GreenStone Farm Credit Services, ACA

Quarterly Report
March 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of 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

The United States Department of Commerce's advance estimate showed that real gross domestic product (GDP) increased 2.3% in the first quarter of 2018. This compares to an increase in real GDP of 2.9% in the fourth quarter of 2017. The increase in real GDP reflected increases in nonresidential fixed investment, personal consumption, exports, private inventory investment, and government spending. Imports, which are a subtraction in the calculation of GDP, increased.

Economic reports have provided some positive indicators for 2018. The March employment report showed 103,000 new jobs. The unemployment rate was unchanged from the prior month at 4.1%. This job growth and a steady unemployment rate indicate the labor force has expanded. Hourly wages reported a 2.7% year over year growth in March. Michigan reported a 4.7% unemployment rate, while Wisconsin reported a 2.9% unemployment rate.

The U.S. manufacturing sector continues to perform well. The Institute of Supply Management (ISM) Purchasing Managers' Index rose to 60.8, reflecting the strongest observed growth in manufacturing in the current economic cycle. Notably, the ISM prices index climbed to 74.2, a six-year high, reflecting higher raw materials prices.

During its March meeting, the Federal Open Market Committee (FOMC) raised the federal funds rate 0.25%, bringing it from 1.5% to 1.75%. The FOMC cited a strong labor market, economic activity rising at a moderate rate, and strong job gains in recent months. Looking ahead, most economists project two more rate hikes in 2018, and possibly a third.

In the United States Department of Agriculture (USDA) Economic Research Service 2018 Farm Income Forecast, net farm income is forecast to decline $4.3 billion or 6.7%. This is the lowest net farm income level in nominal dollar terms since 2006, and the lowest inflation-adjusted level since 2002. Measured in cash terms, net cash farm income in 2018 is forecast to decline $6.7 billion or 6.8% from a year ago, which would be the lowest real-dollar level since 2009.

Production expenses are forecast to rise $3.5 billion, or 1.0% to $359.2 billion in 2018, led by increases in fuel, oil, interest, and hired labor. Partially offsetting these increases are an expected drop in feed expenses. The spending on fuel and oil, which accounts for almost 5.0% of cash expenses, is expected to increase 10.2% in 2018 after a 13.9% increase in 2017. This increase is driven in part by the U.S. Energy Information Agency's forecast of higher diesel prices in 2018. Interest expense is expected to increase by 6.9%, driven by both higher debt levels and rising interest rates. Hired labor is forecast to increase by 2.7%, continuing a trend that began in 2015.

The National Agricultural Statistics Service Prospective Plantings report for 2018 shows lower expectations for both corn and soybean acres, well below trade estimates leading up to the report and driving up prices. Soybeans are expected to be planted on 89.0 million acres, down from 90.1 million acres in 2017. Corn acres are expected to be planted on 88.0 million acres, down from 90.2 million acres in 2017. Overall, 1.2 million acres were taken out of principle crop production compared to last year. Michigan area corn plantings are projected to be unchanged at 2.3 million acres, while Wisconsin area corn plantings are expected to decline by 1.3% to 3.9 million acres. Michigan area soybean plantings are expected to decline by 5.7%, while Wisconsin area soybean plantings are expected to increase by 2.3%.

The USDA forecasts global stocks-to-use ratios of corn and soybeans to decline for the 2017-18 crop year, but both remain above the ten-year average. The soybean supply is projected to be abundant relative to corn due to strong soybean production in Brazil. The USDA is currently projecting the second highest global stocks-to-use ratio for soybeans on record since 1985 (second only to last year). Production out of Argentina may lower the ratio for soybeans in the months ahead, but supplies should still be ample. The comparative reduction in the corn and soybean supply provides some support for the U.S. market and potential price increases in the 2018-19 crop year, assuming there are no further disruptions in trade relations for the U.S.

The outlook for protein and dairy prices in 2018 is mixed. While demand for animal protein and dairy products is strengthening domestically and abroad, production also continues to increase, especially in dairy production. U.S. exports must remain strong in 2018 in order to absorb the expected increase in production, otherwise prices and industry returns could come under considerable pressure. Combined beef, pork, and poultry exports in 2018 are predicted to reach 16.6 billion pounds, an increase of nearly 3.5% from 2017 and 9.4% above the 2016 total. Any disruption in export sales could push considerable amounts of product into the already burdened domestic market and lead to considerably lower prices.

The USDA's 2018 all-milk forecast is $15.75-$16.35 per hundredweight (cwt), compared to $17.63 per cwt in 2017. There continues to be a disparity between Michigan milk prices compared to the average U.S. milk price, driven by a shortage of processing capacity for the state's milk. In December of 2017, the Michigan mailbox milk price was $15.22, which was $2.45 below Wisconsin and $1.80 below the average U.S. mailbox price. There have been two recent announcements of additional processing facilities planned for construction in Michigan. Once these projects are complete, the two facilities will be handling an additional 11.2 million pounds of raw milk per day. While these projects will not provide an immediate outlet for the current oversupply, it is a positive note for the Michigan dairy producers.

The U.S. agriculture industry will continue to pay close attention to the ongoing negotiations with existing trade partners and any potential trade disputes. Approximately 20.0% of U.S. agricultural goods are exported annually and are valued at $135.0 billion, representing a significant portion of U.S. production. Ongoing negotiations of the North American Free Trade Agreement, the announcement of U.S. tariffs on aluminum and steel, and the potential of a trade war may temper market expectations. After the U.S. recently unveiled taxes on Chinese imports of steel, aluminum, and industrial products, China retaliated by calling for additional tariffs on U.S. items, with a sharp focus on agricultural products.

The 2014 farm bill expires in September of 2018. The 2018 farm bill negotiations are underway, but partisan disagreements related to the nutrition program could derail the bill. Nutrition programs, mainly the Supplemental Nutrition Assistance Program, are the big spending items in the farm bill, taking up a majority of the funding. If the bill is stalled past the summer, a one-year extension of the existing 2014 farm bill will likely be enacted.

In summary, U.S. agricultural industries will continue to face challenges throughout 2018, with expected low commodity prices coupled with rising operating expenses and interest rates. U.S. trade policy changes will be a wild card for the agricultural industry.

LOAN PORTFOLIO

Loan Portfolio

Owned loan volume totaled $8.2 billion at March 31, 2018, a $50.3 million decrease from December 31, 2017.

Total owned and managed loan volume, including serviced volume on the real estate loans sold to AgriBank, was $8.3 billion at March 31, 2018, a $57.3 million decrease from December 31, 2017. Our combined mortgage portfolio decreased $11.2 million or 0.2% from December 31, 2017, while our short-term commercial loan portfolio decreased $46.1 million or 2.2% from December 31, 2017. When compared to March 31, 2017, owned and managed mortgage loan volume is up 5.2% and commercial loan volume is up 1.3%. These increases were driven by growth in all market segments and led by our capital markets and country living segments that have increased 6.8% and 6.0% since March 31, 2017, respectively. Our current volume reflects an asset growth rate year over year that is running slightly below 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 three months of 2018. We expect some further deterioration throughout the remainder of 2018 due to generally lower commodity prices. Acceptable loan credit quality, as measured under the Farm Credit Administration's (FCA) Uniform Classification System, was 94.1% which did not change from December 31, 2017. Year over year, acceptable credit quality decreased 1.2% from 95.3% at March 31, 2017. Portfolio assets criticized as being less than acceptable are comprised of 2.5% other assets especially mentioned (OAEM) and 3.4% adversely classified. OAEM decreased while adversely classified increased 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, cash crop, and poultry portfolios continued to be challenged financially during the first quarter of 2018. 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 18.4%. This ratio has decreased 0.2% since December 31, 2017, and remains below our goal of maintaining this ratio at or below 25.0%. 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 March 31, 2018, $296.0 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:	**March 31 2018**	December 31 2017
Loans:		
Nonaccrual	**$56,234**	$46,004
Accruing restructured	**3,526**	3,566
Accruing loans 90 days or more past due	**1,540**	262
Total risk loans	**61,300**	49,832
Acquired property	**1,408**	1,572
Total risk assets	**$62,708**	$51,404
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	**68.6%**	83.6%
Total delinquencies as a percentage of total loans	**0.5%**	0.3%

Note: Accruing loans include accrued interest receivable.

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

Nonaccrual loans increased from $46.0 million at December 31, 2017, to $56.2 million at March 31, 2018, but remained at acceptable levels. The increase in nonaccrual loan volume was primarily due to a large capital markets relationship that was downgraded. As of March 31, 2018, 26.7% of the nonaccrual loan portfolio was comprised of dairy loans, 19.0% food processing cooperative loans, 16.6% cash crop farms, 11.5% greenhouse and nursery, and 11.0% 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 the periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	**March 31 2018**	December 31 2017
Allowance as a percentage of:		
Loans	**0.9%**	0.9%
Nonaccrual loans	**130.1%**	157.9%
Total risk loans	**119.3%**	145.8%

The allowance for loan losses increased from $72.6 million at December 31, 2017, to $73.1 million at March 31, 2018. During the first three months of 2018, a provision for loan losses of $334 thousand was recorded. Included in our allowance is additional general industry reserves for our dairy and cash grain portfolios due to expected low commodity prices in the near future, primarily the milk price. The additional general industry reserve for the dairy portfolio increased from $31.4 million at December 31, 2017, to $32.3 million at March 31, 2018. The additional general industry reserve for the cash grain portfolio increased from $7.1 million at December 31, 2017, to $7.2 million at March 31, 2018.

Under certain circumstances, credit losses may be recorded to establish a reserve on unfunded loan commitments. The “Provision for (reversal of) credit losses” in the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2018, included a provision for credit losses on unfunded loan commitments of $1.8 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 $2.3 million and $531 thousand as of March 31, 2018, and December 31, 2017, respectively. The increase in unfunded loan commitments was primarily due to the downgrade of a large capital markets relationship.

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2018.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31	2018	2017
Net income	**$45,753**	$38,047
Return on average assets	**2.2%**	1.9%
Return on average members' equity	**11.6%**	10.3%

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 three months ended March 31	2018	2017	Increase (decrease) in net income
Net interest income	**$53,535**	$49,610	**$3,925**
(Provision for) reversal of credit losses	**(2,094)**	802	**(2,896)**
Patronage income	**7,813**	7,106	**707**
Financially related services income	**1,970**	2,539	**(569)**
Fee income	**2,917**	3,185	**(268)**
Allocated insurance reserve accounts distribution	**4,779**	--	**4,779**
Acquired property income (loss), net	**95**	(12)	**107**
Miscellaneous income, net	**435**	358	**77**
Operating expenses	**(23,044)**	(22,808)	**(236)**
Provision for income taxes	**(653)**	(2,733)	**2,080**
Net income	**$45,753**	$38,047	**$7,706**

Changes in Net Interest Income

(in thousands) For the three months ended March 31	2018 vs 2017
Changes in volume	**$2,730**
Changes in interest rates	**1,146**
Changes in nonaccrual income and other	**49**
Net change	**$3,925**

The $2.1 million of provision for credit losses during the first three months of 2018 was primarily due to the downgrade of a large capital markets relationship and a large dairy relationship, along with an increase in the additional general industry reserves for our dairy and cash grain portfolios. These were partially offset by the payoff of a large dairy substandard relationship. The reversal of credit losses in the first three months of 2017 was primarily due to the recovery of a large capital markets relationship.

We receive patronage income from AgriBank primarily based on the average balance of our note payable to AgriBank. The increase in patronage income from 2017 to 2018 was partially due to an increase in our note payable and partially due to an increase in the patronage rate paid by AgriBank.

The change in allocated insurance reserve accounts distribution was primarily due to our share of distributions from Allocated Insurance Reserve Accounts (AIRA) of $4.8 million. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation (FCSIC). The premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt, and therefore the FCSIC board believed a refund was warranted. There were no distributions in 2017. Refer to Note 1 in our 2017 Annual Report for a more complete description of the FCSIC and the Farm Credit Insurance Fund.

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 March 31, 2018, or December 31, 2017.

Total members' equity increased $33.2 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 FCA Regulations require us to maintain a certain level for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents ratios. Refer to Note 8 in our 2017 Annual Report for a more complete description of these ratios.

Select Capital Ratios As of:	**March 31 2018**	December 31 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**16.2%**	16.4%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**16.2%**	16.4%	6.0%	2.5%*	8.5%
Total capital ratio	**17.0%**	17.0%	8.0%	2.5%*	10.5%
Permanent capital ratio	**16.3%**	16.5%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**17.3%**	17.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.1%**	18.4%	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.

CERTIFICATION

The undersigned have reviewed the March 31, 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

May 8, 2018

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:	**March 31 2018**	December 31 2017
ASSETS		
Loans	**$8,161,962**	$8,212,256
Allowance for loan losses	**73,138**	72,640
Net loans	**8,088,824**	8,139,616
Investment in AgriBank, FCB	**164,804**	164,805
Investment securities	**11,239**	12,414
Accrued interest receivable	**52,339**	61,306
Premises and equipment, net	**46,958**	45,760
Acquired property	**1,408**	1,572
Deferred tax assets, net	**3,457**	2,547
Other assets	**45,020**	54,835
Total assets	**$8,414,049**	$8,482,855
LIABILITIES		
Note payable to AgriBank, FCB	**$6,716,405**	$6,783,097
Accrued interest payable	**38,564**	35,730
Patronage distribution payable	**12,625**	50,000
Other liabilities	**44,624**	45,382
Total liabilities	**6,812,218**	6,914,209
Contingencies and commitments (Note 4)		
MEMBERS' EQUITY		
Protected members' equity	**1**	1
Capital stock and participation certificates	**22,130**	22,141
Unallocated surplus	**1,581,488**	1,548,350
Accumulated other comprehensive loss	**(1,788)**	(1,846)
Total members' equity	**1,601,831**	1,568,646
Total liabilities and members' equity	**$8,414,049**	$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	
For the period ended March 31	**2018**	2017
Interest income	**$92,081**	$79,923
Interest expense	**38,546**	30,313
Net interest income	**53,535**	49,610
Provision for (reversal of) credit losses	**2,094**	(802)
Net interest income after provision for (reversal of) credit losses	**51,441**	50,412
Non-interest income		
Patronage income	**7,813**	7,106
Financially related services income	**1,970**	2,539
Fee income	**2,917**	3,185
Allocated insurance reserve accounts distribution	**4,779**	--
Acquired property income (loss), net	**95**	(12)
Miscellaneous income, net	**435**	358
Total non-interest income	**18,009**	13,176
Operating expenses		
Salaries and employee benefits	**15,565**	14,429
Other operating expenses	**7,479**	8,379
Total operating expenses	**23,044**	22,808
Income before income taxes	**46,406**	40,780
Provision for income taxes	**653**	2,733
Net income	**$45,753**	$38,047
Other comprehensive income		
Employee benefit plans activity	**$58**	$ --
Total other comprehensive income	**58**	--
Comprehensive income	**$45,811**	$38,047

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	--	--	38,047	--	38,047
Unallocated surplus designated for patronage distributions	--	--	(8,387)	--	(8,387)
Capital stock and participation certificates issued	--	425	--	--	425
Capital stock and participation certificates retired	--	(409)	--	--	(409)
Balance at March 31, 2017	$1	$21,709	$1,476,299	$ --	$1,498,009
Balance at December 31, 2017	$1	$22,141	$1,548,350	($1,846)	$1,568,646
Net income	**--**	**--**	**45,753**	**--**	**45,753**
Other comprehensive income	**--**	**--**	**--**	**58**	**58**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(12,615)**	**--**	**(12,615)**
Capital stock and participation certificates issued	**--**	**421**	**--**	**--**	**421**
Capital stock and participation certificates retired	**--**	**(432)**	**--**	**--**	**(432)**
Balance at March 31, 2018	$1	$22,130	$1,581,488	($1,788)	$1,601,831

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the three months ended March 31, 2018, are not necessarily indicative of the results to be expected for the year ending December 31, 2018. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2017, (2017 Annual Report).

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 goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this guidance. The guidance sets forth the requirement for new and enhanced disclosures.	We adopted this guidance on January 1, 2018, using the modified retrospective approach, as the majority of the Association's revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial position, results of operations, equity, or cash flows.
In March 2017, the FASB issued ASU 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." This guidance was effective for public entities on January 1, 2018.	This guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. Specifically, the guidance requires non-service cost components of net benefit cost to be recognized in a non-operating income line item of the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization.	We adopted this guidance on January 1, 2018. The adoption of the guidance did not impact the Association's financial condition or cash flows, but did change the classification of certain items in the results of operations. The change in classification was not material and did not result in a reclassification on the Statement of Comprehensive Income. There were no 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 the Association's fair value disclosures.
In February 2016, the FASB issued ASU 2016-02 "Leases." The guidance is effective for public entities in its first quarter of 2019 and early adoption is permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases.	We have no plans to early adopt this guidance. We have determined after preliminary review, this guidance will not have a material impact on our financial condition, results of operations, and financial statement disclosures, and will have no impact on combined cash flows.
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments – Credit Losses." This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We have no plans to early adopt this guidance. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	March 31, 2018		December 31, 2017	
	Amount	**Percentage**	Amount	Percentage
Real estate mortgage	**$4,925,625**	**60.3%**	$4,912,667	59.8%
Production and intermediate-term	**1,969,664**	**24.1**	2,099,435	25.6
Agribusiness	**909,075**	**11.1**	852,151	10.4
Other	**357,598**	**4.5**	348,003	4.2
Total	**$8,161,962**	**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 March 31, 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	**$16,498**	**$2,362**	**$18,860**	**$4,937,648**	**$4,956,508**	**$ --**
Production and intermediate-term	**15,197**	**6,541**	**21,738**	**1,965,706**	**1,987,444**	**1,540**
Agribusiness	**29**	**546**	**575**	**911,005**	**911,580**	**--**
Other	**1,881**	**848**	**2,729**	**355,676**	**358,405**	**--**
Total	**$33,605**	**$10,297**	**$43,902**	**$8,170,035**	**$8,213,937**	**$1,540**

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:	**March 31 2018**	December 31 2017
Volume with specific allowance	**$29,232**	$23,088
Volume without specific allowance	**32,068**	26,744
Total risk loans	**$61,300**	$49,832
Total specific allowance	**$11,978**	$7,704
For the three months ended March 31	**2018**	2017
Income on accrual risk loans	**$67**	$56
Income on nonaccrual loans	**463**	457
Total income on risk loans	**$530**	$513
Average risk loans	**$53,477**	$51,139

Note: Accruing loans include accrued interest receivable.

We had $3.3 million of commitments to lend additional money to borrowers whose loans were classified as risk loans at March 31, 2018.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

TDR Activity

(in thousands) Three months ended March 31	**2018**		2017	
	Pre-modification	**Post-modification**	Pre-modification	Post-modification
Real estate mortgage	**$ --**	**$ --**	$53	$47
Production and intermediate-term	**49**	**49**	72	72
Total	**$49**	**$49**	$125	$119

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 type of modification was extension of maturity.

We had TDRs in the production and intermediate-term loan category of $135 thousand that defaulted during the three months ended March 31, 2018, in which the modifications were within twelve months of the respective reporting period. There were no TDRs that defaulted during the three months ended March 31, 2017, in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	**March 31 2018**	December 31 2017
Accrual status:		
Real estate mortgage	**$2,792**	$2,821
Production and intermediate-term	**471**	480
Other	**263**	265
Total TDRs in accrual status	**$3,526**	$3,566
Nonaccrual status:		
Real estate mortgage	**$832**	$1,629
Production and intermediate-term	**478**	797
Other	**134**	141
Total TDRs in nonaccrual status	**$1,444**	$2,567
Total TDRs:		
Real estate mortgage	**$3,624**	$4,450
Production and intermediate-term	**949**	1,277
Other	**397**	406
Total TDRs	**$4,970**	$6,133

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

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Three months ended March 31	**2018**	2017
Balance at beginning of period	**$72,640**	$46,382
Provision for loan losses	**334**	995
Loan recoveries	**220**	2,419
Loan charge-offs	**(56)**	(190)
Balance at end of period	**$73,138**	$49,606

The “Provision for (reversal of) 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 in the chart 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 three months ended March 31	**2018**	2017
Provision for (reversal of) credit losses	**$1,760**	($1,797)
As of:	**March 31 2018**	December 31 2017
Accrued credit losses	**$2,291**	$531

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $11.2 million at March 31, 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 March 31, 2018, and December 31, 2017.

Additional Investment Securities Information

(dollars in thousands) As of:	**March 31 2018**	December 31 2017
Amortized cost	**$11,239**	$12,414
Unrealized gains	**508**	531
Fair value	**$11,747**	$12,945
Weighted average yield	**3.8%**	3.5%

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $114 thousand and $116 thousand for the three months ended March 31, 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 levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2017 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2018, or December 31, 2017.

Non-Recurring 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 March 31, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$18,117**	**$18,117**
Acquired property	**--**	**--**	**4,339**	**4,339**
	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 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 May 8, 2018, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.