# GreenStone Farm Credit Services, ACA

**Quarterly Report**
**March 31, 2020**

## 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, 2019 (2019 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 AgriBank 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 2019 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 coronavirus COVID-19 viral outbreak was first detected in China's Wuhan province in December 2019 and quickly spread around the globe. Given the virus' rapid spread, many countries have implemented strict quarantines and travel bans in order to slow the pace of the outbreak. These quarantines and prevention measures have had a major effect on the global economy, with a steep decline in global economic activity and trade.

In an attempt to support the global economy, governments and central banks around the world have begun to implement stimulus measures. The Federal Open Market Committee (FOMC) cut its target interest rate to 0.00%-0.25%. In addition to the rate cuts, the FOMC has also announced extensive new measures that will be implemented in order to support financial markets. These relief measures include purchases of Treasury securities and agency mortgage-backed securities in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broaden financial conditions.

On March 27, 2020, President Trump signed the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, providing direct payments to individual Americans, financial assistance to businesses, and additional resources for health care facilities in an attempt to provide temporary relief for those whose jobs or businesses have been most affected by this pandemic. Specifically, this legislation authorizes one-time direct cash payments of $1,200 per individual and $500 per child to all eligible U.S. residents. This legislation also increases unemployment assistance by $600 per week for four months. In addition, the stimulus package includes $350 billion in loans to small businesses and $500 billion in corporate aid, much of which will go to backstopping Federal Reserve loans. The legislation also provides a grant program to send $100 billion to health care providers and another grant program of $25 billion for passenger aircrafts.

While uncertainty around COVID-19 remains and recent market turmoil has shaken investors, the macro-economy has been exceedingly stable over the last 10 years. In fact, with real gross domestic product (GDP) growth of 2.3% reported in 2019, the U.S. closed out the first full decade in its history (2010-2019) where the economy did not experience a recession. Likewise, the unemployment rate stood at just 3.5% as of February 2020. These figures suggest that the broader economy is entering this downturn from a position of relative strength.

Global GDP estimates for 2020 have been revised down sharply. The Congressional Budget Office (CBO) is expecting the U.S. economy to contract 0.9% in the first quarter of 2020 and 11.8% in the second quarter of 2020. U.S. GDP is expected to contract 5.6% annually for 2020. The CBO is expecting similar patterns in the unemployment rate as they are projecting the national unemployment rate will hit 14.0% in the second quarter of 2020 and 16.0% in the third quarter of 2020. This was partially reflected in unemployment figures reported on April 24, 2020, as more than 26 million Americans filed for unemployment in a five-week span.

On the trade front, the U.S.-China Economic and Trade Agreement (Agreement) was signed on January 15, 2020, and entered into force on February 14, 2020. The agricultural provisions of the Phase One Agreement include commitments by China to enact specific and regulatory reforms to facilitate agricultural trade, as well as commitments for China to purchase $40 billion annually of U.S. agricultural, food, and seafood products in calendar years 2020 and 2021. The Agreement also provides that China will "strive to import" an additional $5 billion per year over the next two years. However, the current outlook for exports to China is tempered by significant uncertainties surrounding the COVID-19 outbreak, which may impact the timing of China's purchases under the Phase One Agreement. Total U.S. agricultural exports are projected at $140 billion in 2020, a $4 billion increase from 2019.

Consumer consumption patterns have changed dramatically with stay-at-home orders enacted in nearly every state, and many agricultural markets are facing pressure from outside markets. Additionally, the U.S. agricultural industry is facing stress from labor shortages and COVID-19 outbreaks at food processing plants while exports could be challenged by logistics and the volatility of the U.S. dollar. For row crops, corn is experiencing the most pressure from the COVID-19 outbreak. Roughly 40% of U.S. corn production is processed into ethanol and distiller's dried grain with solubles, a feed byproduct of ethanol production. The lockdown has rapidly reduced automobile traffic and fuel consumption and, in turn, ethanol and corn demand. The drop in fuel demand has resulted in reduced ethanol plant runtimes and plant shutdowns, which have pressured corn prices lower. The projected demand for soybeans remains in doubt. The Phase One Agreement between the U.S. and China would theoretically have been very supportive for U.S. soybeans, but the COVID-19 outbreak and reduced Chinese hog herd due to African Swine Fever have called into question if China will reach committed levels.

The livestock and animal agricultural sectors have rapidly experienced the effects of shifts in consumer food spending. Dine-in restaurant sales have declined nearly 100%, while drive-thru only sales at many fast food restaurants have reduced that segment's sales significantly as well. Most animal protein and dairy prices have declined considerably in March and early April of 2020 as food supply chains rapidly shift away from food service consumption to a higher share of grocery store food purchases.

To assist with deteriorating agricultural conditions, nearly $24 billion of federal aid has already been approved via federal stimulus packages and more aid could be on the way in the future if poor conditions persist; however, at this point, the timing, the level of aid, and the distribution to various agriculture commodities is unknown. Because of all these factors, the outlooks for many commodities have been downgraded.

The dairy industry has not been spared from the COVID-19 outbreak, as Class III futures have fallen substantially from the mid-$17 per hundredweight (cwt) range in February 2020 to average approximately $14 per cwt for the remainder of 2020. This decline has been largely related to the implementation of travel bans and border closings and the expected effect on dairy exports, as well as the potential for major supply chain disruptions. The March 18, 2020, closing of the U.S./Canada border for non-essential travel has been particularly concerning to dairy markets. Despite assurances from both the Trump administration and Canadian Prime Minister Justin Trudeau that "food, fuel and medicines" would not be affected by the border closing, some disruptions are likely to occur. Based on recent weakening of dairy product prices, higher expected milk production, and lower expectations for global demand, the all-milk price forecast for 2020 has been lowered to $14.35 per cwt.

In summary, the U.S. agricultural industries will continue to face challenges in 2020. The potential de-escalation of global trade disputes and the signing of the Phase One Trade Agreement with China are a positive development for the U.S. agricultural industry. The global outbreak of COVID-19 represents a cloud over the U.S. and economies around the world at this time and the negative impact on economic activity will have significant implications for both agriculture and the general economy in 2020 and possibly beyond.

## LOAN PORTFOLIO

### Loan Portfolio

Owned loan volume totaled $9.8 billion at March 31, 2020, a $411.9 million increase from December 31, 2019.

Total owned and managed loan volume including serviced volume on the real estate loans sold to AgriBank was $9.9 billion at March 31, 2020, a $404.5 million increase from December 31, 2019. Our combined mortgage portfolio increased $326.1 million, or 4.5% from December 31, 2019, while our short-term commercial loan portfolio increased $78.5 million, or 3.4% from December 31, 2019. When compared to March 31, 2019, owned and managed mortgage volume is up 12.3% and commercial loan volume is up 13.0%. These increases were driven by growth in all market segments and led by our capital markets and country living segments that have increased 31.6% and 11.4%, respectively, since March 31, 2019. Our current volume reflects an asset growth rate year over year that is running above our 2020 Business Plan. Approximately 40% of our loan growth over December 31, 2019, was related to draws on lines of credit in our capital markets portfolio, which appear to have been driven by the desire of companies to show excess cash on their balance sheets at quarter-end as a result of COVID-19.

### Portfolio Credit Quality

The credit quality of our loan portfolio improved slightly during the first three months of 2020. Acceptable loan credit quality, as measured under the Uniform Classification System, was 91.8%, which increased from 91.4% at December 31, 2019. Year over year, acceptable credit quality decreased 0.4% from 92.2% at March 31, 2019. Portfolio assets classified less than acceptable consisted of 4.7% other assets especially mentioned (OAEM) and 3.5% adversely classified loans at March 31, 2020. OAEM decreased 0.4% while adversely classified was unchanged from December 31, 2019.

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. Weaker borrowers in our dairy and cash crop portfolios continued to be challenged financially during the first three months of 2020.

The resulting level of credit quality, when combined with our earnings and addition to capital surplus, resulted in an adverse assets to regulatory capital ratio of 20.5%, which increased 0.4% from December 31, 2019.

In certain circumstances, Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At March 31, 2020, $360.9 million of our loans were, to some level, guaranteed under these programs. The guaranteed loan volume increased from $355.4 million at December 31, 2019.

While overall credit quality remains solid, the impact of the global pandemic disruption to many agriculture industries and commodity prices may result in increases to adverse credit quality and related provision for credit losses.

## Risk Assets

**Components of Risk Assets**

| (dollars in thousands)<br>As of: | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| Loans: | | |
| Nonaccrual | **$77,020** | $72,961 |
| Accruing restructured | **3,327** | 3,364 |
| Accruing loans 90 days or more past due | **--** | -- |
| Total risk loans | **80,347** | 76,325 |
| Acquired property | **1,904** | 1,577 |
| Total risk assets | **$82,251** | $77,902 |
| Total risk loans as a percentage of total loans | **0.8%** | 0.8% |
| Nonaccrual loans as a percentage of total loans | **0.8%** | 0.8% |
| Current nonaccrual loans as a percentage of total nonaccrual loans | **55.7%** | 53.5% |
| Total delinquencies as a percentage of total loans | **0.8%** | 0.5% |

Note: Accruing loans include accrued interest receivable.

Our risk assets increased from December 31, 2019, but remained at acceptable levels. Total risk loans as a percentage of total loans remained well within our established risk management guidelines.

Nonaccrual loans increased from $73.0 million at December 31, 2019, to $77.0 million at March 31, 2020. The increase in nonaccrual loan volume was primarily due to some crop farm loan customers transferring to nonaccrual along with seasonal activity of a commercial greenhouse. As of March 31, 2020, 42.6% of the nonaccrual loan portfolio was composed of dairy loans, 15.4% crop farm loans, and 10.9% food processing cooperative loans.

Total delinquencies as a percentage of total loans increased from 0.5% at December 31, 2019, to 0.8% at March 31, 2020. The increase was primarily due to a poultry farm loan of $20.1 million that was 31 days past due at March 31, 2020. The customer made a payment to become current on April 2, 2020.

We are working individually with customers experiencing economic hardships. From weather and economic challenges over the last several years, to more recent stress generated by market pressures and uncertainties resulting from the COVID-19 pandemic, we are proactively providing assistance by working with customers to develop individualized financial solutions.

## Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent 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: | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| Allowance as a percentage of: | | |
| Loans | **1.0%** | 1.0% |
| Nonaccrual loans | **125.0%** | 130.8% |
| Total risk loans | **119.8%** | 125.1% |

The allowance for loan losses increased $826 thousand from December 31, 2019, to $96.3 million at March 31, 2020. During the first three months of 2020, a provision for loan losses of $953 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. The additional general industry reserve for the dairy portfolio decreased from $39.3 million at December 31, 2019, to $38.3 million at March 31, 2020. The additional general industry reserve for the cash grain portfolio increased from $12.4 million at December 31, 2019, to $12.6 million at March 31, 2020.

Under certain circumstances, credit losses may be recorded to establish a reserve on unfunded loan commitments. The "(Reversal of) provision for credit losses" in the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2020, included a reversal of 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 $3.6 million and $5.4 million as of March 31, 2020, and December 31, 2019, respectively.

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2020.

## RESULTS OF OPERATIONS

**Profitability Information**

| (dollars in thousands)<br>For the three months ended March 31, | **2020** | 2019 |
|---|---|---|
| Net income | **$58,561** | $47,278 |
| Return on average assets | **2.4%** | 2.1% |
| Return on average members' equity | **13.0%** | 11.2% |

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- 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 three months ended March 31, | **2020** | 2019 | **Increase (decrease) in net income** |
|---|---|---|---|
| Net interest income | **$60,050** | $57,010 | **$3,040** |
| (Reversal of) provision for credit losses | **(821)** | 1,755 | **2,576** |
| Patronage income | **13,130** | 8,701 | **4,429** |
| Financially related services income | **2,480** | 2,045 | **435** |
| Fee income | **6,147** | 3,432 | **2,715** |
| Allocated insurance reserve accounts distribution | **1,900** | 1,997 | **(97)** |
| Acquired property income, net | **41** | 37 | **4** |
| Other non-interest income | **706** | 374 | **332** |
| Non-interest expense | **(25,367)** | (23,765) | **(1,602)** |
| Provision for income taxes | **(1,347)** | (798) | **(549)** |
| Net income | **$58,561** | $47,278 | **$11,283** |

### Net Interest Income

**Changes in Net Interest Income**

| (in thousands)<br>For the three months ended March 31, | **2020 vs 2019** |
|---|---|
| Changes in volume | **$5,365** |
| Changes in interest rates | **(2,062)** |
| Changes in nonaccrual income and other | **(263)** |
| Net change | **$3,040** |

### (Reversal of) Provision for Credit Losses

The change in (reversal of) provision for credit losses was related to our estimate of losses in our portfolio for the applicable years.

### Non-Interest Income

The change in non-interest income was primarily due to increases in patronage income and fee income.

We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

**Patronage Income**

| (in thousands)<br>For the three months ended March 31, | **2020** | 2019 |
|---|---|---|
| Wholesale patronage | **$10,049** | $6,000 |
| Pool program patronage | **2,186** | 1,950 |
| AgDirect partnership distribution | **793** | 688 |
| Other Farm Credit Institution patronage | **102** | 63 |
| Total patronage income | **$13,130** | $8,701 |
| Form of patronage distributions: | | |
| Cash | **$13,130** | $8,701 |
| Stock | **--** | -- |
| Total patronage income | **$13,130** | $8,701 |

The increase in fee income of $2.7 million is primarily due to an increase in loan conversion fees, which was due to opportunities created by lower long-term interest rates in 2020 compared to 2019.

### Non-Interest Expense

The increase in non-interest expenses from 2019 to 2020 of $1.6 million was primarily due to an increase in salaries and employee benefits along with an increase in furniture and equipment expense. The increase in furniture and equipment expense is primarily due to timing, as we purchased computer equipment earlier in 2020 compared to 2019. The computers were purchased earlier this year in anticipation of limited availability for this equipment due to the COVID-19 pandemic.

## FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on December 31, 2021, 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 equity.

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, 2020, or December 31, 2019.

Market volatility increased due to the COVID-19 pandemic and certain adjustments to the costs of our funding of longer-term loans were impacted. This volatility and higher cost of funding has neither significantly impacted our business operations nor materially impacted our Consolidated Financial Statements.

Total members' equity increased $33.8 million from December 31, 2019, primarily due to net income for the period partially offset by patronage distribution accruals**.** The change in accumulated other comprehensive loss is the amortization impact of prior service cost and unamortized gain/loss related to the Pension Restoration Plan. Refer to Note 10 in our 2019 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 regulatory 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 leverage. Refer to Note 8 in our 2019 Annual Report for a more complete description of these ratios.

**Regulatory Capital Requirements and Ratios**

| As of: | **March 31, 2020** | December 31, 2019 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| Risk-adjusted: | | | | | |
| Common equity tier 1 ratio | **15.7%** | 16.7% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **15.7%** | 16.7% | 6.0% | 2.5% | 8.5% |
| Total regulatory capital ratio | **16.7%** | 17.6% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **15.8%** | 16.9% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | **16.5%** | 17.7% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **17.6%** | 18.8% | 1.5% | N/A | 1.5% |

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments.

## OTHER MATTERS

### Relationships with Other Farm Credit Institutions

**SunStream Business Services:** SunStream Business Services (SunStream) was previously a division of AgriBank. Effective April 1, 2020, SunStream is a System service corporation and we will be a partial owner and continue to purchase services from SunStream. We purchase various services from SunStream, which include financial and retail systems, tax reporting services, technology services, and insurance services. As of April 1, 2020, our investment in SunStream was $1.9 million. The entire investment was called on April 1, 2020, at which time $1.0 million was paid in cash and the remainder is due in January 2021.

### COVID-19 Pandemic

The spread of COVID-19 has created a global public-health crisis that has stifled the worldwide economy, decreased liquidity in fixed income and equity markets, significantly increased unemployment levels and disrupted global supply and demand chains. Unprecedented actions are being taken by governments, businesses, and individuals to slow or contain the spread of COVID-19, including quarantines, stay-at-home orders, school closings and travel bans that have substantially restricted daily activities and forced many businesses to curtail or cease operations. The impact of COVID-19 on companies is evolving rapidly and its future effects are uncertain.

The extent to which the COVID-19 pandemic impacts the Association will depend on future developments that are highly uncertain and cannot be predicted such as the duration, extent and severity of the pandemic, the continued response by the U.S. government and how quickly “normal” daily activities resume.

This outbreak puts the economy and agriculture sector in uncharted territory. The overall impact of COVID-19 on U.S. agriculture will depend on the severity and duration of the outbreak, including a potential reoccurrence later in the year. Overall, agriculture will adjust, providing an “essential service” to the U.S. and global consumer.

Beginning March 23, 2020, all of our 36 office buildings were closed in response to the COVID-19 pandemic to protect the health of our employees and customers. Our office buildings being closed may have caused somewhat of an inconvenience to employees and customers, but we continue to conduct business and efficiently serve customers by utilizing an array of technology tools. We have made slight modifications to some of our operational processes to accommodate this different work environment. This did not have a material impact on our Consolidated Financial Statements.

## CERTIFICATION

The undersigned have reviewed the March 31, 2020, 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 5, 2020

# CONSOLIDATED STATEMENTS OF CONDITION

*GreenStone Farm Credit Services, ACA*

*(in thousands)*

*(Unaudited)*

| As of: | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| Loans | **$9,809,983** | $9,398,125 |
| Allowance for loan losses | **96,280** | 95,454 |
| Net loans | **9,713,703** | 9,302,671 |
| Investment in AgriBank, FCB | **230,381** | 222,432 |
| Investment securities | **7,710** | 9,046 |
| Accrued interest receivable | **66,377** | 73,629 |
| Premises and equipment, net | **49,149** | 50,033 |
| Deferred tax assets, net | **3,681** | 4,419 |
| Other assets | **63,355** | 66,033 |
| Total assets | **$10,134,356** | $9,728,263 |
| **LIABILITIES** | | |
| Note payable to AgriBank, FCB | **$8,198,811** | $7,748,606 |
| Accrued interest payable | **49,154** | 49,800 |
| Patronage distribution payable | **25,000** | 100,000 |
| Other liabilities | **48,879** | 51,145 |
| Total liabilities | **8,321,844** | 7,949,551 |
| Contingencies and commitments (Note 4) | | |
| **MEMBERS' EQUITY** | | |
| Protected members' equity | **1** | 1 |
| Capital stock and participation certificates | **23,186** | 23,019 |
| Unallocated surplus | **1,791,518** | 1,757,944 |
| Accumulated other comprehensive loss | **(2,193)** | (2,252) |
| Total members' equity | **1,812,512** | 1,778,712 |
| Total liabilities and members' equity | **$10,134,356** | $9,728,263 |

*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,* | **2020** | 2019 |
| **Interest income** | **$109,204** | $107,296 |
| **Interest expense** | **49,154** | 50,286 |
| Net interest income | **60,050** | 57,010 |
| **(Reversal of) provision for credit losses** | **(821)** | 1,755 |
| Net interest income after (reversal of) provision for credit losses | **60,871** | 55,255 |
| **Non-interest income** | | |
| Patronage income | **13,130** | 8,701 |
| Financially related services income | **2,480** | 2,045 |
| Fee income | **6,147** | 3,432 |
| Allocated Insurance Reserve Accounts distribution | **1,900** | 1,997 |
| Acquired property income, net | **41** | 37 |
| Other non-interest income | **706** | 374 |
| Total non-interest income | **24,404** | 16,586 |
| **Non-interest expense** | | |
| Salaries and employee benefits | **17,565** | 16,581 |
| Other operating expense | **7,802** | 7,184 |
| Total non-interest expense | **25,367** | 23,765 |
| Income before income taxes | **59,908** | 48,076 |
| **Provision for income taxes** | **1,347** | 798 |
| **Net income** | **$58,561** | $47,278 |
| **Other comprehensive income** | | |
| Employee benefit plans activity | **$59** | $49 |
| Total other comprehensive income | **59** | 49 |
| Comprehensive income | **$58,620** | $47,327 |

*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) Income | Total Members' Equity |
|---|---|---|---|---|---|
| Balance at December 31, 2018 | $1 | $22,400 | $1,651,528 | ($1,852) | $1,672,077 |
| Net income | -- | -- | 47,278 | -- | 47,278 |
| Other comprehensive income | -- | -- | -- | 49 | 49 |
| Unallocated surplus designated for patronage distributions | -- | -- | (20,344) | -- | (20,344) |
| Cumulative effect of change in accounting principle | -- | -- | (6) | -- | (6) |
| Capital stock and participation certificates issued | -- | 363 | -- | -- | 363 |
| Capital stock and participation certificates retired | -- | (341) | -- | -- | (341) |
| Balance at March 31, 2019 | $1 | $22,422 | $1,678,456 | ($1,803) | $1,699,076 |
| Balance at December 31, 2019 | $1 | $23,019 | $1,757,944 | ($2,252) | $1,778,712 |
| **Net income** | **--** | **--** | **58,561** | **--** | **58,561** |
| **Other comprehensive income** | **--** | **--** | **--** | **59** | **59** |
| **Unallocated surplus designated for patronage distributions** | **--** | **--** | **(24,987)** | **--** | **(24,987)** |
| **Capital stock and participation certificates issued** | **--** | **560** | **--** | **--** | **560** |
| **Capital stock and participation certificates retired** | **--** | **(393)** | **--** | **--** | **(393)** |
| **Balance at March 31, 2020** | **$1** | **$23,186** | **$1,791,518** | **($2,193)** | **$1,812,512** |

*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 Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting and reporting 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, 2020, are not necessarily indicative of the results to be expected for the year ending December 31, 2020. 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, 2019 (2019 Annual Report).

Certain amounts in prior periods' financial statements have been reclassified to conform to the current period's presentation.

The Consolidated Financial Statements present the consolidated financial results of GreenStone Farm Credit Services, ACA and its subsidiaries GreenStone Farm Credit Services, FLCA and GreenStone Farm Credit Services, PCA. 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, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

| Standard and effective date | Description | Adoption status and financial statement impact |
|---|---|---|
| In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 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 are evaluating the deferral and have not yet determined if we will early adopt the standard. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements. |

### NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

**Loans by Type**

(dollars in thousands)

| As of: | **March 31, 2020** | | December 31, 2019 | |
|---|---|---|---|---|
| | **Amount** | **Percentage** | Amount | Percentage |
| Real estate mortgage | **$5,698,106** | **58.1%** | $5,618,576 | 59.8% |
| Production and intermediate-term | **1,955,956** | **19.9** | 1,989,227 | 21.2 |
| Agribusiness | **1,586,434** | **16.2** | 1,280,579 | 13.6 |
| Other | **569,487** | **5.8** | 509,743 | 5.4 |
| Total | **$9,809,983** | **100.0%** | $9,398,125 | 100.0% |

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

## Delinquency

**Aging Analysis of Loans**

| (in thousands) **As of March 31, 2020** | 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 |
|---|---|---|---|---|---|
| **Real estate mortgage** | **$20,685** | **$22,870** | **$43,555** | **$5,694,538** | **$5,738,093** |
| **Production and intermediate-term** | **3,706** | **8,193** | **11,899** | **1,964,411** | **1,976,310** |
| **Agribusiness** | **20,780** | **--** | **20,780** | **1,570,360** | **1,591,140** |
| **Other** | **2,296** | **117** | **2,413** | **567,988** | **570,401** |
| **Total** | **$47,467** | **$31,180** | **$78,647** | **$9,797,297** | **$9,875,944** |

| As of December 31, 2019 | 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 |
|---|---|---|---|---|---|
| Real estate mortgage | $12,770 | $22,081 | $34,851 | $5,629,933 | $5,664,784 |
| Production and intermediate-term | 5,348 | 9,262 | 14,610 | 1,996,624 | 2,011,234 |
| Agribusiness | 90 | 107 | 197 | 1,284,463 | 1,284,660 |
| Other | 2,269 | 50 | 2,319 | 508,339 | 510,658 |
| Total | $20,477 | $31,500 | $51,977 | $9,419,359 | $9,471,336 |

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at March 31, 2020, or December 31, 2019.

## 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, 2020** | December 31, 2019 |
|---|---|---|
| Volume with specific allowance | **$50,364** | $48,942 |
| Volume without specific allowance | **29,983** | 27,383 |
| Total risk loans | **$80,347** | $76,325 |
| Total specific allowance | **$20,998** | $20,584 |
| For the three months ended March 31, | **2020** | 2019 |
| Income on accrual risk loans | **$31** | $52 |
| Income on nonaccrual loans | **166** | 556 |
| Total income on risk loans | **$197** | $608 |
| Average risk loans | **$80,042** | $95,964 |

Note: Accruing loans include accrued interest receivable.

We had $3.6 million of commitments to lend additional money to borrowers whose loans were classified as risk loans at March 31, 2020.

## 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.

There were no TDRs that occurred during the three months ended March 31, 2020. We completed TDRs of certain rural residential real estate loans during the three months ended March 31, 2019. Our recorded investment in these loans just prior to restructuring was $10 thousand and following the restructuring was $10 thousand. The recorded investment in 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 of the investment.

The primary type of modification included interest rate reduction below market.

We had TDRs in the production and intermediate-term loan category of $137 thousand that defaulted during the three months ended March 31, 2020, in which the modifications were within twelve months of the respective reporting period. We had no TDRs that defaulted during the three months ended March 31, 2019, in which the modifications were within twelve months of the respective reporting period.

**TDRs Outstanding**

| (in thousands)<br>As of: | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| Accrual status: | | |
| Real estate mortgage | **$2,693** | $2,726 |
| Production and intermediate-term | **404** | 405 |
| Agribusiness | **--** | -- |
| Other | **230** | 233 |
| Total TDRs in accrual status | **$3,327** | $3,364 |
| Nonaccrual status: | | |
| Real estate mortgage | **$4,300** | $4,369 |
| Production and intermediate-term | **3,281** | 3,349 |
| Agribusiness | **8,608** | 8,928 |
| Other | **190** | 199 |
| Total TDRs in nonaccrual status | **$16,379** | $16,845 |
| Total TDRs: | | |
| Real estate mortgage | **$6,993** | $7,095 |
| Production and intermediate-term | **3,685** | 3,754 |
| Agribusiness | **8,608** | 8,928 |
| Other | **420** | 432 |
| Total TDRs | **$19,706** | $20,209 |

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $3.5 million at March 31, 2020.

### Allowance for Loan Losses

**Changes in Allowance for Loan Losses**

| (in thousands)<br>Three months ended March 31, | **2020** | 2019 |
|---|---|---|
| Balance at beginning of period | **$95,454** | $84,064 |
| Provision for loan losses | **953** | 2,438 |
| Loan recoveries | **60** | 83 |
| Loan charge-offs | **(187)** | (938) |
| Balance at end of period | **$96,280** | $85,647 |

The "(Reversal of) 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 reversal of credit losses on unfunded commitments. 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 three months ended March 31, | **2020** | 2019 |
|---|---|---|
| Reversal of credit losses | **($1,774)** | ($683) |
| As of: | **March 31, 2020** | December 31, 2019 |
| Accrued credit losses | **$3,674** | $5,448 |

## NOTE 3: INVESTMENT SECURITIES

We held investment securities of $7.7 million at March 31, 2020, and $9.0 million at December 31, 2019. Our investment securities consisted of securities backed by pools of loans guaranteed by the Small Business Administration (SBA)**.**

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 at March 31, 2020, or December 31, 2019.

**Additional Investment Securities Information**

| (dollars in thousands)<br>As of: | **March 31,<br>2020** | December 31,<br>2019 |
|---|---|---|
| Amortized cost | **$7,710** | $9,046 |
| Unrealized gains | **56** | 82 |
| Unrealized losses | **(32)** | (19) |
| Fair value | **$7,734** | $9,109 |
| Weighted average yield | **4.4%** | 5.1% |

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $96 thousand and $150 thousand for the three months ended March 31, 2020, and 2019, 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 2019 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, 2020, or December 31, 2019.

### 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, 2020** | Fair Value Measurement Using | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| **Impaired loans** | **$ --** | **$ --** | **$30,835** | **$30,835** |
| **Acquired property** | **--** | **--** | **5,776** | **5,776** |

| As of December 31, 2019 | Fair Value Measurement Using | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Impaired loans | $ -- | $ -- | $29,776 | $29,776 |
| Acquired property | -- | -- | 4,699 | 4,699 |

### Valuation Techniques

**Impaired loans:** Represents the carrying amount 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 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 of foreclosed assets measured 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 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 property and other matters, they are classified as Level 3.

## NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 5, 2020, 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.