Third Quarter Financial Report

September 30, 2018

FRONTIER
FARM CREDIT
AGRICULTURE WORKS HERE.®

Frontier Farm Credit, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following commentary reviews the consolidated financial position and consolidated results of operations of Frontier Farm Credit, ACA, and its subsidiaries (Frontier Farm Credit). The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. You should also read our 2017 Annual Report for a description of our organization, operations and significant accounting policies.

CoBank, ACB's financial condition and results of operations materially affect shareholders' investment in Frontier Farm Credit, ACA. To request a free copy of the combined CoBank, ACB and affiliated associations' financial reports, contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905 or via email to $sr@frontierfarmcredit.com. You may also obtain copies by accessing CoBank, ACB's website at www.cobank.com.

Forward-Looking Information

Any forward-looking statements in this Quarterly Financial 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.

Loan Portfolio

Loan volume remained steady with a slight increase of $2.2 million from year-end, an increase of 0.1 percent. The increase was primarily due to an increase in long-term agricultural mortgage loans.

We recorded a $2.9 million provision for credit losses for the first nine months of 2018, as compared with $0.8 million during the first nine months of 2017. The provision for credit losses for the first nine months of 2018 is primarily due to deterioration in credit quality in the grain and sugar industries. Net charge-offs for the first nine months of 2018 were $578 thousand compared to net charge-offs of $724 thousand in the same period a year ago.

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, portfolio quality, estimated collateral values, and current economic and environmental conditions.

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands):

	September 30, 2018	December 31, 2017
Risk loans:		
Nonaccrual	**$13,514**	$5,597
Restructured	**372**	390
90 days past due still accruing interest	**204**	59
Total risk loans	**14,090**	6,046
Other property owned, net	**279**	279
Total risk assets	**$14,369**	$6,325
Risk loans as a percent of total loans and interest	**0.72%**	0.31%
Nonaccrual loans as a percent of total loans	**0.70%**	0.29%
Current nonaccrual loans as a percent of total nonaccrual loans	**37.53%**	48.9%
Total delinquencies as a percent of total loans and interest	**0.66%**	0.59%

Total risk loans have increased since year-end. The increase is primarily due to an increase in nonaccrual loans and 90 days past due still accruing interest. The increase in nonaccrual loans is primarily due to accounts in the grain and sugar industries. It is our practice to transfer accruing loans that are past due 90 days or more into nonaccrual unless they are adequately secured and in the process of collection. Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection. Risk loans as a percentage of total loans remain at acceptable levels.

Comparative allowance coverage of various loan categories follows:

	September 30, 2018	December 31, 2017
Allowance as a percentage of:		
Total loans	**0.43%**	0.32%
Nonaccrual loans	**61.42%**	108.99%
Total risk loans	**58.91%**	100.89%

Our adversely classified assets increased during the first nine months of 2018, ending the quarter at 6.8 percent of the portfolio, compared to 3.9 percent of the portfolio at December 31, 2017. Adversely classified are assets 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, and in our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2018.

Commodity Review and Outlook Update

The Frontier Farm Credit Appraisal team monitors real estate value trends through semi-annual appraisals of seven benchmark farms in eastern Kansas, which are updated each January and July.

For the first six months of 2018, there was an overall increase of 2.1 percent in the benchmark values and in the twelve months ended June 30, 2018 there was also a 2.1 percent increase.

Farmland prices were relatively steady across our territory compared to a year ago. The average quality of land sold also remained stable during this time and has not changed substantially over the past few years. Public land auction activity increased compared to the first half of 2017. Despite this, the overall availability of farmland appears to be similar to 2017 as private and realtor sales declined, offsetting the increase in public auction sales.

Loan repayment capacity for our loans is largely dependent upon income from corn, soybeans, wheat and cattle.

The margin outlook for most crop producers continues to look challenging for the foreseeable future with most forecasters projecting corn and soybean prices to be at or below cost of production for the average producer. Growing conditions during 2018 in eastern Kansas were not favorable with significant drought conditions persisting for a majority of the growing season further impacting anticipated profit margins. Profit margins within the cattle feeding sector were largely positive during the first nine months of 2018 resulting in further improvement of financial positions within this portfolio.

Refer to the Commodity Review and Outlook section of Management's Discussion & Analysis in the 2017 Annual Report for further analysis of industry conditions.

Results of Operations

The following table presents profitability information (dollars in thousands):

	For the nine months ended September 30,	
	2018	2017
Net income	**$30,875**	$28,741
Return on average assets	**2.04%**	1.93%
Return on average members' equity	**9.49%**	9.61%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Members' Equity section.

Major components of the changes in net income for the nine months ended September 30, 2018 compared to the same period in 2017 are outlined in the following table (in thousands):

Increase (decrease) in Net Income	2018 vs. 2017
Net interest income	**$ 737**
Provision for credit losses	**(2,054)**
Noninterest income	**2,399**
Noninterest expense	**756**
Provision for income taxes (net)	**296**
Total change in net income	**$2,134**

Net interest income was $39.7 million for the first nine months of 2018 compared to $38.9 million for the first nine months of 2017. The annualized net interest margin was 2.79 percent for the first nine months of 2018, compared to 2.78 percent for the same period in 2017.

The effects on net interest income from changes in average volumes and rates are quantified in the following table for the nine months ended September 30 (in thousands):

	2018 vs. 2017
Changes in volume	**$843**
Changes in rates	**(110)**
Change in nonaccrual income	**4**
Net change	**$737**

The variance in the provision for credit losses reflects our assessment of risk in the loan portfolio.

The increase in noninterest income is primarily due to a refund from the Farm Credit System Insurance Corporation and an increase in bank patronage. The decrease in noninterest expense is primarily due to the alliance income and expense sharing provisions partially offset by a reduction in the Farm Credit System Insurance Corporation premiums.

The increase in net interest income is due to an increase in interest income, partially offset by an increase in interest expense.

Frontier recorded $10.5 million of operating expenses under the income and expense sharing provisions of the alliance agreement in the first nine months of 2018 compared to $11.8 million for the first nine months of 2017. Refer to Note 1 in our 2017 Annual Report for additional information on the alliance.

Funding, Liquidity and Members' Equity

We borrow from CoBank, ACB under a note payable, in the form of a line of credit. The note payable is collateralized by a pledge of substantially all of our assets and is governed by a General Financing Agreement (GFA), which provides for an open-ended revolving line of credit. The GFA matures on May 31, 2019, and we expect renewal at that time. Substantially all borrower loans are match-funded with CoBank, ACB which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as Frontier Farm Credit is a stockholder of CoBank, ACB, we expect this borrowing relationship to continue into the foreseeable future.

The interest rate may periodically be adjusted by CoBank, ACB based on the terms and conditions of the borrowing. CoBank, ACB has established limitations on our ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At September 30, 2018, and December 31, 2017 we were within the specified limitations.

Our members' equity increased to $451.5 million at September 30, 2018 compared to $420.1 million at December 31, 2017. The increase was due to the net income recorded for the first nine months of 2018 and net issuance of capital stock.

Farm Credit Administration 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 Farm Credit Administration requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents ratios. Refer to Note 8 in our 2017 Annual Report for a more complete description of these ratios.

	As of September 30, 2018	Regulatory Minimums	Capital Conservations Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**17.59%**	4.5%	2.5% *	
Tier 1 capital ratio	**17.59%**	6.0%	2.5% *	8.5%
Total capital ratio	**17.99%**	8.0%	2.5% *	10.5%
Permanent capital ratio	**17.66%**	7.0%	0.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**19.34%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.05%**	1.5%	0.0%	1.5%

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

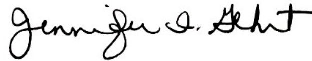
Regulatory Matters

In May 2018, the Farm Credit Administration Board approved a final rule to revise the requirements governing the eligibility of investment securities for Farm Credit System Institutions. The new regulation revises the eligibility purpose, type, and amount of investments that an association may hold. The regulation is effective January 1, 2019. We currently do not have investment securities on our Consolidated Statements of Condition.

Certification

This report has been prepared under the oversight of the Board Audit Committee. The undersigned certify that they have reviewed this report and it has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of their knowledge and belief.

Mark Jensen
President and CEO
October 25, 2018


Jennifer Gehrt
Chairperson, ACA Board of Directors
October 25, 2018

Craig P. Kinnison
Senior Vice-President and CFO
October 25, 2018

Frontier Farm Credit, ACA
Consolidated Balance Sheet
(dollars in thousands)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Loans	**$1,921,467**	$1,919,313
Allowance for loan losses	**8,300**	6,100
Net loans	**1,913,167**	1,913,213
Accrued interest receivable	**32,664**	26,337
Investment in CoBank, ACB	**63,834**	63,816
Investment in AgDirect, LLP	**4,315**	4,696
Premises and equipment, net	**21,110**	21,795
Other property owned, net	**279**	279
Prepaid benefit expense	**1,963**	1,367
Other assets	**15,056**	23,381
Total assets	**$2,052,388**	$2,054,884
LIABILITIES		
Notes payable	**$1,588,821**	$1,610,787
Accrued interest payable	**3,362**	2,974
Patronage payable	**-**	11,500
Reserve for unfunded lending commitments	**800**	700
Accrued benefits liability	**545**	813
Other liabilities	**7,359**	8,045
Total liabilities	**1,600,887**	1,634,819
MEMBERS' EQUITY		
At-risk capital:		
Class B common stock	**7,907**	7,454
Class C common stock	**232**	221
Accumulated other comprehensive loss	**(210)**	(246)
Retained earnings	**443,572**	412,636
Total members' equity	**451,501**	420,065
Total liabilities and members' equity	**$2,052,388**	$2,054,884

The accompanying notes are an integral part of these financial statements.

Frontier Farm Credit, ACA
Consolidated Statement of Income
(dollars in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
NET INTEREST INCOME				
Interest income	**$23,684**	$21,554	**$68,483**	$62,647
Interest expense	**10,156**	8,363	**28,830**	23,731
Net interest income	**13,528**	13,191	**39,653**	38,916
Provision for credit losses	**977**	(545)	**2,878**	824
Net interest income after provision for credit losses	**12,551**	13,736	**36,775**	38,092
NONINTEREST INCOME				
Patronage income from CoBank, ACB	**2,713**	1,754	**6,283**	5,331
Insurance fund refund	**-**	-	**1,351**	-
Loan fees	**346**	424	**1,068**	1,114
Insurance services	**687**	738	**933**	921
Distribution from AgDirect, LLP	**207**	159	**629**	480
Mineral income	**336**	261	**770**	789
Total noninterest income	**4,289**	3,336	**11,034**	8,635
NONINTEREST EXPENSE				
Salaries and employee benefits	**4,129**	4,236	**12,533**	12,539
Occupancy and equipment expense	**508**	552	**1,501**	1,552
Insurance fund premiums	**333**	554	**1,014**	1,686
Other operating expenses	**596**	293	**1,237**	1,975
Other noninterest expense	**599**	168	**549**	(162)
Total noninterest expense	**6,165**	5,803	**16,834**	17,590
Income before income taxes	**10,675**	11,269	**30,975**	29,137
Provision for income taxes	**2**	74	**100**	396
Net income	**$10,673**	$11,195	**$30,875**	$28,741
COMPREHENSIVE INCOME				
Amortization of retirement costs	**12**	14	**36**	42
Comprehensive Income	**$10,685**	$11,209	**$30,911**	$28,783

The accompanying notes are an integral part of these financial statements.

Frontier Farm Credit, ACA
Consolidated Statement of Changes in Members' Equity
(dollars in thousands)
(unaudited)

	Accumulated Other Comprehensive Income/(Loss)	At-risk Capital		Total Members' Equity
		Capital Stock	Retained Earnings	
Balance at December 31, 2016	($298)	$5,786	$380,583	$386,071
Net income			28,741	28,741
Patronage accrual adjustment			4	4
Change in other comprehensive income	42			42
Capital stock:				
Issued		3,638		3,638
Retired		(1,976)		(1,976)
Balance at September 30, 2017	($256)	$7,448	$409,328	$416,520
Balance at December 31, 2017	($246)	$7,675	$412,636	$420,065
Net income			**30,875**	**30,875**
Patronage accrual adjustment			**61**	**61**
Change in other comprehensive income	**36**			**36**
Capital stock:				
Issued		**1,470**		**1,470**
Retired		**(1,006)**		**(1,006)**
Balance at September 30, 2018	**($210)**	**$8,139**	**$443,572**	**$451,501**

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements (unaudited)

Note 1 - Organization and Significant Accounting Policies

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Financial Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the year ended 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 2017 Annual Report for the year ended December 31, 2017.

The consolidated financial statements present the consolidated financial results of Frontier Farm Credit, ACA (the parent) and Frontier Farm Credit, FLCA and Frontier Farm Credit, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled *Measurement of Credit Losses on Financial Instruments*. 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. We are in the process of reviewing the standard. Significant implementation matters yet to be addressed include system selection, drafting of accounting policies and disclosures, designing processes and controls. We are currently unable to estimate the impact on the financial statements.

In February 2016, the Financial Accounting Standards (FASB) issued guidance entitled *Leases*. 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. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019, and interim periods the subsequent year. Early adoption is permitted. We have no plans to early adopt this guidance. When this guidance is adopted, a liability for lease obligations and a corresponding right-of-use asset will be recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. We are in the process of 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 May 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled *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 new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. We have adopted the new standard effective January 1, 2018, using the modified retrospective approach. Since 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 our financial condition, results of operations, equity or cash flows.

Refer to Note 2 in our 2017 Annual Report for additional information on other accounting standards that have been issued but are not yet effective. We are currently evaluating the impact of the guidance on our Consolidated Financial Statements.

Note 2 – Loans and Allowance for Credit Losses

Loans consisted of the following (dollars in thousands):

	September 30, 2018			December 31, 2017		
	Amount	Percentage		Amount	Percentage	
Long-term agricultural mortgage	**$1,097,792**	**57.1**	**%**	$1,075,693	56.0	%
Production and intermediate term	**486,099**	**25.3**		510,759	26.6	
Agribusiness	**199,264**	**10.4**		206,740	10.8	
Rural residential real estate	**89,259**	**4.7**		83,653	4.4	
Rural infrastructure	**38,597**	**2.0**		33,018	1.7	
Agricultural export finance	**10,456**	**0.5**		9,450	0.5	
Total loans	**$1,921,467**	**100.0**	**%**	$1,919,313	100.0	%

Credit Quality

One credit quality indicator we utilize is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- acceptable – loans are expected to be fully collectible and represent the highest quality;
- other assets especially mentioned (OAEM) (special mention) – loans are currently collectible but exhibit some potential weakness;
- substandard – loans exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- doubtful – loans exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- loss – loans are considered uncollectible.

We had no loans categorized as loss at September 30, 2018 or December 31, 2017.

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type:

	As of September 30, 2018						
	Acceptable		**OAEM**		**Substandard/Doubtful**		**Total**
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**
Long-term agricultural mortgage	**$1,005,681**	**89.82%**	**$45,770**	**4.09%**	**$68,226**	**6.09%**	**$1,119,677**
Production and intermediate term	**409,040**	**82.53%**	**28,188**	**5.69%**	**58,418**	**11.78%**	**495,646**
Agribusiness	**193,315**	**96.60%**	**2,248**	**1.12%**	**4,553**	**2.28%**	**200,116**
Rural residential real estate	**86,867**	**96.98%**	**1,205**	**1.35%**	**1,504**	**1.68%**	**89,576**
Rural infrastructure	**37,076**	**95.95%**	**1,566**	**4.05%**	**-**	**-**	**38,642**
Agricultural export finance	**10,474**	**100.00%**	**-**	**-**	**-**	**-**	**10,474**
Total	**$1,742,453**	**89.17%**	**$78,977**	**4.04%**	**$132,701**	**6.79%**	**$1,954,131**

	As of December 31, 2017						
	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Long-term agricultural mortgage	$988,618	90.49%	$60,240	5.51%	$43,662	4.00%	$1,092,520
Production and intermediate term	462,428	89.09%	28,303	5.45%	28,313	5.46%	519,044
Agribusiness	205,455	98.95%	251	0.12%	1,928	0.93%	207,634
Rural residential real estate	81,414	97.03%	1,160	1.38%	1,330	1.59%	83,904
Rural infrastructure	33,080	100.00%	-	-	-	-	33,080
Agrcultural export finance	9,468	100.00%	-	-	-	-	9,468
Total	$1,780,463	91.51%	$89,954	4.62%	$75,233	3.87%	$1,945,650

Delinquency

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (in thousands):

As of September 30, 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 Loans	90 Days or More Past Due and Accruing
Long-term agricultural mortgage	**$2,496**	**$ 6,204**	**$8,700**	**$1,110,977**	**$1,119,677**	**78**
Production and intermediate term	**1,507**	**2,051**	**3,558**	**492,088**	**495,646**	**126**
Agribusiness	**-**	**77**	**77**	**200,040**	**200,117**	-
Rural residential real estate	**377**	**179**	**556**	**89,020**	**89,576**	-
Rural infrastructure	**-**	**-**	**-**	**38,641**	**38,641**	-
Agricultural export finance	**-**	**-**	**-**	**10,474**	**10,474**	-
Total	**$4,380**	**$8,511**	**$12,891**	**$1,941,240**	**$1,954,131**	**$204**

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 Loans	90 Days or More Past Due and Accruing
Long-term agricultural mortgage	$3,962	$ 669	$4,631	$1,087,889	$1,092,520	$ -
Production and intermediate term	5,637	937	6,574	512,470	519,044	59
Agribusiness	-	-	-	207,633	207,633	-
Rural residential real estate	96	249	345	83,560	83,905	-
Rural infrastructure	-	-	-	33,080	33,080	-
Agricultural export finance	-	-	-	9,468	9,468	-
Total	$9,695	$1,855	$11,550	$1,934,100	$1,945,650	$59

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. Accruing loans include principal and interest. The following tables present information concerning risk loans (in thousands):

	As of September 30,	
	2018	2017
Risk loans with specific allowance	**$ 1,894**	$ 2,653
Risk loans without specific allowance	**12,196**	5,398
Total risk loans	**$14,090**	$8,051
Total specific allowance	**$595**	$1,758

	For the nine months ended September 30,	
	2018	2017
Interest income recognized on nonaccrual loans	**$ 475**	$319
Interest income on risk accrual loans	**79**	65
Interest income recognized on risk loans	**$554**	$384
Average risk loans	**$13,938**	$11,243

At September 30, 2018, there were approximately $157 thousand in commitments to lend additional funds to customers whose loans were at risk.

Troubled Debt Restructurings

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 troubled debt restructurings 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.

	2018		2017	
	Premodification Outstanding Recorded Investment	**Postmodification Outstanding Recorded Investment**	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Production and intermediate term	**$ 891**	**$ 732**	-	-
Agribusiness	**2,396**	**2,490**	-	-
Total	**$3,287**	**$3,222**	$ -	$ -

Pre-modification outstanding represents the recorded investment just prior to restructuring, and post-modification outstanding represents the recorded investment immediately following the restructuring. The recorded investment is the face 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 of the investment.

Troubled debt restructurings outstanding at September 30, 2018, totaled $5.1 million, of which $4.7 million were in nonaccrual status. There were no additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring at September 30, 2018.

Allowance for Loan Losses

An analysis of changes in the allowance for credit losses follows (in thousands):

	September 30,	
Allowance for loan losses	**2018**	2017
Balance at beginning of year	**$6,100**	$7,500
Provision for loan losses	**2,778**	924
Charge-offs	**(1,628)**	(860)
Recoveries	**1,050**	136
Balance at end of quarter	**$8,300**	$7,700

	September 30,	
Reserve for unfunded lending commitments	**2018**	2017
Balance at beginning of year	**$700**	$800
Provision for (reversal of) unfunded lending commitments	**100**	(100)
Balance at end of quarter	**$800**	$700

We recorded a $2.9 million provision for credit losses for the first nine months of 2018, as compared with $0.8 million during the first nine months of 2017. The provision for credit losses for the first nine months of 2018 is primarily due to deterioration in credit quality in the grain and sugar industries. Net charge-offs for the first nine months of 2018 were $578 thousand compared to net charge-offs of $724 thousand in the same period a year ago.

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, portfolio quality, estimated collateral values, and current economic and environmental conditions.

Note 3 – 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 six 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 six 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. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (in thousands):

	Fair Value Measurement Using			
As of September 30, 2018	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Impaired loans	**-**	**-**	**$1,052**	**$1,052**
Other property owned	**-**	**-**	**$ 300**	**$ 300**

	Fair Value Measurement Using			
As of December 31, 2017	Level 1	Level 2	Level 3	Total Fair Value
Impaired Loans	-	-	$576	$576
Other property owned	-	-	$300	$300

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 fall under 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 fall under 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.

Note 4- Commitments and Contingencies

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 accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, 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, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

Note 5- Subsequent Events

We have evaluated subsequent events through October 25, 2018 which is the date the 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.