# GreenStone Farm Credit Services, ACA

**Quarterly Report**
**June 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:

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 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 4.1% in the second quarter of 2018 according to the "advance" estimate released by the Bureau of Economic Analysis. This is up compared to the 2.2% annual real GDP growth that was reported for the first quarter of 2018 and is strong from a historical standpoint. From 2012 to 2017, real GDP increased at an average rate of 2.2%. The increase in real GDP in the second quarter reflected positive contributions from nonresidential fixed investment, personal consumption expenditures, exports, federal government spending, and state and local government spending. These were partially offset by negative contributions from private inventory investment and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.

The June employment report showed 213,000 new jobs as the unemployment rate rose to 4% after falling to 3.8% in May, matching a low which was last seen in 2000 (and before that, 1970). Hourly wages grew by 2.7% year over year during June, an indication that wage pressures are beginning to emerge. The shrinking labor pool is slowly forcing companies to raise pay as competition for talent intensifies. According to the Bureau of Labor Statistics, during the month of June, Michigan's unemployment rate was 4.5% while Wisconsin's unemployment rate was 2.9%.

Single-family housing starts fell by 12.3% month over month to an annualized rate of 1.173 million in June of 2018, following a downwardly revised 4.8% rise in May. It is the lowest rate since September of 2017 and the biggest drop since November of 2016. It compares to a market expectations rate of 1.320 million. In May, housing starts were at 1.337 million, the highest rate since July of 2007.

The yield on 10-year U.S. Treasury bonds moved above 3% briefly in mid-May, before pulling back slightly in light of concerns over trade disputes. Likewise, the U.S. dollar strengthened in May and June after it had weakened for the first four months of 2018.

The Federal Open Market Committee (FOMC) raised the fed funds rate by 0.25% at their June meeting, bringing the target rate to 2.00%. They also projected a fourth rate hike this year. After many years of running below the FOMC's stated 2% long-run target, inflation has recently moved close to that level.

Oil prices increased by over 20% during the first half of 2018 as geopolitical fears caused concerns to rise over potential disruptions to supplies. Brent crude oil reached $79 per barrel in late June. Consumers have been forced to pay more for gasoline as a result of this increase in oil prices, with the consumer price index for gasoline up 13% year over year.

On the trade front, a wave of Chinese tariffs on U.S. goods came into effect on July 6, 2018, in retaliation to U.S. tariffs enacted on Chinese goods. The tariffs were levied against goods worth $34 billion and targeted several major U.S. commodities, including soybeans and pork. The 25% tariff on U.S. soybeans is particularly significant, as China purchases more than half of U.S. soybean exports, which equates to more than $10 billion per year. Overall, China imports about 60% of all soybeans traded in the global marketplace.

In addition to the tariffs imposed by the Chinese government, Mexico announced on June 5, 2018, a series of tariffs against certain U.S. products including pork, apples, potatoes, and cheese. The Mexican government indicated that it imposed these tariffs, which are expected to have a $3 billion impact, in response to the U.S. putting tariffs on steel and aluminum from Mexico (and much of the rest of the world). The tariffs imposed range between 15% and 25%. This is particularly damaging to the pork industry as Mexico is the largest market for U.S. pork exports according to the National Pork Producers Council, who said that 25% of U.S. pork exports went to Mexico last year.

On June 29, 2018, the United States Department of Agriculture (USDA) released its detailed Acreage Report. Soybeans are estimated at 89.6 million acres planted, down 1.0% from last year. Corn is estimated at 89.1 million acres planted, also down 1.0% from last year. Conversely, wheat plantings for 2018 are estimated at 47.8 million acres, up 4.0% from last year. Despite the increase compared to 2017, 47.8 million acres represents the second lowest wheat planted area since records began in 1919, behind only 2017. Soybean acres planted in Michigan and Wisconsin increased 0.9% and 7.0%, respectively. Corn acres planted in Michigan increased 2.2% over last year, while Wisconsin corn acres planted did not change from the prior year.

In its June Dairy Outlook, the USDA raised its forecast for the 2018 all-milk price to $16.60-$17.00, an increase from the $16.20-$16.70 forecast the previous month. The 2019 all-milk price forecast is $16.70-$17.70. The USDA National Agricultural Statistics Service (NASS) reported U.S. milk production in April to be 18.435 billion pounds, 0.6% above April 2017. Milk cows numbered 9.4 million head in April, 2,000 less than March. NASS showed that milk cow numbers declined for two consecutive months. Dairy farmers in Michigan continue to face mailbox milk prices well below the national average due to a shortage of processing capacity in the state. In March 2018, the average mailbox milk price in Michigan was $13.32 per hundredweight (cwt), $2.64 per cwt less than the average mailbox price of $15.96 in Wisconsin. For reference, the national average mailbox price was $15.04 per cwt.

The House and Senate each passed versions of a new farm bill in late June. The two houses will now have to reconcile their versions before a final bill can be signed into law. There appear to be significant disagreements between the House and Senate over the treatment of food stamps, farm subsidies, and conservation funding. The current farm bill is set to expire on September 30, 2018, however congress could extend it if lawmakers are unable to iron out key differences in the new legislation. With many farmers already struggling with low commodity prices, farm-state senators of both parties have stressed the importance of getting a new bill signed into law to provide stability for American farmers.

## LOAN PORTFOLIO

### Loan Portfolio

Owned loan volume totaled $8.4 billion at June 30, 2018, a $228.6 million increase from December 31, 2017.

Total owned and managed loan volume, including serviced volume on the real estate loans sold to AgriBank, was $8.6 billion at June 30, 2018, a $215.4 million increase from December 31, 2017. Our combined mortgage portfolio increased $267.1 million, or 4.2% from December 31, 2017. Our short-term commercial loan portfolio decreased $51.8 million, or 2.5% from December 31, 2017. When compared to June 30, 2017, owned and managed total loan volume was up 6.1%. This increase was driven by growth in all market segments and led by our capital markets and country living segments that have increased 14.6% and 5.8% since June 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 six 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 93.4% which decreased 0.7% from December 31, 2017. Year over year, acceptable credit quality decreased 1.2% from 94.6% at June 30, 2017. Portfolio assets criticized as being less than acceptable were comprised of 3.4% other assets especially mentioned (OAEM) and 3.2% adversely classified. OAEM increased 0.8% while adversely classified decreased 0.1% 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 very sound. Weaker borrowers in our dairy, cash crop, and poultry portfolios continued to be challenged financially during the second quarter of 2018.

The resulting level of credit quality, when combined with our earnings and addition to capital surplus, resulted in an adverse assets to total regulatory capital ratio of 17.3%. This ratio has decreased 1.3% since December 31, 2017.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At June 30, 2018, $298.4 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)<br>As of: | **June 30<br>2018** | December 31<br>2017 |
|---|---|---|
| Loans: | | |
| Nonaccrual | **$55,957** | $46,004 |
| Accruing restructured | **3,486** | 3,566 |
| Accruing loans 90 days or more past due | **1,780** | 262 |
| Total risk loans | **61,223** | 49,832 |
| Acquired property | **2,282** | 1,572 |
| Total risk assets | **$63,505** | $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 | **68.2%** | 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 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 $56.0 million at June 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. As of June 30, 2018, the nonaccrual loan portfolio was primarily comprised of 32.9% dairy loans, 21.1% food processing cooperative loans, 18.9% cash crop farms, and 10.4% part-time farmers.

Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

## Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

**Allowance Coverage Ratios**

| As of: | **June 30<br>2018** | December 31<br>2017 |
|---|---|---|
| Allowance as a percentage of: | | |
| Loans | **0.9%** | 0.9% |
| Nonaccrual loans | **129.7%** | 157.9% |
| Total risk loans | **118.5%** | 145.8% |

The allowance for loan losses decreased $87 thousand from December 31, 2017, to $72.6 million at June 30, 2018. During the first half of 2018, a provision for loan losses of $463 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 decreased from $31.4 million at December 31, 2017, to $27.9 million at June 30, 2018. The additional general industry reserve for the cash grain portfolio increased from $7.1 million at December 31, 2017, to $8.4 million at June 30, 2018.

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 six months ended June 30, 2018, included a provision for credit losses on unfunded loan commitments of $4.1 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 $4.6 million and $531 thousand as of June 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 of the unfunded commitment.

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

## RESULTS OF OPERATIONS

**Profitability Information**

| (dollars in thousands)<br>For the six months ended June 30 | 2018 | 2017 |
|---|---|---|
| Net income | **$85,882** | $71,446 |
| Return on average assets | **2.0%** | 1.8% |
| Return on average members' equity | **10.7%** | 9.5% |

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)<br>For the six months ended June 30 | 2018 | 2017 | Increase (decrease) in net income |
|---|---|---|---|
| Net interest income | **$107,099** | $100,019 | **$7,080** |
| Provision for credit losses | **(4,563)** | (4,547) | **(16)** |
| Patronage income | **15,641** | 14,263 | **1,378** |
| Financially related services income | **3,898** | 4,236 | **(338)** |
| Fee income | **6,823** | 7,369 | **(546)** |
| Allocated insurance reserve accounts distribution | **4,779** | -- | **4,779** |
| Acquired property income, net | **282** | 7 | **275** |
| Miscellaneous income, net | **658** | 674 | **(16)** |
| Operating expenses | **(46,961)** | (45,782) | **(1,179)** |
| Provision for income taxes | **(1,774)** | (4,793) | **3,019** |
| Net income | **$85,882** | $71,446 | **$14,436** |

**Changes in Net Interest Income**

| (in thousands)<br>For the six months ended June 30 | 2018 vs 2017 |
|---|---|
| Changes in volume | **$5,933** |
| Changes in interest rates | **1,372** |
| Changes in nonaccrual income and other | **(225)** |
| Net change | **$7,080** |

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 to AgriBank and partially due to an increase in the patronage rate paid by 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 change in operating expenses was primarily related to an increase in salaries and employee benefits, partially offset by a decrease in FCSIC expense. FCSIC expense decreased in 2018 primarily due to a lower premium rate charged by FCSIC on accrual loans from 15 basis points in 2017 to 9 basis points in 2018. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

The decrease in provision for income taxes 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 June 30, 2018, or December 31, 2017.

Total members' equity increased $60.8 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.

**Select Capital Ratios**

| As of: | **June 30 2018** | December 31 2017 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| Risk-adjusted: | | | | | |
| Common equity tier 1 ratio | **16.5%** | 16.4% | 4.5% | 2.5%* | 7.0% |
| Tier 1 capital ratio | **16.5%** | 16.4% | 6.0% | 2.5%* | 8.5% |
| Total capital ratio | **17.3%** | 17.0% | 8.0% | 2.5%* | 10.5% |
| Permanent capital ratio | **16.6%** | 16.5% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | **17.6%** | 17.5% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **18.4%** | 18.4% | 1.5% | N/A | 1.5% |

*The capital conservation buffers for the risk-adjusted ratios continue to be phased in under the Farm Credit Administration capital requirements, up to 2.5% beginning in 2020.

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 June 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

August 7, 2018

# CONSOLIDATED STATEMENTS OF CONDITION

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

| As of: | **June 30 2018** | December 31 2017 |
|---|---|---|
| **ASSETS** | | |
| Loans | **$8,440,818** | $8,212,256 |
| Allowance for loan losses | **72,553** | 72,640 |
| Net loans | **8,368,265** | 8,139,616 |
| Investment in AgriBank, FCB | **167,265** | 164,805 |
| Investment securities | **9,810** | 12,414 |
| Accrued interest receivable | **61,176** | 61,306 |
| Premises and equipment, net | **46,469** | 45,760 |
| Acquired property | **2,282** | 1,572 |
| Deferred tax assets, net | **3,205** | 2,547 |
| Other assets | **47,604** | 54,835 |
| Total assets | **$8,706,076** | $8,482,855 |
| **LIABILITIES** | | |
| Note payable to AgriBank, FCB | **$6,965,250** | $6,783,097 |
| Accrued interest payable | **42,644** | 35,730 |
| Patronage distribution payable | **25,250** | 50,000 |
| Other liabilities | **43,454** | 45,382 |
| Total liabilities | **7,076,598** | 6,914,209 |
| Contingencies and commitments (Note 4) | | |
| **MEMBERS' EQUITY** | | |
| Protected members' equity | **1** | 1 |
| Capital stock and participation certificates | **22,214** | 22,141 |
| Unallocated surplus | **1,608,993** | 1,548,350 |
| Accumulated other comprehensive loss | **(1,730)** | (1,846) |
| Total members' equity | **1,629,478** | 1,568,646 |
| Total liabilities and members' equity | **$8,706,076** | $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* | | *Six Months Ended* | |
|---|---|---|---|---|
| *For the period ended June 30* | **2018** | 2017 | **2018** | 2017 |
| **Interest income** | **$96,208** | $83,470 | **$188,289** | $163,393 |
| **Interest expense** | **42,644** | 33,061 | **81,190** | 63,374 |
| Net interest income | **53,564** | 50,409 | **107,099** | 100,019 |
| **Provision for credit losses** | **2,469** | 5,349 | **4,563** | 4,547 |
| Net interest income after provision for credit losses | **51,095** | 45,060 | **102,536** | 95,472 |
| **Non-interest income** | | | | |
| Patronage income | **7,828** | 7,157 | **15,641** | 14,263 |
| Financially related services income | **1,928** | 1,697 | **3,898** | 4,236 |
| Fee income | **3,906** | 4,184 | **6,823** | 7,369 |
| Allocated insurance reserve accounts distribution | **--** | -- | **4,779** | -- |
| Acquired property income, net | **187** | 19 | **282** | 7 |
| Miscellaneous income, net | **223** | 316 | **658** | 674 |
| Total non-interest income | **14,072** | 13,373 | **32,081** | 26,549 |
| **Operating expenses** | | | | |
| Salaries and employee benefits | **15,863** | 14,495 | **31,428** | 28,924 |
| Other operating expenses | **8,054** | 8,479 | **15,533** | 16,858 |
| Total operating expenses | **23,917** | 22,974 | **46,961** | 45,782 |
| Income before income taxes | **41,250** | 35,459 | **87,656** | 76,239 |
| **Provision for income taxes** | **1,121** | 2,060 | **1,774** | 4,793 |
| **Net income** | **$40,129** | $33,399 | **$85,882** | $71,446 |
| **Other comprehensive income** | | | | |
| Employee benefit plans activity | **$58** | $ -- | **$116** | $ -- |
| Total other comprehensive income | **58** | -- | **116** | -- |
| Comprehensive income | **$40,187** | $33,399 | **$85,998** | $71,446 |

*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 | -- | -- | 71,446 | -- | 71,446 |
| Unallocated surplus designated for patronage distributions | -- | -- | (16,788) | -- | (16,788) |
| Capital stock and participation certificates issued | -- | 1,018 | -- | -- | 1,018 |
| Capital stock and participation certificates retired | -- | (842) | -- | -- | (842) |
| Balance at June 30, 2017 | $1 | $21,869 | $1,501,297 | $ -- | $1,523,167 |
| Balance at December 31, 2017 | $1 | $22,141 | $1,548,350 | ($1,846) | $1,568,646 |
| **Net income** | **--** | **--** | **85,882** | **--** | **85,882** |
| **Other comprehensive income** | **--** | **--** | **--** | **116** | **116** |
| **Unallocated surplus designated for patronage distributions** | **--** | **--** | **(25,239)** | **--** | **(25,239)** |
| **Capital stock and participation certificates issued** | **--** | **976** | **--** | **--** | **976** |
| **Capital stock and participation certificates retired** | **--** | **(903)** | **--** | **--** | **(903)** |
| **Balance at June 30, 2018** | **$1** | **$22,214** | **$1,608,993** | **($1,730)** | **$1,629,478** |

*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 six months ended June 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 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 condition, 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. When this guidance is adopted, a liability for lease obligations and a corresponding right-of-use asset will be recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. | We 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. |

| Standard and effective date | Description | Adoption status and financial statement impact |
|---|---|---|
| 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, 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: | **June 30, 2018** | | December 31, 2017 | |
|---|---|---|---|---|
| | **Amount** | **Percentage** | Amount | Percentage |
| Real estate mortgage | **$5,069,821** | **60.1%** | $4,912,667 | 59.8% |
| Production and intermediate-term | **2,059,235** | **24.4** | 2,099,435 | 25.6 |
| Agribusiness | **937,237** | **11.1** | 852,151 | 10.4 |
| Other | **374,525** | **4.4** | 348,003 | 4.2 |
| Total | **$8,440,818** | **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)<br>**As of June 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** | **$13,615** | **$6,755** | **$20,370** | **$5,087,616** | **$5,107,986** | **$27** |
| **Production and intermediate-term** | **8,944** | **7,843** | **16,787** | **2,061,737** | **2,078,524** | **1,753** |
| **Agribusiness** | **--** | **630** | **630** | **939,111** | **939,741** | **--** |
| **Other** | **2,217** | **597** | **2,814** | **372,565** | **375,379** | **--** |
| **Total** | **$24,776** | **$15,825** | **$40,601** | **$8,461,029** | **$8,501,630** | **$1,780** |

| 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)<br>As of: | **June 30<br>2018** | December 31<br>2017 |
|---|---|---|
| Volume with specific allowance | **$27,662** | $23,088 |
| Volume without specific allowance | **33,561** | 26,744 |
| Total risk loans | **$61,223** | $49,832 |
| Total specific allowance | **$10,518** | $7,704 |
| For the six months ended June 30 | **2018** | 2017 |
| Income on accrual risk loans | **$146** | $111 |
| Income on nonaccrual loans | **584** | 849 |
| Total income on risk loans | **$730** | $960 |
| Average risk loans | **$57,753** | $50,663 |

Note: Accruing loans include accrued interest receivable.

We had $6.5 million of commitments to lend additional money to borrowers whose loans were classified as risk loans at June 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)<br>Six months ended June 30 | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Pre-modification** | **Post-modification** | Pre-modification | Post-modification |
| Real estate mortgage | **$64** | **$6** | $831 | $827 |
| Production and intermediate-term | **65** | **65** | 566 | 539 |
| Total | **$129** | **$71** | $1,397 | $1,366 |

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 Six Months Ended June 30**

| (in thousands) | **2018** | 2017 |
|---|---|---|
| Real estate mortgage | **$ --** | $48 |
| Production and intermediate-term | **104** | 34 |
| Total | **$104** | $82 |

**TDRs Outstanding**

| (in thousands)<br>As of: | **June 30<br>2018** | December 31<br>2017 |
|---|---|---|
| Accrual status: | | |
| Real estate mortgage | **$2,776** | $2,821 |
| Production and intermediate-term | **448** | 480 |
| Other | **262** | 265 |
| Total TDRs in accrual status | **$3,486** | $3,566 |
| Nonaccrual status: | | |
| Real estate mortgage | **$826** | $1,629 |
| Production and intermediate-term | **439** | 797 |
| Other | **128** | 141 |
| Total TDRs in nonaccrual status | **$1,393** | $2,567 |
| Total TDRs: | | |
| Real estate mortgage | **$3,602** | $4,450 |
| Production and intermediate-term | **887** | 1,277 |
| Other | **390** | 406 |
| Total TDRs | **$4,879** | $6,133 |

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

### Allowance for Loan Losses

**Changes in Allowance for Loan Losses**

| (in thousands)<br>Six months ended June 30 | **2018** | 2017 |
|---|---|---|
| Balance at beginning of period | **$72,640** | $46,382 |
| Provision for loan losses | **463** | 1,390 |
| Loan recoveries | **452** | 3,724 |
| Loan charge-offs | **(1,002)** | (576) |
| Balance at end of period | **$72,553** | $50,920 |

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 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)<br>For the six months ended June 30 | **2018** | 2017 |
|---|---|---|
| Provision for credit losses | **$4,100** | $3,157 |
| As of: | **June 30<br>2018** | December 31<br>2017 |
| Accrued credit losses | **$4,631** | $531 |

## NOTE 3: INVESTMENT SECURITIES

We held investment securities of $9.8 million at June 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 June 30, 2018, and December 31, 2017.

**Additional Investment Securities Information**

| (dollars in thousands)<br>As of: | **June 30<br>2018** | December 31<br>2017 |
|---|---|---|
| Amortized cost | **$9,810** | $12,414 |
| Unrealized gains | **411** | 531 |
| Fair value | **$10,221** | $12,945 |
| Weighted average yield | **4.3%** | 3.5% |

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $243 thousand and $254 thousand for the six months ended June 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 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 June 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 June 30, 2018** | | | |
|---|---|---|---|---|
| | Fair Value Measurement Using | | | Total Fair |
| | Level 1 | Level 2 | Level 3 | Value |
| **Impaired loans** | **$ --** | **$ --** | **$18,001** | **$18,001** |
| **Acquired property** | **--** | **--** | **5,359** | **5,359** |
| | 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 August 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.