GreenStone Farm Credit Services, 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 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, 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

Real gross domestic product (GDP) increased at an annual rate of 3.5% in the third quarter of 2018 according to the "advance" estimate released by the Bureau of Economic Analysis. The increase reflected positive contributions from personal consumption expenditures, private inventory investment, government spending, and nonresidential fixed investment. This was partially offset by negative contributions from exports and residential fixed investment. Imports, which are a subtraction from GDP, increased. Further, the Tax Cuts and Jobs Act of 2017, which was enacted late last year, appears to have given many companies an after-tax earnings boost thus far during 2018.

The Federal Open Market Committee opted to further raise the fed funds rate by 0.25% at its September meeting, bringing the target rate to the 2.00%-2.25% range. Additional rate increases are expected over the next 12 months. Inflation remains near the Fed's stated 2% long-run target, with the core Consumer Price Index (CPI) running near 2.0%.

After weakening throughout 2017 and the first half of 2018, the U.S. dollar has strengthened over the last several months. In total, the Wall Street Journal Dollar Index was up approximately 8% in September when compared to April. The trade conflict between the U.S. and China is the main factor that put upward pressure on the dollar, with many investors betting that the U.S. could weather a potential all-out trade war better than most other countries.

Global oil prices surged to their highest level in nearly four years in late September, with Brent Crude prices settling over $80 a barrel for the first time since May. Overall, oil prices in September were up over 20% from the beginning of the year. The increase in oil prices was primarily a result of concerns that sanctions against Iran and turmoil in Venezuela would lead to supply shortages. Both the Organization of the Petroleum Exporting Countries (OPEC) and Russia announced plans to hold oil output constant, further driving concerns over tight oil supplies and leading to a run-up in prices. Oil prices softened somewhat in October.

The housing market slowed down during the third quarter, at least when compared to the pace it was on during the first half of the year. Existing home sales fell short of expectations and dropped 3.4% and housing starts declined 5.3% in September. Much of the decline occurred in the volatile multifamily segment, while new single-family units were essentially flat. Hurricane Florence may have had an undue influence as the South saw starts drop 13.7% during September. The National Association of Home Builders Housing Market Index edged higher, reflecting stronger builder confidence surrounding current demand for new homes. Material prices eased and since demand appears to be holding its own, gradual improvement is expected in the coming months.

On September 4, 2018, the United States Department of Agriculture (USDA) revised its forecast for 2018 total net farm income to $65.7 billion, a 13.0% decrease compared to 2017. If realized, the projected 2018 net farm income figure would be just slightly above the net farm income reported in 2016, which was the lowest level (on an inflation adjusted basis) since 2002. Contributing to the projected decrease in net farm income for 2018 is an expected $11.8 billion increase in total production expenses during the year. This expected increase in production expenses is largely related to increased fuel costs (17.8% increase), interest expense (17.3% increase), labor costs (5.1% increase), and feed costs (4.8% increase). An expected decrease of 7.4% in dairy and hog revenues for 2018 are also contributing factors to the anticipated decrease in net farm income.

Corn and soybean prices continued to retreat during the third quarter, due in large part to the trade dispute between the U.S. and China. After topping out at $4.26 per bushel in May, the December corn futures price has fallen to the $3.60 per bushel range. Similarly, November soybeans have fallen off their May high of $10.50 per bushel and are now in the $8.50 per bushel range. Grain traffic from the United States to China has nearly ground to a halt since Beijing imposed tariffs on $50 billion in U.S. imports, including soybeans. Soybeans have historically been the biggest U.S. agricultural export to China, with $12.7 billion worth exported to China in 2017.

The United States, Canada, and Mexico reached an agreement to update the North American Free Trade Agreement (NAFTA), the 1994 pact that governs more than $1.2 trillion worth of trade among the three nations. The new deal will be known as the United States-Mexico-Canada Agreement, or USMCA, and won't go into effect right away as most of the key provisions don't start until 2020. The agreement has the potential to significantly impact the amount of car and truck parts made in North America. Also as part of the new deal, Canada is giving greater market share to the U.S. dairy farmers, which should mean that U.S. dairy farmers will send more milk protein concentrate, skim milk powder, and infant formula to Canada.

Michigan-based milk producers continued to face mailbox milk prices well below the national average due to a shortage of processing capacity in the state. The July 2018 average mailbox milk price in Michigan was $13.43 per hundredweight (cwt), $1.67 per cwt less than the average mailbox price of $15.10 per cwt in Wisconsin. For reference, the national average mailbox price was $14.95 per cwt in June, down $0.78 per cwt compared to May and $1.96 lower than July 2017.

On a potentially positive note for the dairy industry, in August the USDA announced a new Dairy Revenue Protection program that is designed to insure against unexpected declines in the quarterly revenue from milk sales relative to a guaranteed coverage level. A producer may choose to cover anywhere from 70% to 95% of their expected quarterly revenue. The proposed dairy revenue protection program only provides insurance for any difference between the final revenue guarantee and actual milk revenue that was caused by natural occurrences in market prices and yields in the pooled production region.

LOAN PORTFOLIO

Loan Portfolio

Owned loan volume totaled $8.7 billion at September 30, 2018, a $485.3 million increase from December 31, 2017.

Total owned and managed loan volume, including serviced volume on the real estate loans sold to AgriBank was $8.9 billion at September 30, 2018, a $465.1 million increase from December 31, 2017. Our combined mortgage portfolio increased $465.4 million, or 7.4% from December 31, 2017. Our short-term commercial loan portfolio decreased $305 thousand, or less than 0.1% from December 31, 2017. When compared to September 30, 2017, owned and managed total loan volume was up 7.8%. This increase was driven by growth in all market segments and led by our capital markets and country living segments that have increased 24.8% and 5.6% since September 30, 2017, respectively. Our current volume reflects an asset growth rate year over year that supports our 2018 Business Plan.

Portfolio Credit Quality

The credit quality of our loan portfolio slowly declined throughout 2017 and continued this trend during the first nine months of 2018. We expect some further deterioration throughout the rest of 2018 due to generally lower commodity prices. Acceptable loan credit quality, as measured under the Uniform Classification System, was 93.3% at September 30, 2018, which decreased 0.8% from the beginning of the year. Year over year, acceptable credit quality decreased 1.1% from 94.4% at September 30, 2017. Portfolio assets criticized as being less than acceptable are comprised of 3.7% other assets especially mentioned (OAEM) and 3.0% adversely classified. OAEM increased 1.1% while adversely classified decreased 0.3% from December 31, 2017.

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 and cash crop portfolios continued to be challenged financially during the third quarter of 2018.

The resulting level of credit quality, when combined with our earnings and addition to capital surplus, results in an adverse assets to regulatory capital ratio of 16.5%. This ratio has improved from 18.6% at December 31, 2017.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At September 30, 2018, $308.0 million of our loans were, to some level, guaranteed under these programs. The guaranteed loan volume increased from $291.6 million at December 31, 2017.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**September 30 2018**	December 31 2017
Loans:		
Nonaccrual	**$83,241**	$46,004
Accruing restructured	**3,459**	3,566
Accruing loans 90 days or more past due	**1,607**	262
Total risk loans	**88,307**	49,832
Acquired property	**2,379**	1,572
Total risk assets	**$90,686**	$51,404
Total risk loans as a percentage of total loans	**1.0%**	0.6%
Nonaccrual loans as a percentage of total loans	**1.0%**	0.6%
Current nonaccrual loans as a percentage of total nonaccrual loans	**83.1%**	83.6%
Total delinquencies as a percentage of total loans	**0.4%**	0.3%

Note: Accruing loans include accrued interest receivable.

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

Nonaccrual loans increased from $46.0 million at December 31, 2017, to $83.2 million at September 30, 2018, but remained at acceptable levels. The increase in nonaccrual loan volume was primarily due to a large capital markets relationship that was downgraded in the first quarter of 2018 along with two commercial dairies that were downgraded to nonaccrual in the third quarter of 2018. As of September 30, 2018, 50.7% of the nonaccrual loan portfolio was comprised of dairy loans, 14.5% food processing cooperative loans, and 12.0% cash crop farm loans.

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 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 2018**	December 31 2017
Allowance as a percentage of:		
Loans	**0.9%**	0.9%
Nonaccrual loans	**97.2%**	157.9%
Total risk loans	**91.6%**	145.8%

The allowance for loan losses increased $8.3 million from December 31, 2017, to $80.9 million at September 30, 2018, primarily due to specific loan loss reserves necessary for the increase in nonaccrual loans. During the nine months of 2018, a provision for loan losses of $9.6 million was recorded. Included in our allowance are additional general industry reserves for our dairy and cash grain portfolios due to expected low commodity prices in the near future. The additional general industry reserve for the dairy portfolio decreased from $31.4 million at December 31, 2017, to $24.4 million at September 30, 2018. The additional general industry reserve for the cash grain portfolio increased from $7.1 million at December 31, 2017, to $10.9 million at September 30, 2018. The decrease in the dairy industry reserve was primarily due to two large loans transferring to nonaccrual status.

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 Comprehensive Income for the nine months ended September 30, 2018, included a provision for credit losses on unfunded loan commitments of $2.7 million. 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 $3.2 million and $531 thousand as of September 30, 2018, and December 31, 2017, respectively. The increase in accrued credit losses on unfunded loan commitments was primarily due to the downgrade of a large capital markets relationship, in addition to pay downs on the line of credit of a large greenhouse relationship which effectively increased the amount on the unfunded commitment.

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	**$126,308**	$113,998
Return on average assets	**2.0%**	1.9%
Return on average members' equity	**10.4%**	10.0%

Changes in the chart above relate directly to:

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

Changes in Significant Components of Net Income

(in thousands) For the nine months ended September 30	**2018**	2017	**Increase (decrease) in net income**
Net interest income	**$164,284**	$152,986	**$11,298**
Provision for credit losses	**(12,227)**	(7,167)	**(5,060)**
Patronage income	**23,539**	25,773	**(2,234)**
Financially related services income	**6,070**	6,270	**(200)**
Fee income	**10,899**	11,092	**(193)**
Allocated Insurance Reserve Accounts distribution	**4,779**	--	**4,779**
Acquired property income, net	**359**	18	**341**
Miscellaneous income, net	**806**	780	**26**
Operating expenses	**(70,004)**	(69,172)	**(832)**
Provision for income taxes	**(2,197)**	(6,582)	**4,385**
Net income	**$126,308**	$113,998	**$12,310**

Changes in Net Interest Income

(in thousands) For the nine months ended September 30	**2018 vs 2017**
Changes in volume	**$9,673**
Changes in interest rates	**1,779**
Changes in nonaccrual income and other	**(154)**
Net change	**$11,298**

The change in provision for credit losses was primarily due to credit deterioration in our dairy portfolio due to the prolonged low milk prices in addition to moderate credit deterioration in our cash grain portfolio due to continued low commodity prices.

The decrease in patronage income from 2017 to 2018 was primarily because AgriBank reduced its year-to-date patronage rate from approximately 0.42% in 2017 to 0.35% in 2018. This was partially offset by an increase in our note payable to AgriBank as the patronage we receive from AgriBank is primarily based on the average balance of our note payable to AgriBank.

The change in allocated insurance reserve accounts distribution was due to our share of distributions from Allocated Insurance Reserve Accounts (AIRA) of $4.8 million. The AIRA was recently established by the Farm Credit System Insurance Corporation (FCSIC) when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. There was no distribution in 2017. Refer to the 2017 Annual Report for additional information about the FCSIC.

The decrease in provision for income taxes was primarily related to less income generated on the taxable ACA entity along with a decrease in federal statutory tax rates to 21% from 35%, effective January 1, 2018, due to the Tax Cuts and Jobs Act that was enacted in December of 2017.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures on 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 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, 2018, or December 31, 2017.

Total members' equity increased $88.8 million from December 31, 2017, primarily due to net income for the period 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 10 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 ratios. Refer to Note 8 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%**	16.4%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**16.3%**	16.4%	6.0%	2.5%*	8.5%
Total capital ratio	**17.2%**	17.0%	8.0%	2.5%*	10.5%
Permanent capital ratio	**16.5%**	16.5%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**17.4%**	17.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.3%**	18.4%	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.

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 do not expect the regulation to have a material impact on our financial statements.

CERTIFICATION

The undersigned have reviewed the September 30, 2018, 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 7, 2018

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:	**September 30 2018**	December 31 2017
ASSETS		
Loans	**$8,697,544**	$8,212,256
Allowance for loan losses	**80,907**	72,640
Net loans	**8,616,637**	8,139,616
Investment in AgriBank, FCB	**171,934**	164,805
Investment securities	**8,669**	12,414
Accrued interest receivable	**81,552**	61,306
Premises and equipment, net	**46,760**	45,760
Acquired property	**2,379**	1,572
Deferred tax assets, net	**3,823**	2,547
Other assets	**48,629**	54,835
Total assets	**$8,980,383**	$8,482,855
LIABILITIES		
Note payable to AgriBank, FCB	**$7,194,268**	$6,783,097
Accrued interest payable	**45,705**	35,730
Patronage distribution payable	**37,875**	50,000
Other liabilities	**45,092**	45,382
Total liabilities	**7,322,940**	6,914,209
Contingencies and commitments (Note 4)		
MEMBERS' EQUITY		
Protected members' equity	**1**	1
Capital stock and participation certificates	**22,320**	22,141
Unallocated surplus	**1,636,794**	1,548,350
Accumulated other comprehensive loss	**(1,672)**	(1,846)
Total members' equity	**1,657,443**	1,568,646
Total liabilities and members' equity	**$8,980,383**	$8,482,855

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Three Months Ended		*Nine Months Ended*	
For the period ended September 30	**2018**	2017	**2018**	2017
Interest income	**$102,890**	$87,901	**$291,179**	$251,294
Interest expense	**45,705**	34,934	**126,895**	98,308
Net interest income	**57,185**	52,967	**164,284**	152,986
Provision for credit losses	**7,664**	2,620	**12,227**	7,167
Net interest income after provision for credit losses	**49,521**	50,347	**152,057**	145,819
Non-interest income				
Patronage income	**7,898**	11,510	**23,539**	25,773
Financially related services income	**2,172**	2,034	**6,070**	6,270
Fee income	**4,076**	3,723	**10,899**	11,092
Acquired property income, net	**77**	11	**359**	18
Allocated Insurance Reserve Accounts distribution	**--**	--	**4,779**	--
Miscellaneous income, net	**148**	106	**806**	780
Total non-interest income	**14,371**	17,384	**46,452**	43,933
Operating expenses				
Salaries and employee benefits	**15,606**	14,872	**47,034**	43,796
Other operating expenses	**7,437**	8,518	**22,970**	25,376
Total operating expenses	**23,043**	23,390	**70,004**	69,172
Income before income taxes	**40,849**	44,341	**128,505**	120,580
Provision for income taxes	**423**	1,789	**2,197**	6,582
Net income	**$40,426**	$42,552	**$126,308**	$113,998
Other comprehensive income				
Employee benefit plans activity	**$58**	$ --	**$174**	$ --
Total other comprehensive income	**58**	--	**174**	--
Comprehensive income	**$40,484**	$42,552	**$126,482**	$113,998

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	Accumulated Other Comprehensive Loss	Total Members' Equity
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
Balance at December 31, 2017	$1	$22,141	$1,548,350	($1,846)	$1,568,646
Net income	**--**	**--**	**126,308**	**--**	**126,308**
Other comprehensive income	**--**	**--**	**--**	**174**	**174**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(37,864)**	**--**	**(37,864)**
Capital stock and participation certificates issued	**--**	**1,511**	**--**	**--**	**1,511**
Capital stock and participation certificates retired	**--**	**(1,332)**	**--**	**--**	**(1,332)**
Balance at September 30, 2018	**$1**	**$22,320**	**$1,636,794**	**($1,672)**	**$1,657,443**

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).

The Consolidated Financial Statements present the consolidated financial results of GreenStone Farm Credit Services, ACA (the Association) 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. 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. The adoption of the guidance did not impact our financial condition or cash flows, but did result in an immaterial change to the classification of certain items in the results of operations. The components of net periodic benefit cost other than the service cost component are included in the other operating expenses line item on the Consolidated Statements of Comprehensive Income. As the change in classification was immaterial, there were no retroactive adjustments to the Consolidated Statements of Comprehensive Income. There were no material changes to the 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 have no plans to early adopt this guidance. 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 evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**September 30, 2018**		December 31, 2017	
	Amount	**Percentage**	Amount	Percentage
Real estate mortgage	**$5,206,041**	**59.8%**	$4,912,667	59.8%
Production and intermediate-term	**2,144,863**	**24.7**	2,099,435	25.6
Agribusiness	**972,658**	**11.2**	852,151	10.4
Other	**373,982**	**4.3**	348,003	4.2
Total	**$8,697,544**	**100.0%**	$8,212,256	100.0%

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

Delinquency

Aging Analysis of Loans

(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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$15,230**	**$3,075**	**$18,305**	**$5,238,310**	**$5,256,615**	**$153**
Production and intermediate-term	**6,849**	**3,378**	**10,227**	**2,161,325**	**2,171,552**	**1,454**
Agribusiness	**89**	**672**	**761**	**974,887**	**975,648**	**--**
Other	**2,097**	**512**	**2,609**	**372,307**	**374,916**	**--**
Total	**$24,265**	**$7,637**	**$31,902**	**$8,746,829**	**$8,778,731**	**$1,607**

As of December 31, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$10,360	$2,483	$12,843	$4,936,603	$4,949,446	$ --
Production and intermediate-term	5,030	1,797	6,827	2,113,408	2,120,235	262
Agribusiness	106	233	339	854,339	854,678	--
Other	2,665	808	3,473	345,366	348,839	--
Total	$18,161	$5,321	$23,482	$8,249,716	$8,273,198	$262

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 2018**	December 31 2017
Volume with specific allowance	**$53,441**	$23,088
Volume without specific allowance	**34,866**	26,744
Total risk loans	**$88,307**	$49,832
Total specific allowance	**$17,690**	$7,704
For the nine months ended September 30	**2018**	2017
Income on accrual risk loans	**$226**	$168
Income on nonaccrual loans	**906**	1,143
Total income on risk loans	**$1,132**	$1,311
Average risk loans	**$61,616**	$50,026

Note: Accruing loans include accrued interest receivable.

We had $5.3 million of 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.

TDR Activity

(in thousands) Nine months ended September 30	**2018**		2017	
	Pre-modification	**Post-modification**	Pre-modification	Post-modification
Real estate mortgage	**$65**	**$6**	$830	$828
Production and intermediate-term	**104**	**104**	657	629
Agribusiness	**11,871**	**11,871**	--	--
Total	**$12,040**	**$11,981**	$1,487	$1,457

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 forgiveness of principal and extension of maturity.

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

(in thousands)	**2018**	2017
Real estate mortgage	**$ --**	$47
Production and intermediate-term	**8**	36
Total	**$8**	$83

TDRs Outstanding

(in thousands) As of:	**September 30 2018**	December 31 2017
Accrual status:		
Real estate mortgage	**$2,766**	$2,821
Production and intermediate-term	**432**	480
Other	**261**	265
Total TDRs in accrual status	**$3,459**	$3,566
Nonaccrual status:		
Real estate mortgage	**$815**	$1,629
Production and intermediate-term	**320**	797
Agribusiness	**12,335**	--
Other	**121**	141
Total TDRs in nonaccrual status	**$13,591**	$2,567
Total TDRs:		
Real estate mortgage	**$3,581**	$4,450
Production and intermediate-term	**752**	1,277
Agribusiness	**12,335**	--
Other	**382**	406
Total TDRs	**$17,050**	$6,133

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	**$72,640**	$46,382
Provision for loan losses	**9,571**	7,201
Loan recoveries	**619**	4,356
Loan charge-offs	**(1,923)**	(849)
Balance at end of period	**$80,907**	$57,090

The "Provision for credit losses" in the Consolidated Statements of Comprehensive Income includes a provision for loan losses as presented in the previous chart, as well as a provision for (reversal of) credit losses on unfunded commitments as presented below. 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	**2018**	2017
Provision for (reversal of) credit losses	**$2,656**	($34)
As of:	**September 30 2018**	December 31 2017
Accrued credit losses	**$3,187**	$531

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $8.7 million at September 30, 2018, and $12.4 million at December 31, 2017. 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. No investments within the portfolio were impaired as of September 30, 2018, and December 31, 2017.

Additional Investment Securities Information

(dollars in thousands) As of:	**September 30 2018**	December 31 2017
Amortized cost	**$8,669**	$12,414
Unrealized gains	**339**	531
Fair value	**$9,008**	$12,945
Weighted average yield	**4.7%**	3.5%

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $375 thousand and $393 thousand for the nine months ended September 30, 2018, and 2017, respectively.

NOTE 4: CONTINGENCIES AND COMMITMENTS

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

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

NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three 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 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, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$37,539**	**$37,539**
Acquired property	**--**	**--**	**5,466**	**5,466**
	As of December 31, 2017			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$16,154	$16,154
Acquired property	--	--	4,483	4,483

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.

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 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 7, 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.