



Farm Credit Services of Mandan, ACA

Quarterly Report
September 30, 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 of our territory started the year with dry conditions but received adequate moisture in late spring and early summer. Small grain crops benefited the most from timely precipitation, while dry conditions in late summer and early fall hurt the potential of row crop yields. The recent trade disputes have created uncertainty and a drop in commodity prices for some crops. Average or better 2018 crop production will help to offset the lower prices for grain producers. Livestock prices improved throughout the summer. Pasture and hay conditions improved significantly from 2017 due to much needed moisture. Feeders and producers with cow/calf operations should realize modest profitability 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 with the current conditions.

Despite the above 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 \$1.2 billion at September 30, 2018, an increase of \$95.1 million from December 31, 2017. The increase in total loans was primarily due to increases in production and intermediate term loans, real estate loans, and processing and marketing loans 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 2.0% of the portfolio at September 30, 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 September 30, 2018, \$24.8 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets		
(dollars in thousands)	September 30	December 31
As of:	2018	2017
Loans:		
Nonaccrual	\$ 2,529	\$ 1,451
Accruing restructured	--	7
Accruing loans 90 days or more past due	1,072	281
Total risk loans	3,601	1,739
Other property owned	6	--
Total risk assets	\$ 3,607	\$ 1,739
Total risk loans as a percentage of total loans	0.3%	0.2%
Nonaccrual loans as a percentage of total loans	0.2%	0.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	55.0%	16.8%
Total delinquencies as a percentage of total loans	0.4%	0.6%

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 increase in nonaccrual loans was primarily due to customers in our energy and real estate loan categories moving to nonaccrual status during 2018. Nonaccrual loans remained at an acceptable level at September 30, 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.

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:	September 30	December 31
	2018	2017
Allowance as a percentage of:		
Loans	0.3%	0.3%
Nonaccrual loans	126.3%	206.2%
Total risk loans	88.7%	172.1%

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

RESULTS OF OPERATIONS

Profitability Information		
(dollars in thousands)		
For the nine months ended September 30	2018	2017
Net income	\$ 18,606	\$ 16,185
Return on average assets	2.1%	1.9%
Return on average members' equity	10.4%	9.9%

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)				Increase (decrease) in net income
For the nine months ended September 30	2018	2017		
Net interest income	\$ 24,769	\$ 23,305	\$	1,464
Provision for (reversal of) loan losses	273	225		(48)
Patronage income	2,503	2,859		(356)
Other income, net	6,092	4,579		1,513
Operating expenses	14,034	13,485		(549)
Provision for income taxes	451	848		397
Net income	<u>\$ 18,606</u>	<u>\$ 16,185</u>	<u>\$</u>	<u>2,421</u>

Changes in Net Interest Income

(in thousands)		
For the nine months ended September 30	2018 vs 2017	
Changes in volume	\$	1,390
Changes in interest rates		(38)
Changes in nonaccrual income and other		112
Net change	<u>\$</u>	<u>1,464</u>

The change in other income was primarily due to our share of the Allocated Insurance Reserve Accounts (AIRA) distributions received from the Farm Credit System Insurance Corporation (FCSIC) of \$653 thousand. The AIRA was established by the FCSIC when premiums collected increased the level of the Insurance Fund beyond the required 2 percent of insured debt. There was no distribution in 2017. Refer to the 2017 Annual Report for additional information about the FCSIC. We also had increases in income from hail insurance commissions and a gain recognized on the sale of office property and equipment.

The change in operating expenses was primarily due to increases in salary and benefits and purchased services expenses, partially offset by a FCSIC expense decrease in 2018 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 September 30, 2018, or December 31, 2017.

We were not subject to a risk premium at September 30, 2018, or December 31, 2017.

Total members' equity increased \$16.8 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 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.

Regulatory Capital Requirements and Ratios

As of:	September 30 2018	December 31 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	16.3%	16.1%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	16.3%	16.1%	6.0%	2.5%*	8.5%
Total capital ratio	16.6%	16.4%	8.0%	2.5%*	10.5%
Permanent capital ratio	16.4%	16.2%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	18.6%	18.7%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	18.9%	19.1%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums is being phased in through 2020 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.

REGULATORY MATTERS

Investment Securities Eligibility

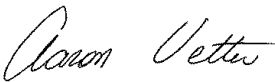
In May 2018, the FCA Board approved a final rule to revise the requirements governing the eligibility of investment securities for System Banks and associations. The new regulation revises the eligibility purpose, type, and amount of investments that a System association may hold. The regulation is effective 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

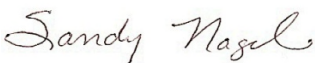
The undersigned have reviewed the September 30, 2018, Quarterly Report of Farm Credit Services of Mandan, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, 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

November 8, 2018

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Services of Mandan, ACA

(in thousands)

(Unaudited)

As of:	September 30 2018	December 31 2017
ASSETS		
Loans	\$ 1,196,740	\$ 1,101,613
Allowance for loan losses	3,193	2,992
Net loans	1,193,547	1,098,621
Investment in AgriBank, FCB	22,360	20,956
Accrued interest receivable	20,374	14,626
Other property owned	6	--
Other assets	16,070	14,260
Total assets	\$ 1,252,357	\$ 1,148,463
LIABILITIES		
Note payable to AgriBank, FCB	\$ 990,773	\$ 903,472
Accrued interest payable	5,971	4,085
Deferred tax liabilities, net	530	518
Patronage distribution payable	1,800	2,600
Other liabilities	5,461	6,786
Total liabilities	1,004,535	917,461
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Capital stock and participation certificates	2,175	2,272
Unallocated surplus	246,672	229,866
Accumulated other comprehensive loss	(1,025)	(1,136)
Total members' equity	247,822	231,002
Total liabilities and members' equity	\$ 1,252,357	\$ 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)

For the period ended September 30	Three Months Ended		Nine Months Ended	
	2018	2017	2018	2017
Interest income	\$ 14,811	\$ 12,363	\$ 40,700	\$ 34,230
Interest expense	5,971	4,054	15,931	10,925
Net interest income	8,840	8,309	24,769	23,305
Provision for (reversal of) loan losses	286	4	273	225
Net interest income after provision for (reversal of) loan losses	8,554	8,305	24,496	23,080
Other income				
Patronage income	876	1,357	2,503	2,859
Financially related services income	1,219	1,070	3,897	3,590
Fee income	329	276	920	925
Allocated Insurance Reserve Accounts distribution	--	--	653	--
Miscellaneous income (loss), net	342	(7)	622	64
Total other income	2,766	2,696	8,595	7,438
Operating expenses				
Salaries and employee benefits	2,855	2,739	8,781	8,384
Other operating expenses	1,664	1,677	5,253	5,101
Total operating expenses	4,519	4,416	14,034	13,485
Income before income taxes	6,801	6,585	19,057	17,033
Provision for income taxes	149	376	451	848
Net income	\$ 6,652	\$ 6,209	\$ 18,606	\$ 16,185
Other comprehensive income				
Employee benefit plans activity	\$ 37	\$ --	\$ 111	\$ --
Total other comprehensive income	37	--	111	--
Comprehensive income	\$ 6,689	\$ 6,209	\$ 18,717	\$ 16,185

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	--	16,185	--	16,185
Unallocated surplus designated for patronage distributions	--	(1,724)	--	(1,724)
Capital stock and participation certificates issued	55	--	--	55
Capital stock and participation certificates retired	(142)	--	--	(142)
Balance at September 30, 2017	\$ 2,288	\$ 224,091	\$ --	\$ 226,379
Balance at December 31, 2017	\$ 2,272	\$ 229,866	\$ (1,136)	\$ 231,002
Net income	--	18,606	--	18,606
Other comprehensive income	--	--	111	111
Unallocated surplus designated for patronage distributions	--	(1,800)	--	(1,800)
Capital stock and participation certificates issued	49	--	--	49
Capital stock and participation certificates retired	(146)	--	--	(146)
Balance at September 30, 2018	\$ 2,175	\$ 246,672	\$ (1,025)	\$ 247,822

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 nine months ended September 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).

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 promised 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 our 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, 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 our 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 our fair value disclosures.

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued ASU 2016-02 "Leases." In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements." 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. 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 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.
In August 2018, the FASB issued ASU 2018-15 "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract." The guidance is effective for our first quarter of 2020 and early adoption is permitted.	The guidance clarifies that implementation costs incurred in a hosting arrangement that is a service contract should be accounted for in the same manner as implementation costs incurred to develop or obtain internal-use software.	We are in the process of reviewing the accounting standard. Based on our preliminary review and analysis, this new guidance will not have a material impact on our financial condition, results of operations, cash flows and financial statement disclosures.
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, 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:	September 30, 2018		December 31, 2017	
	Amount	%	Amount	%
Real estate mortgage	\$ 402,697	33.6%	\$ 379,096	34.4%
Production and intermediate-term	446,821	37.3%	407,857	37.0%
Agribusiness	232,680	19.4%	205,026	18.6%
Other	114,542	9.7%	109,634	10.0%
Total	\$ 1,196,740	100.0%	\$ 1,101,613	100.0%

The other category is primarily comprised of energy, communication, agricultural export finance, 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	Total	Accruing Loans 90 Days or More Past Due
As of September 30, 2018						
Real estate mortgage	\$ 383	\$ 334	\$ 717	\$ 412,668	\$ 413,385	\$ --
Production and intermediate-term	667	1,834	2,501	452,794	455,295	1,072
Agribusiness	2,038	--	2,038	231,542	233,580	--
Other	--	--	--	114,854	114,854	--
Total	\$ 3,088	\$ 2,168	\$ 5,256	\$ 1,211,858	\$ 1,217,114	\$ 1,072
As of December 31, 2017						
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	281
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.

Risk Loan Information

(in thousands)	September 30 2018	December 31 2017
As of:		
Volume with specific allowance	\$ 2,075	\$ 1,429
Volume without specific allowance	1,526	310
Total risk loans	\$ 3,601	\$ 1,739
Total specific allowance	\$ 565	\$ 249
For the nine months ended September 30	2018	2017
Income on accrual risk loans	\$ 70	\$ 40
Income on nonaccrual loans	281	169
Total income on risk loans	\$ 351	\$ 209
Average risk loans	\$ 3,775	\$ 2,093

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 September 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 nine months ended September 30, 2018, and 2017. Our recorded investment in these loans just prior to and immediate following restructuring was \$28 thousand and \$77 thousand during the nine months ended September 30, 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 included extension of maturity.

We had TDRs in the production and intermediate-term loan category of \$2 thousand and \$10 thousand that defaulted during the nine months ended September 30, 2018, and 2017, respectively in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding		
(in thousands)	September 30	December 31
As of:	2018	2017
Accrual status:		
Production and intermediate-term	\$ --	\$ 7
Total TDRs in accrual status	\$ --	\$ 7
Nonaccrual status:		
Real estate mortgage	\$ 3	\$ 17
Production and intermediate-term	72	105
Total TDRs in nonaccrual status	\$ 75	\$ 122
Total TDRs:		
Real estate mortgage	\$ 3	\$ 17
Production and intermediate-term	72	112
Total TDRs	\$ 75	\$ 129

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at September 30, 2018.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands)		
Nine months ended September 30	2018	2017
Balance at beginning of period	\$ 2,992	\$ 2,769
Provision for loan losses	273	225
Loan recoveries	95	107
Loan charge-offs	(167)	(95)
Balance at end of period	\$ 3,193	\$ 3,006

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 input levels 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 September 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 September 30, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	\$ --	\$ --	\$ 1,586	\$ 1,586
Other property owned	--	--	6	6

	As of December 31, 2017			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
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 observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses 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 property and other matters, they are classified as Level 3.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 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.