewhat softened. These changes have not been dramatic and have been anticipated. Purchases of machinery continue to be slow.

It is projected the overall profitability for producers will remain challenged in 2018 due to continued weak agricultural commodity prices. Despite these challenges, nearly all producers will continue to modify their operations to remain profitable, obtain financing and continue their farming and ranch operations.

### LOAN PORTFOLIO

#### Loan Portfolio

Total loans were \$1.1 billion at March 31, 2018, a decrease of \$3.2 million from December 31, 2017. The decrease in total loans was primarily due to a decrease in production and intermediate-term loans offset by an increase in our agribusiness portfolio affiliated with our Commercial Finance Group (CFG) alliance.

## Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2017. Adversely classified loans increased to 2.2% of the portfolio at March 31, 2018, from 1.3% of the portfolio at December 31, 2017. The increase in adverse loans is due to challenges agricultural producers are experiencing and the resulting trend in the portfolio to slightly weaker credit performance classifications. 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, \$22.0 million of our loans were, to some level, guaranteed under these government programs.

## Risk Assets

### Components of Risk Assets

(dollars in thousands)	March 31	December 31
As of:	2018	2017
Loans:		
Nonaccrual	\$ 1,750	\$ 1,451
Accruing restructured	5	7
Accruing loans 90 days or more past due	3,243	281
Total risk loans	4,998	1,739
Other property owned	--	--
Total risk assets	\$ 4,998	\$ 1,739
Total risk loans as a percentage of total loans	0.4%	0.2%
Nonaccrual loans as a percentage of total loans	0.2%	0.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	70.4%	16.8%
Total delinquencies as a percentage of total loans	1.5%	0.6%

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.

Nonaccrual loans remained at an acceptable level at March 31, 2018, and December 31, 2017.

Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status. The increase as of March 31, 2018 was due to one customer with both real estate and production and intermediate term loans becoming delinquent past 90 days.

## 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	December 31
	2018	2017
Allowance as a percentage of:		
Loans	0.3%	0.3%
Nonaccrual loans	170.8%	206.2%
Total risk loans	59.8%	172.1%

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	\$ 6,044	\$ 4,907
Return on average assets	2.1%	1.8%
Return on average members' equity	10.4%	9.2%

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)	2018	2017	Increase (decrease) in net income
For the three months ended March 31			
Net interest income	\$ 7,914	\$ 7,331	\$ 583
Reversal of loan losses	(22)	(40)	(18)
Patronage income	777	739	38
Other income, net	2,376	1,689	687
Operating expenses	4,860	4,632	(228)
Provision for income taxes	185	260	75
Net income	\$ 6,044	\$ 4,907	\$ 1,137

### Changes in Net Interest Income

(in thousands)

For the three months ended March 31	2018 vs 2017
Changes in volume	\$ 368
Changes in interest rates	182
Changes in nonaccrual income and other	33
Net change	\$ 583

The change in other income, net was primarily due to our share of distributions from Allocated Insurance Reserve Accounts (AIRA) of \$653 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 expense, partially offset by an FCSIC expense decrease in 2018 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 decrease in provision for income taxes is due to a change to the federal statutory tax rate, effective January 1, 2018, from 34% to 21% due to the enactment of the Tax Cuts and Jobs Act.

## 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 February 29, 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.

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

In addition, with approval from AgriBank, on July 24, 2006, we entered into a loan agreement with CoBank, ACB (CoBank) to obtain funding in the amount not to exceed \$20.0 million in connection with specific CoBank related transactions. The interest rate on such indebtedness will be established at the time of the related transactions. There was no outstanding balance on this agreement as of March 31, 2018 or December 31, 2017.

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

Total members' equity increased \$5.4 million from December 31, 2017, primarily due to net income for the period which was partially offset by patronage distribution accruals. Accumulated other comprehensive loss is the impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan. Refer to Note 8 in our 2017 Annual Report for more information on the Pension Restoration Plan.

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 6 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	16.6%	16.1%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	16.6%	16.1%	6.0%	2.5%*	8.5%
Total capital ratio	16.8%	16.4%	8.0%	2.5%*	10.5%
Permanent capital ratio	16.6%	16.2%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	19.2%	18.7%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	19.6%	19.1%	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 Services of Mandan, 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.



James Vander Vorst  
Chairperson of the Board  
Farm Credit Services of Mandan, ACA



Aaron Vetter  
Chief Executive Officer  
Farm Credit Services of Mandan, ACA



Sandy Nagel  
Vice President – Corporate Finance  
Farm Credit Services of Mandan, ACA

May 8, 2018

# CONSOLIDATED STATEMENTS OF CONDITION

*Farm Credit Services of Mandan, ACA*

*(in thousands)*

*(Unaudited)*

As of:	March 31 2018	December 31 2017
<b>ASSETS</b>		
Loans	\$ 1,098,440	\$ 1,101,613
Allowance for loan losses	2,989	2,992
Net loans	1,095,451	1,098,621
Investment in AgriBank, FCB	20,956	20,956
Accrued interest receivable	12,812	14,626
Other assets	14,056	14,260
Total assets	\$ 1,143,275	\$ 1,148,463
<b>LIABILITIES</b>		
Note payable to AgriBank, FCB	\$ 896,519	\$ 903,472
Accrued interest payable	4,585	4,085
Deferred tax liabilities, net	552	518
Patronage distribution payable	600	2,600
Other liabilities	4,591	6,786
Total liabilities	906,847	917,461
Contingencies and commitments (Note 3)		
<b>MEMBERS' EQUITY</b>		
Capital stock and participation certificates	2,217	2,272
Unallocated surplus	235,310	229,866
Accumulated other comprehensive loss	(1,099)	(1,136)
Total members' equity	236,428	231,002
Total liabilities and members' equity	\$ 1,143,275	\$ 1,148,463

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*Farm Credit Services of Mandan, ACA*

*(in thousands)*

*(Unaudited)*

<i>For the period ended March 31</i>	<i>Three Months Ended</i>	
	<b>2018</b>	2017
<b>Interest income</b>	\$ 12,499	\$ 10,502
<b>Interest expense</b>	4,585	3,171
Net interest income	7,914	7,331
<b>Reversal of loan losses</b>	(22)	(40)
Net interest income after reversal of loan losses	7,936	7,371
<b>Other income</b>		
Patronage income	777	739
Financially related services income	1,402	1,317
Fee income	294	327
Allocated insurance reserve accounts distribution	653	--
Miscellaneous income, net	27	45
Total other income	3,153	2,428
<b>Operating expenses</b>		
Salaries and employee benefits	2,926	2,842
Other operating expenses	1,934	1,790
Total operating expenses	4,860	4,632
Income before income taxes	6,229	5,167
<b>Provision for income taxes</b>	185	260
Net income	\$ 6,044	\$ 4,907
<b>Other comprehensive income</b>		
Employee benefit plans activity	\$ 37	\$ --
Total other comprehensive income	37	--
Comprehensive income	\$ 6,081	\$ 4,907

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

## CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*Farm Credit Services of Mandan, ACA*

*(in thousands)*

*(Unaudited)*

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2016	\$ 2,375	\$ 209,630	\$ --	\$ 212,005
Net income	--	4,907	--	4,907
Unallocated surplus designated for patronage distributions	--	(575)	--	(575)
Capital stock and participation certificates issued	19	--	--	19
Capital stock and participation certificates retired	(60)	--	--	(60)
<b>Balance at March 31, 2017</b>	<b>\$ 2,334</b>	<b>\$ 213,962</b>	<b>\$ --</b>	<b>\$ 216,296</b>
Balance at December 31, 2017	\$ 2,272	\$ 229,866	\$ (1,136)	\$ 231,002
Net income	--	6,044	--	6,044
Other comprehensive income	--	--	37	37
Unallocated surplus designated for patronage distributions	--	(600)	--	(600)
Capital stock and participation certificates issued	19	--	--	19
Capital stock and participation certificates retired	(74)	--	--	(74)
<b>Balance at March 31, 2018</b>	<b>\$ 2,217</b>	<b>\$ 235,310</b>	<b>\$ (1,099)</b>	<b>\$ 236,428</b>

*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).

Certain amounts in prior periods' financial statements have been reclassified to conform to the current period's presentation.

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Services of Mandan, ACA (the Association) and its subsidiaries Farm Credit Services of Mandan, FLCA and Farm Credit Services of Mandan, 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. Non-service cost components of net benefit cost were reclassified from salaries and employee benefits to other operating expenses on the Statements of Comprehensive Income. The change in classification was not material. There were no changes to the Association's financial condition, 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.



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 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	\$ 378,425	34.5%	\$ 379,096	34.4%
Production and intermediate-term	376,748	34.3%	407,857	37.0%
Agribusiness	226,353	20.6%	205,026	18.6%
Other	116,914	10.6%	109,634	10.0%
Total	\$ 1,098,440	100.0%	\$ 1,101,613	100.0%

The other category is primarily comprised of energy, communication, international, water and waste water related loans and certain assets originated under the mission related investment authority.

### Delinquency

#### Aging Analysis of Loans

(in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Accruing Loans 90 Days or More Past Due
<b>As of March 31, 2018</b>					
Real estate mortgage	\$ 4,053	\$ 1,504	\$ 5,557	\$ 379,620	\$ 385,177
Production and intermediate-term	8,644	1,997	10,641	371,147	381,788
Agribusiness	--	--	--	227,040	227,040
Other	--	--	--	117,247	117,247
Total	\$ 12,697	\$ 3,501	\$ 16,198	\$ 1,095,054	\$ 1,111,252
					\$ 3,243
<b>As of December 31, 2017</b>					
Real estate mortgage	\$ 2,599	\$ --	\$ 2,599	\$ 384,276	\$ 386,875
Production and intermediate-term	2,795	1,449	4,244	409,677	413,921
Agribusiness	--	--	--	205,576	205,576
Other	--	--	--	109,866	109,866
Total	\$ 5,394	\$ 1,449	\$ 6,843	\$ 1,109,395	\$ 1,116,238
					\$ 281

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.

<b>Risk Loan Information</b>		
(in thousands)	<b>March 31</b>	December 31
As of:	<b>2018</b>	2017
Volume with specific allowance	\$ 1,124	\$ 1,429
Volume without specific allowance	<u>3,874</u>	<u>310</u>
Total risk loans	<u>\$ 4,998</u>	<u>\$ 1,739</u>
Total specific allowance	\$ 447	\$ 249
For the three months ended March 31	<b>2018</b>	2017
Income on accrual risk loans	\$ 29	\$ 16
Income on nonaccrual loans	<u>100</u>	<u>67</u>
Total income on risk loans	<u>\$ 129</u>	<u>\$ 83</u>
Average risk loans	\$ 3,226	\$ 1,430

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, 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 three months ended March 31, 2018, and 2017. Our recorded investment in these loans just prior to and immediately following the restructuring was \$13 thousand and \$20 thousand during the three months ended March 31, 2018, and 2017, respectively. 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.

The primary types of modification was extension of maturity.

We had TDRs in the production and intermediate-term loan category of \$37 thousand that defaulted during the three months ended March 31, 2018, in which the modifications were within twelve months of the respective reporting period. There were no TDRs that defaulted during the three months ended March 31, 2017.

<b>TDRs Outstanding</b>		
(in thousands)	<b>March 31</b>	December 31
As of:	<b>2018</b>	2017
Accrual status:		
Real estate mortgage	\$ --	\$ --
Production and intermediate-term	<u>5</u>	<u>7</u>
Total TDRs in accrual status	<u>\$ 5</u>	<u>\$ 7</u>
Nonaccrual status:		
Real estate mortgage	\$ 12	\$ 17
Production and intermediate-term	<u>106</u>	<u>105</u>
Total TDRs in nonaccrual status	<u>\$ 118</u>	<u>\$ 122</u>
Total TDRs:		
Real estate mortgage	\$ 12	\$ 17
Production and intermediate-term	<u>111</u>	<u>112</u>
Total TDRs	<u>\$ 123</u>	<u>\$ 129</u>

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2018.

## Allowance for Loan Losses

### Changes in Allowance for Loan Losses

(in thousands)

Three months ended March 31	2018	2017
Balance at beginning of period	\$ 2,992	\$ 2,769
Reversal of loan losses	(22)	(40)
Loan recoveries	26	43
Loan charge-offs	(7)	(3)
Balance at end of period	<u>\$ 2,989</u>	<u>\$ 2,769</u>

### NOTE 3: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

### NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three 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			Total Fair Value
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	
Impaired loans	\$ --	\$ --	\$ 711	\$ 711

  

	As of December 31, 2017			Total Fair Value
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	
Impaired loans	\$ --	\$ --	\$ 1,239	\$ 1,239

#### 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 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 8, 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.