GreenStone Farm Credit Services, ACA

Quarterly Report
September 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of GreenStone Farm Credit Services, ACA and its subsidiaries GreenStone Farm Credit Services, FLCA and GreenStone Farm Credit Services, 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, 2016 (2016 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:

GreenStone Farm Credit Services, ACA
3515 West Road
East Lansing, MI 48823
(800) 968-0061
www.greenstonefcs.com
Travis.Jones@greenstonefcs.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

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 2016 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

Heading into the fourth quarter of 2017, most leading economic indicators in the U.S. were positive. The economic data continued to support a strong market in spite of national and international conflicts. The U.S. Gross Domestic Product increased at an estimated annual rate of 3.0% in the third quarter of 2017 following a 3.1% increase in the second quarter. This growth is primarily due to higher consumer spending and business investment. Despite modest disruptions from the hurricane effects and limited progress on economic policy, consumer confidence has continued to measure at a relatively high level after surging in the wake of last November's presidential election. The Institute for Supply Management also showed positive signs in its September survey. The manufacturing index increased to 58.8 from 56.3 and the non-manufacturing index increased to 55.3 from 53.9. This suggests that the business community considers the national economic conditions to be positive.

In September, the Bureau of Labor Statistics reported a net loss of 33,000 jobs after adding an average of 172,000 jobs per month over the prior 12 months. This was due to a steep employment decline in food services and drinking places, and below-trend growth in some other industries likely reflecting the impact of Hurricanes Irma and Harvey. Employment rose in health care, transportation, and warehousing. U.S. home building fell to a one-year low in September, which was the third consecutive monthly decline, as the hurricanes disrupted the construction of single-family homes in the South. The Commerce Department also showed a decline in building permits, raising concern that the housing market recovery is stalling.

The Federal Open Market Committee's (FOMC) recent policy statement and economic projections indicate a steady rise in the federal funds rate and, given the FOMC projections for inflation, the net result is a steady rise in the real short-term federal funds rate. The FOMC's updated dot-plot projections for 2017 suggest one more rate hike this year and three 0.25% increases in 2018. During the September meeting, the FOMC made its official announcement of its balance sheet reduction. The Committee will gradually reduce the Federal Reserve's securities holdings by not reinvesting all maturing assets. A $10.0 billion per month taper began in October.

After three consecutive years of decline, the U.S. Department of Agriculture (USDA) is forecasting net cash farm income and net farm income to rise in 2017 relative to 2016 estimates. Net cash farm income for 2017 is forecast at $100.4 billion, up 12.6% from 2016. Net farm income, which is a broader measure of profits, is forecast at $63.4 billion, up 3.1% relative to 2016. Cash income from crop sales during the 2017 calendar year are forecast to increase just $0.5 billion, or 0.3%, as prices continue to decline for many field crops. For 2017, corn receipts are expected to decline for the fifth consecutive year due to the weakening of corn prices more than offsetting increases in quantities sold. Wheat receipts are expected to decline almost $0.3 billion, or 3.3%, in 2017 despite an expected price increase. Soybean receipts are forecasted higher at $2.4 billion, or 6.3%, in 2017 reflective of higher soybean prices and an increase in quantities sold.

In September, the USDA did not forecast any growth in the dairy herd and has reduced the 2017 forecast for milk cows to 9.4 million, slightly less than their August forecast. Offsetting the reduced cow herd is a relatively strong growth in milk per cow in 2017. These changes result in milk production forecast of 216.0 billion pounds for 2017, 0.3 billion pounds higher than previously forecasted. Most dairy product price forecasts have been lowered for the year. The all-milk price for the year is forecast at $17.70-$17.90 per cwt.

The USDA expects U.S. pork production for the third and fourth quarters of 2017 to be record highs. Two large new processing plants, located in Coldwater, MI and Sioux City, IA, opened in September with capacities of 10,000 and 12,000 head per day, respectively. While it is unlikely that these plants will reach full capacity immediately, increasing slaughter rates are anticipated to relieve the pressure that the anticipated fourth quarter weekly hog numbers would have otherwise produced. Hog prices are expected to average $57-$58 in the third quarter, or approximately 17.0% higher than a year ago.

The USDA is also forecasting an increase in production costs in 2017, offsetting some of the increase in net farm income. Overall farm input costs, including feed and seed, are expected to decline. However, some input costs are expected to increase like fuel, labor, and interest expense. Fuels and oils specifically are expected to increase by 10.8% from 2016, which comes after price declining trends for two years. On the other hand, fertilizer, lime, and soil conditioner expenses are forecast lower by 9.9% based on lower fertilizer prices and fewer planted acres in 2017. Looking forward to 2018, there is optimism that fertilizer prices may hold or decrease from 2017 levels. Future prices on natural gas contracts are not suggesting a large increase in natural gas, which is a major cost component of nitrogen fertilizer.

The U.S. dollar strengthening has an effect of depressing agricultural commodity prices. International trade is important to the U.S. agricultural industry, accounting for approximately 20.0% of the volume of U.S. agricultural products. With the U.S. dollar expected to remain strong through 2017, farm cash receipts will likely remain under pressure. Any future trade disputes could also potentially harm U.S. agricultural trade. The U.S. is the largest exporter of agricultural products in the world, with more than $135.0 billion annually. The U.S. agriculture industry is substantially reliant on trade. Because of this reliance, when disputes arise, most countries are quick to retaliate against U.S. agriculture often targeting products from politically sensitive states and industries.

Despite the reduction in farm income over the past three years, the USDA National Agricultural Statistics Service (NASS) does not anticipate any material change in farm real estate values in Michigan or Wisconsin. The Lakes States region, which includes Michigan, Minnesota, and Wisconsin, reported average cash rents at $153 per acre, down 1.2%. A decline in cropland cash rent is expected to have a positive impact on tight operating margins that farm operators are experiencing.

LOAN PORTFOLIO

Loan Portfolio

Owned loan volume totaled $8.0 billion at September 30, 2017, a $226.4 million increase from December 31, 2016.

Total owned and managed loan volume, including serviced volume on the real estate loans sold to AgriBank was $8.2 billion at September 30, 2017, a $201.1 million increase from December 31, 2016. Our combined mortgage portfolio increased $321.1 million, or 5.4% from December 31, 2016. Our short-term commercial loan portfolio decreased $119.9 million, or 5.7% from December 31, 2016. When compared to September 2016, owned and managed total loan volume is up 5.2%, driven by growth in all market segments and being led by our commercial lending segment that has increased 11.6% since September 30, 2016.

Portfolio Credit Quality

The credit quality of our loan portfolio remained solid during the third quarter of 2017. Acceptable loan credit quality, as measured under the Uniform Classification System, was 94.4% after beginning the year at 95.4%. Year over year, acceptable credit quality decreased 1.1% from 95.5% at September 30, 2016. Portfolio assets criticized as being less than acceptable were comprised of 2.3% other assets especially mentioned (OAEM) and 3.3% adversely classified. OAEM decreased while adversely classified increased from December 31, 2016.

Adversely classified loans are identified as having material credit weaknesses which, if left uncorrected, result in a greater than normal risk. Portfolio credit quality is considered when assessing the reasonableness of our allowance for loan losses. The credit quality of our core market of traditional production farm loans remains sound. Weaker borrowers in our dairy, poultry, hog, greenhouse/nursery, and crop farm portfolios continued to be challenged financially during the third quarter of 2017.

The resulting level of credit quality, when combined with our earnings and addition to capital surplus, results in an adverse asset to risk funds ratio of 17.9%. This ratio has increased from 10.8% at December 31, 2016, but remains sound. This ratio is a good measure of our risk-bearing ability.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At September 30, 2017, $286.6 million of our loans were, to some level, guaranteed under these programs. This volume increased from $270.4 million at September 30, 2016.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**September 30 2017**	December 31 2016
Loans:		
Nonaccrual	**$53,655**	$46,522
Accruing restructured	**3,472**	3,374
Accruing loans 90 days or more past due	**506**	65
Total risk loans	**57,633**	49,961
Acquired property	**1,749**	1,583
Total risk assets	**$59,382**	$51,544
Total risk loans as a percentage of total loans	**0.7%**	0.6%
Nonaccrual loans as a percentage of total loans	**0.7%**	0.6%
Current nonaccrual loans as a percentage of total nonaccrual loans	**85.9%**	76.5%
Total delinquencies as a percentage of total loans	**0.3%**	0.4%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2016, but remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

Nonaccrual loans remained at an acceptable level at September 30, 2017 as they increased from $46.5 million at December 31, 2016, to $53.7 million. As of September 30, 2017, approximately 31% of the nonaccrual loan portfolio was comprised of dairy loans, 24% greenhouse/nursery, 18% crop farms, and 11% part-time farmers.

Our accounting policy requires accruing loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, all loans 90 days or more past due and still accruing interest 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 2017**	December 31 2016
Allowance as a percentage of:		
Loans	**0.7%**	0.6%
Nonaccrual loans	**106.4%**	99.7%
Total risk loans	**99.1%**	92.8%

The allowance for loan losses increased $10.7 million from December 31, 2016, to September 30, 2017. During the first nine months of 2017, a provision for loan losses of $7.2 million was recorded. The increase in the allowance for loan losses is primarily due to a large capital markets relationship that was downgraded during the year along with a large commercial borrower that was transferred into nonaccrual. This is being partially offset by a recovery from a large capitals markets relationship.

Under certain circumstances, credit losses may be recorded to establish a reserve on unfunded loan commitments. The “Provision for credit losses” in the Consolidated Statements of Income for the nine months ended September 30, 2017, included a reversal of credit losses on unfunded loan commitments of $34 thousand. The accrued credit losses are recorded in “Other liabilities” in the Consolidated Statements of Condition. The accrued credit losses related to unfunded loan commitments were $2.9 million and $3.0 million as of September 30, 2017 and December 31, 2016, respectively.

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2017.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30	**2017**	2016
Net income	**$113,998**	$96,718
Return on average assets	**1.9%**	1.7%
Return on average members' equity	**10.0%**	9.1%

Changes in the previous chart relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the nine months ended September 30	2017	2016	Increase (decrease) in net income
Net interest income	**$152,986**	$144,647	**$8,339**
Provision for credit losses	**(7,167)**	(13,689)	**6,522**
Patronage income	**25,773**	15,465	**10,308**
Financially related services income	**6,270**	5,915	**355**
Fee income	**11,092**	11,015	**77**
Acquired property income, net	**18**	161	**(143)**
Miscellaneous income, net	**780**	1,099	**(319)**
Operating expenses	**(69,172)**	(66,956)	**(2,216)**
Provision for income taxes	**(6,582)**	(939)	**(5,643)**
Net income	**$113,998**	$96,718	**$17,280**

Changes in Net Interest Income

(in thousands) For the nine months ended September 30	2017 vs 2016
Changes in volume	**$9,516**
Changes in interest rates	**(1,408)**
Changes in nonaccrual income and other	**231**
Net change	**$8,339**

The change in provision for credit losses of $6.5 million for the first nine months of 2017 compared to the prior year was primarily due to the credit classification downgrade of a large capital markets relationship that occurred in 2016. The credit metrics of this relationship have improved in 2017, including the receipt of principal payments resulting in the reduction of 54% of the loan exposure to this relationship.

We receive patronage income from AgriBank primarily based on the average balance of our note payable to AgriBank. In 2016, AgriBank paid a patronage rate of 21.0 basis points (bps) for the first nine months of the year. For the first six months of 2017, we were accruing 23.6 bps of patronage. AgriBank adopted a new capital plan effective July 1st and we have accrued a total of 33.6 bps of patronage for the first nine months of 2017.

The increase in provision for income taxes was primarily related to higher pre-tax income and more income generated on the taxable ACA entity.

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 December 31, 2019, at which time the note will be renegotiated. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is primarily from unallocated surplus.

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

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

We were not subject to a risk premium at September 30, 2017, or December 31, 2016.

Total members' equity increased $89.2 million from December 31, 2016, primarily due to net income for the period partially offset by patronage distribution accruals.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations.

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. Refer to Note 5 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios effective as of September 30, 2017. Refer to Note 8 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

RELATIONSHIP WITH AGRIBANK

Patronage

AgriBank has amended its capital plan effective July 1, 2017, to provide for adequate capital at AgriBank under the new capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank; distributing available AgriBank earnings in the form of patronage, either cash or stock. A key part of these changes involves maintaining capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

CERTIFICATION

The undersigned have reviewed the September 30, 2017, Quarterly Report of GreenStone Farm Credit Services, 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.

Edward L. Reed
Chair of the Board
GreenStone Farm Credit Services, ACA

David B. Armstrong
Chief Executive Officer
GreenStone Farm Credit Services, ACA

Travis D. Jones
Executive Vice President – Chief Financial Officer
GreenStone Farm Credit Services, ACA

November 6, 2017

CONSOLIDATED STATEMENTS OF CONDITION

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

As of:	**September 30 2017**	December 31 2016
ASSETS		
Loans	**$8,028,000**	$7,801,558
Allowance for loan losses	**57,090**	46,382
Net loans	**7,970,910**	7,755,176
Investment in AgriBank, FCB	**164,317**	159,936
Investment securities	**13,983**	16,749
Accrued interest receivable	**71,814**	54,054
Premises and equipment, net	**45,089**	41,740
Acquired property	**1,749**	1,583
Deferred tax assets, net	**3,637**	5,279
Other assets	**46,313**	44,712
Total assets	**$8,317,812**	$8,079,229
LIABILITIES		
Note payable to AgriBank, FCB	**$6,657,160**	$6,506,325
Accrued interest payable	**34,953**	27,164
Patronage distribution payable	**25,200**	32,979
Other liabilities	**43,013**	44,428
Total liabilities	**6,760,326**	6,610,896
Contingencies and commitments (Note 6)		
MEMBERS' EQUITY		
Protected members' equity	**1**	1
Capital stock and participation certificates	**22,034**	21,693
Unallocated surplus	**1,535,451**	1,446,639
Total members' equity	**1,557,486**	1,468,333
Total liabilities and members' equity	**$8,317,812**	$8,079,229

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

CONSOLIDATED STATEMENTS OF INCOME

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
For the period ended September 30	**2017**	2016	**2017**	2016
Interest income	**$87,901**	$76,638	**$251,294**	$224,626
Interest expense	**34,934**	27,251	**98,308**	79,979
Net interest income	**52,967**	49,387	**152,986**	144,647
Provision for credit losses	**2,620**	3,157	**7,167**	13,689
Net interest income after provision for credit losses	**50,347**	46,230	**145,819**	130,958
Non-interest income				
Patronage income	**11,510**	5,286	**25,773**	15,465
Financially related services income	**2,034**	1,716	**6,270**	5,915
Fee income	**3,723**	4,465	**11,092**	11,015
Acquired property income, net	**11**	85	**18**	161
Miscellaneous income, net	**106**	55	**780**	1,099
Total non-interest income	**17,384**	11,607	**43,933**	33,655
Operating expenses				
Salaries and employee benefits	**14,872**	14,125	**43,796**	42,284
Other operating expenses	**8,518**	8,488	**25,376**	24,672
Total operating expenses	**23,390**	22,613	**69,172**	66,956
Income before income taxes	**44,341**	35,224	**120,580**	97,657
Provision for income taxes	**1,789**	666	**6,582**	939
Net income	**$42,552**	$34,558	**$113,998**	$96,718

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2015	$2	$21,436	$1,347,685	$1,369,123
Net income	--	--	96,718	96,718
Unallocated surplus designated for patronage distributions	--	--	(22,862)	(22,862)
Capital stock and participation certificates issued	--	1,432	--	1,432
Capital stock and participation certificates retired	(1)	(1,207)	--	(1,208)
Balance at September 30, 2016	$1	$21,661	$1,421,541	$1,443,203
Balance at December 31, 2016	$1	$21,693	$1,446,639	$1,468,333
Net income	**--**	**--**	**113,998**	**113,998**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(25,186)**	**(25,186)**
Capital stock and participation certificates issued	**--**	**1,589**	**--**	**1,589**
Capital stock and participation certificates retired	**--**	**(1,248)**	**--**	**(1,248)**
Balance at September 30, 2017	**$1**	**$22,034**	**$1,535,451**	**$1,557,486**

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, 2017, are not necessarily indicative of the results to be expected for the year ending December 31, 2017. 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, 2016 (2016 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of GreenStone Farm Credit Services, ACA and its subsidiaries GreenStone Farm Credit Services, FLCA and GreenStone Farm Credit Services, 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.

Standard	Description	Effective date and financial statement impact
In March 2017, the FASB issued Accounting Standards Update (ASU) 2017-07 “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost.”	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.	The guidance is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within those annual periods. For other entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted with certain restrictions. We are currently evaluating the impact of the guidance on our results of operations and financial statement disclosures. The guidance will have no impact on our financial condition or cash flows.
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 “Financial Instruments – Credit Losses.”	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.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In February 2016, the FASB issued ASU 2016-02 “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 and modified retrospective adoption is required. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

Standard	Description	Effective date and financial statement impact
In January 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities."	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.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our Notes to Consolidated Financial Statements. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2017, for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers."	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.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. In March 2016, the FASB issued ASUs 2016-08 and 2016-10 which provided further clarifying guidance on the previously issued standard. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition and results of operations.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**September 30, 2017**		December 31, 2016	
	Amount	**Percentage**	Amount	Percentage
Real estate mortgage	**$4,819,119**	**60.0%**	$4,612,265	59.1%
Production and intermediate term	**2,040,581**	**25.4**	2,039,670	26.1
Agribusiness	**820,720**	**10.2**	842,667	10.8
Other	**347,580**	**4.4**	306,956	4.0
Total	**$8,028,000**	**100.0%**	$7,801,558	100.0%

The other category is primarily comprised of rural residential real estate and communication related loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of September 30, 2017**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$11,263**	**$1,565**	**$12,828**	**$4,851,304**	**$4,864,132**	**$ --**
Production and intermediate term	**4,731**	**3,039**	**7,770**	**2,055,864**	**2,063,634**	**506**
Agribusiness	**109**	**--**	**109**	**823,189**	**823,298**	**--**
Other	**2,507**	**862**	**3,369**	**345,018**	**348,387**	**--**
Total	**$18,610**	**$5,466**	**$24,076**	**$8,075,375**	**$8,099,451**	**$506**

As of December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$14,447	$3,890	$18,337	$4,624,963	$4,643,300	$ --
Production and intermediate term	5,612	2,374	7,986	2,051,332	2,059,318	65
Agribusiness	--	--	--	845,001	845,001	--
Other	2,518	444	2,962	304,672	307,634	--
Total	$22,577	$6,708	$29,285	$7,825,968	$7,855,253	$65

Note: Accruing loans include accrued interest receivable.

Risk Loans

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

Risk Loan Information

(in thousands) As of:	**September 30 2017**	December 31 2016
Volume with specific allowance	**$31,273**	$25,850
Volume without specific allowance	**26,360**	24,111
Total risk loans	**$57,633**	$49,961
Total specific allowance	**$11,082**	$11,355
For the nine months ended September 30	**2017**	2016
Income on accrual risk loans	**$168**	$206
Income on nonaccrual loans	**1,143**	749
Total income on risk loans	**$1,311**	$955
Average risk loans	**$50,026**	$49,404

Note: Accruing loans include accrued interest receivable.

We had two relationships in which we had commitments to lend additional money whose loans were at risk at September 30, 2017. The balance of the unfunded loan commitments were $3.4 million and $3.0 million as of September 30, 2017, and December 31, 2016, respectively.

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.

TDR Activity

(in thousands) Nine months ended September 30	**2017**		2016	
	Pre-modification	**Post-modification**	Pre-modification	Post-modification
Real estate mortgage	**$830**	**$828**	$207	$209
Production and intermediate term	**657**	**629**	57	46
Other	**--**	**--**	28	20
Total	**$1,487**	**$1,457**	$292	$275

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. 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 interest rate reduction below market and extension of maturity.

TDRs that Occurred Within the Previous 12 Months that Subsequently Defaulted During the Nine Months Ended September 30

(in thousands)	**2017**	2016
Real estate mortgage	**$47**	$ --
Production and intermediate term	**36**	--
Total	**$83**	$ --

TDRs Outstanding

(in thousands) As of:	**September 30 2017**	December 31 2016
Accrual status:		
Real estate mortgage	**$2,826**	$2,706
Production and intermediate term	**482**	506
Other	**164**	162
Total TDRs in accrual status	**$3,472**	$3,374
Nonaccrual status:		
Real estate mortgage	**$1,642**	$972
Production and intermediate term	**774**	252
Other	**232**	263
Total TDRs in nonaccrual status	**$2,648**	$1,487
Total TDRs:		
Real estate mortgage	**$4,468**	$3,678
Production and intermediate term	**1,256**	758
Other	**396**	425
Total TDRs	**$6,120**	$4,861

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at September 30, 2017.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Nine months ended September 30	**2017**	2016
Balance at beginning of period	**$46,382**	$34,290
Provision for loan losses	**7,201**	12,963
Loan recoveries	**4,356**	678
Loan charge-offs	**(849)**	(1,384)
Balance at end of period	**$57,090**	$46,547

The "Provision for credit losses" in the Consolidated Statements of Income includes a provision for loan losses as presented in the previous chart, as well as a (reversal of) provision for credit losses on unfunded commitments as presented in the following chart. The accrued credit losses on unfunded commitments are recorded in "Other liabilities" in the Consolidated Statements of Condition.

Credit Loss Information on Unfunded Commitments

(in thousands) For the nine months ended September 30	**2017**	2016
(Reversal of) provision for credit losses	**($34)**	$726
As of:	**September 30 2017**	December 31 2016
Accrued credit losses	**$2,926**	$2,960

The allowance for loan losses increased $10.7 million from December 31, 2016, to September 30, 2017. The increase in the allowance for loan losses is primarily due to a large capital markets relationship that was downgraded during the year along with a large commercial borrower that was transferred into nonaccrual. This is being partially offset by a recovery from a large capital markets relationship.

NOTE 3: INVESTMENT IN AGRIBANK, FCB

Effective January 1, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on growth in excess of a targeted growth rate. The balance of our investment in AgriBank, all required stock, was $164.3 million at September 30, 2017, and $159.9 million at December 31, 2016.

NOTE 4: INVESTMENT SECURITIES

We held investment securities of $14.0 million at September 30, 2017, and $16.7 million at December 31, 2016. Our investment securities consisted of securities containing loans fully guaranteed by the Small Business Administration. The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

Additional Investment Securities Information

(dollars in thousands) As of:	**September 30 2017**	December 31 2016
Amortized cost	**$13,983**	$16,749
Unrealized gains	**686**	787
Fair value	**$14,669**	$17,536
Weighted average yield	**3.4%**	1.8%

Investment income is recorded in “Interest income” in the Consolidated Statements of Income and totaled $393 thousand and $241 thousand for the nine months ended September 30, 2017, and 2016, respectively.

NOTE 5: MEMBERS’ EQUITY

Regulatory Capitalization Requirements

Select Capital Ratios

	As of September 30, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**16.1%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**16.1%**	6.0%	2.5%*	8.5%
Total capital ratio	**16.8%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**16.2%**	7.0%	N/A	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**17.2%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.1%**	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.

Effective January 1, 2017, the regulatory capital requirements for Farm Credit System banks and associations were modified. The new regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect, with some modifications, to align with the new regulations.

Risk-adjusted assets have been defined by Farm Credit Administration (FCA) Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes, which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments with terms at origination of less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with FCA Regulations and are calculated as follows (not all items below may be applicable to our Association):

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt, and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

Effective January 1, 2017, the regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and, as such, any stock in excess of our AgriBank required investment was not included in the common equity tier 1, tier 1 capital, total capital, or leverage ratios. We had no allocated excess stock at September 30, 2017, or December 31, 2016.

Refer to Note 8 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

NOTE 6: 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 7: 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 2016 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, 2017, or December 31, 2016.

Non-Recurring Basis

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, 2017				Nine months ended September 30, 2017
	Fair Value Measurement Using			Total Fair	
	Level 1	Level 2	Level 3	Value	Total (Losses)
Impaired loans	**$ --**	**$5,220**	**$15,980**	**$21,200**	**($576)**
Acquired property	**--**	**1,617**	**3,062**	**4,679**	**(12)**
	As of December 31, 2016				Nine months ended September 30, 2016
	Fair Value Measurement Using			Total Fair	Total (Losses)
	Level 1	Level 2	Level 3	Value	Gains
Impaired loans	$ --	$6,999	$8,221	$15,220	($450)
Acquired property	--	4,360	--	4,360	12

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.

Acquired property: 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 8: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 6, 2017, 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.