Growing
Securing
Partnering
Advancing
Together

Annual Report 2017

GreenStone®
FARM CREDIT SERVICES

For-ward TOGETHER

MESSAGE FROM THE CEO AND BOARD CHAIR

The ongoing weak agricultural economy continues to challenge everyone involved in the agriculture industry, requiring tough decisions and a sharp focus on long-term business goals. At GreenStone, we too are challenged with keeping the discipline to stay true to our mission and adhering to our long-term goals and objectives. By doing so, and working together with you, our members, we were able to post a solid financial performance again this year.

The strong financial position outlined in this report is an indication of the importance of having a financial partner with a stable balance sheet, allowing us some flexibility when working with our members through difficult times.

Overall, our portfolio reflects an increased risk level and a slower rate of loan growth due to negative margins in several of the commodities produced in our marketplace. We did however, exceed our long-term business growth plan of 5 percent on an accruing average daily balance basis.

The continual growth in our total loan portfolio, coupled with internal efficiencies and approximately $15 million in additional patronage from AgriBank, led us to a record year of earnings for your cooperative. Achieving strong earnings should be welcome news to all our members, particularly in challenging times like we are in when every penny counts. Earnings allow your association to build capital for future adversity while keeping our financial foundation sound so we can remain a dependable, competitive, and responsible lender for today and future generations.

Based on 2017 earnings and the current strength of your cooperative's financial position, the Board of Directors announced a record patronage payment of $50 million to members to be distributed in March 2018. This year's payment brings the total patronage paid to our member-owners to $318 million since the program's inception in 2005.

This is welcomed news to many of our members who continue to financially struggle for the fourth consecutive year because of poor commodity prices. While we are unable to guarantee these levels of patronage in the future, the current financial stability of your association should give the reassurance that we have the ability to serve your needs through all the cycles of the agriculture economy.

In light of the current conditions, we remain optimistic about the long-term outlook for American agriculture. Compared to the depth of past economic downturns, today's industry is relatively healthy and GreenStone remains well positioned to support its members.

Considering global demand for food, fuel, and fiber will only continue to increase as the world's population grows and emerging economies mature, we have reason to be optimistic for farming's future.

"In light of the current conditions, we remain optimistic about the long-term outlook for American agriculture."

American farmers are in an enviable position to fill the anticipated increased demand given their high productivity, technology infrastructure, access to energy supplies, transportation channels, and processing facilities. Additionally, the United States enjoys a more stable legal, regulatory, and political system than many other countries competing for the global agricultural market.

History tells us the future will not be without its uncertainties and setbacks. However, one thing you can count on is GreenStone and the entire Farm Credit System will continue to work together with their members to remain a dependable and competitive source of credit and financial services for our agricultural industry and rural communities for many years.

We thank you for placing your trust in us and choosing GreenStone as your financial provider of choice. We look forward to working together with you in 2018. ■

Edward L. Reed
Chair of the Board

David B. Armstrong
Chief Executive Officer

24,000 MEMBERS AND GROWING

Seventh Largest Farm Credit in the U.S.

Growth is in our DNA

GROWING TOGETHER

Enhancing your experience with GreenStone by integrating new technologies is one way we work to keep in step with your expectations of doing business with us. Over the past several months, we have added new capabilities including an online application, 24-7 account access, secure document exchange, and other online tools allowing you to do business with us any time of the day or night.

Other customer-focused services like bi-weekly payments, flexible down payment options and learning resources continue to evolve to meet your changing needs.

"The speed of change in the world of technology and information systems is faster year after year," says Steve Junglas, GreenStone executive vice president and chief information officer. "Our close working relationships with our members gives us the opportunity to hear first-hand the enhancements they would like to see from our team. We are continually working to provide the best experience for our customers – whether it is in person at a local branch or through our online presence."

In addition to monitoring the digital environment, Steve and his team work to improve all systems and software used by GreenStone employees. The continual improvement and refinement of the systems allows employees to deliver the best service possible to our customers. In a recent customer satisfaction survey, customers expressed their appreciation to the increased digital capabilities.

"Our GreenStone loan representative is very easy to work with via phone, email or in person. She is always available and helpful. I like the online banking feature, it is easy for us to see our balances and what is due," said one customer.

Other customers noted they appreciated the mix of local service and on-line access to complete their business transactions.

"The online account availability is very nice. I like the statements that show my principal and interest breakdown. I also like having a local branch," said a customer in southwest Michigan.

Watch for continuing enhancements in your customer experience throughout 2018 including the launch of a new company website. ■

2017 Highlights

$151.7

Net Income in Millions

94%

Customer Satisfaction Rating

$8.5+

Billion in Total Assets (owned and managed)

4.7%

Total Loan Growth (owned and managed)

$50

Million Paid in Cash Patronage March 2018

Achieving strong earnings should be welcome news to all our members, particularly in challenging times like we are in when every penny counts. Earnings allow your association to build capital for future adversity while keeping our financial foundation sound so we can remain a dependable, competitive, and responsible lender for today and future generations.

One-on-one service & solutions

SECURING TOGETHER

Providing crop insurance and other risk management tools to our members helps protect their profitability should weather, disease, or other natural disasters prevent them from realizing their full crop potential at harvest. With over 30 risk management professionals, GreenStone covers more than 3,500 family farms with individualized products and services tailored to meet their needs.

Ideally, farmers prefer to harvest bountiful crops each year, but when factors outside their control prevent that, crop insurance can help fill the void. GreenStone member Tim Ostroski hit the insurance trifecta—making claims on three policies in one year—a bet he wasn't hoping to win but was glad when he did.

"I took all of my calamities in one year," says Tim Ostroski of Sterling, Mich.

Tim's growing season started with 13 inches of rain after planting 750 acres of corn, followed by two hail storms, and then a hot and dry summer ultimately wreaking havoc on his corn production.

"Scott Schmidt (GreenStone crop insurance specialist) made it easy," Tim says. "He understands the products he is selling and can demonstrate what will work best for my operation."

For Tim, working together with the right people in good times, and particularly in bad times, makes the difference in the level of success achieved.

"In volatile times, a person's success can be measured by who he surrounds himself with. The more volatile the times, the more you are dependent on those around you. And the more confident and knowledgeable those people are, the more profitable you will become," Tim says.

Our crop insurance specialists have a deep understanding of the risk management tools and its impact on marketing plans to help members meet their productivity potential.

30+ Risk management professionals focused solely on crop insurance.

1,317,731 ACRES INSURED IN 2017

Across 94 counties in Michigan and Northeast Wisconsin

Investing in the future

PARTNERING TOGETHER

As a member-owned cooperative, GreenStone works closely with its customers to help them weather the tough agriculture economy. GreenStone has been a stable fixture for farmers in Michigan and northeast Wisconsin for over a century, working alongside farmers and rural residents through good times and challenging times.

"Our fundamental mission is to support rural communities and agriculture," says Dave Armstrong, GreenStone CEO and President. "As a cooperative, we are owned by the customers we serve, so we inherently work in their collective best interest. Returning a portion of our earnings in patronage each year is one way our members benefit from working with a cooperative."

This year, GreenStone is distributing $50 million in patronage payments, an increase of over 50 percent more than last year's amount, with members realizing a similar percentage increase in their individual payments.

"Given the tough economic times many of our members are facing, we are pleased to be able to return this level of patronage at a time when it is truly needed," says Armstrong.

Providing the capital and operating funds to farms is also a critical role for a lending institution. However, the additional support of business planning and financial advice can be as important as the financing.

"Our team of experts understands the environment our customers are operating within today," Armstrong adds. "Many of our employees have close ties to production agriculture, giving them the first-hand knowledge needed to work with our customers."

Finding individual solutions for customers, particularly young, beginning, or small farmers is often the reason a farming operation gets its initial start.

"If it weren't for access to financing, my family's operation wouldn't be where it is today," says Peter Maxwell of Hope, Mich. "Farm Credit made my grandfather's dream to become a farmer from a pipefitter a reality. He and his three sons were able to grow the operation by taking calculated measures with the help of the Farm Credit System by their side. GreenStone is a key player in operations like mine, as we strive to carry our legacies into the future."

Backed by over 100 years of cooperative success, GreenStone and its members continue to exhibit the strength of cooperative membership for individuals and the association as a whole.

"As a cooperative, we are owned by the customers we serve, so we inherently work in their collective best interest. Returning a portion of our earnings in patronage each year is one way our members benefit from working with a cooperative."

$318 Million

Returned over the 13 year span of the Patronage Program.

Nearly one-third of net profits retuned in 2018

A calculated decision

ADVANCING TOGETHER

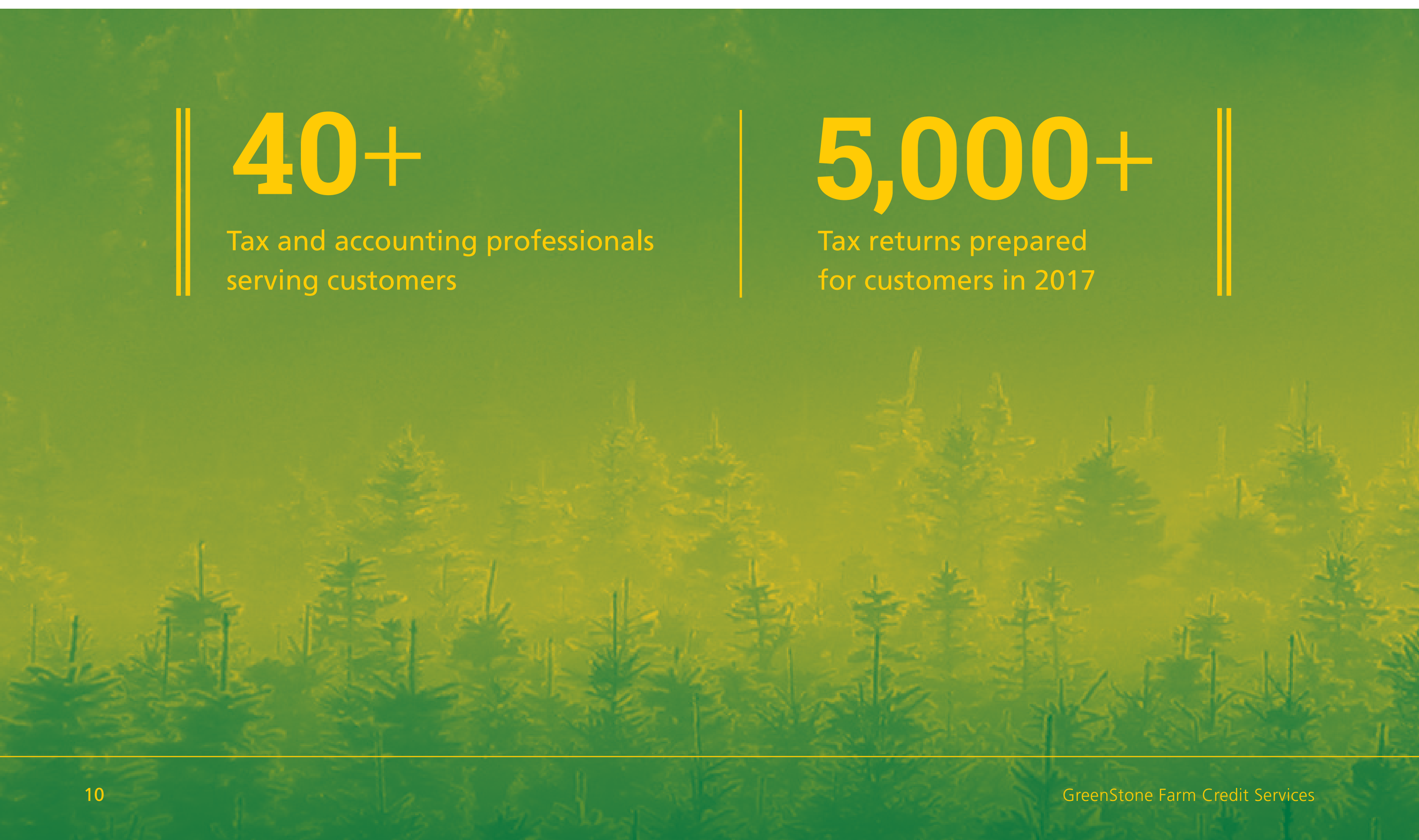
Changes in the agriculture economy, coupled with continual changes in tax and accounting rules, creates an increasing need for professionals who understand your business. At GreenStone, we see the continual need our customers have in this area, and as such, have enhanced our financial service offerings through strategic hires and updates in technology.

"We need to continue to help our customers move forward. Revitalizing our tax and accounting services is one way we can assist them," says Chad Zagar, vice president and managing director of GreenStone's tax and accounting services.

"We find for most of our farming customers, given a choice, they would prefer to be on a tractor or in a barn rather than in the office doing bookwork. We want to partner with our customers doing what we do best, financial services, letting them focus on their business."

Through the financial services offered at GreenStone, you have access to a team of professionals, including CPAs, to help you manage the business. Our services in the area of accounting, taxes, and payroll provide support in a timely, professional manner at the level you need.

In addition to general accounting services, GreenStone also offers a complete payroll package including wage calculations, report generations, quarterly and annual income tax filings, and



40+

Tax and accounting professionals serving customers

5,000+

Tax returns prepared for customers in 2017 other services as needed. The payroll specialists save customers' valuable time and help assure that all complex governmental payroll laws and regulations are being met.

Tax planning and preparation is often viewed as one of the most critical regulated financial activities a business performs. Understanding the rules and regulations and how they apply to consumers, farms and agricultural businesses is critical when preparing tax filings. Often, tax planning is a year-round activity and is best when using a preparer that understands your business and knows how to implement the appropriate long-term tax strategies for your business. Collectively, the GreenStone team has decades of experience in helping customers implement tax saving strategies and business efficiencies.

"We have designed our financial services offerings to meet the overall business needs of our customers," Chad says. "In addition to providing services to help you manage your business, we can also help you create the financial records needed to maintain or secure financing. With customer's permission, we can provide a seamless transfer of financial records, as needed, to our financial services officers and crop insurance specialists. Our "one-stop shop" service makes business planning, payroll, taxes and financing more easy, local and convenient." ■

2017 Financials

GreenStone Farm Credit Services, ACA

Consolidated Five-Year Summary of Selected Financial Data

GREENSTONE FARM CREDIT SERVICES, ACA
(Dollars in thousands)

	2017	2016	2015	2014	2013
STATEMENT OF CONDITION DATA					
Loans	$8,212,256	$7,801,558	$7,292,647	$6,721,782	$6,249,883
Allowance for loan losses	72,640	46,382	34,290	34,106	38,772
Net loans	8,139,616	7,755,176	7,258,357	6,687,676	6,211,111
Investment in AgriBank, FCB	164,805	159,936	111,217	103,368	157,945
Investment securities	12,414	16,749	20,587	25,661	32,233
Acquired property	1,572	1,583	2,440	1,904	12,751
Other assets	164,448	145,785	134,039	127,727	127,174
Total assets	$8,482,855	$8,079,229	$7,526,640	$6,946,336	$6,541,214
Obligations with maturities of one year or less	$131,112	$6,610,896	$6,157,517	$5,683,362	$5,385,302
Obligations with maturities greater than one year	6,783,097	—	—	—	—
Total liabilities	6,914,209	6,610,896	6,157,517	5,683,362	5,385,302
Protected members' equity	1	1	2	2	3
Capital stock and participation certificates	22,141	21,693	21,436	21,105	20,614
Unallocated surplus	1,548,350	1,446,639	1,347,685	1,241,867	1,135,295
Accumulated other comprehensive loss	(1,846)	—	—	—	—
Total members' equity	1,568,646	1,468,333	1,369,123	1,262,974	1,155,912
Total liabilities and members' equity	$8,482,855	$8,079,229	$7,526,640	$6,946,336	$6,541,214
STATEMENT OF INCOME DATA					
Net interest income	$209,387	$194,499	$181,169	$173,768	$168,525
(Provision for) reversal of credit losses	(22,120)	(20,161)	(3,273)	2,689	3,947
Patronage income	41,391	23,550	23,433	27,964	29,017
Financially related services income	10,263	9,479	9,514	8,745	7,442
Fee income	14,682	15,444	13,572	12,998	16,145
Other income (loss), net	1,232	1,377	1,021	4,035	(6,686)
Operating expenses	(94,188)	(90,452)	(85,570)	(79,524)	(79,114)
(Provision for) benefit from income taxes	(8,952)	(1,819)	1,221	(7,918)	(4,166)
Net income	$151,695	$131,917	$141,087	$142,757	$135,110
KEY FINANCIAL RATIOS					
For the Year					
Return on average assets	1.8%	1.7%	2.0%	2.2%	2.2%
Return on average members' equity	9.9%	9.3%	10.7%	11.7%	12.2%
Net interest income as a percentage of average earning assets	2.6%	2.6%	2.7%	2.8%	2.9%
Net charge-offs (recoveries) as a percentage of average loans	—	0.1%	—	—	(0.1%)
At Year End					
Members' equity as a percentage of total assets	18.5%	18.2%	18.2%	18.2%	17.7%
Allowance for loan losses as a percentage of loans	0.9%	0.6%	0.5%	0.5%	0.6%
Capital ratios effective beginning January 1, 2017:					
Permanent capital ratio	16.5%	N/A	N/A	N/A	N/A
Common equity tier 1 ratio	16.4%	N/A	N/A	N/A	N/A
Tier 1 capital ratio	16.4%	N/A	N/A	N/A	N/A
Total regulatory capital ratio	17.0%	N/A	N/A	N/A	N/A
Tier 1 leverage ratio	17.5%	N/A	N/A	N/A	N/A
Capital ratios effective prior to 2017					
Permanent capital ratio	N/A	16.1%	16.0%	16.2%	14.7%
Total surplus ratio	N/A	15.8%	15.8%	15.9%	14.3%
Core surplus ratio	N/A	15.8%	15.8%	15.9%	14.3%
OTHER					
Patronage distribution payable to members	$50,000	$32,979	$35,272	$36,200	$29,000

The patronage distribution to members accrued for the year ended December 31, 2017, will be distributed in cash during the first quarter of 2018. The patronage distributions accrued for the years ended December 31, 2016, 2015, 2014, and 2013 were distributed in cash during the first quarter of each subsequent year. No income was distributed to members in the form of dividends, stock, or allocated surplus during these periods.

Management's Discussion and Analysis

GREENSTONE FARM CREDIT SERVICES, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of GreenStone Farm Credit Services, ACA (the Association) and its subsidiaries, GreenStone Farm Credit Services, FLCA and GreenStone Farm Credit Services, PCA and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2018, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 69 customer-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). We are an association in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System. The Farm Credit System Insurance Corporation (FCSIC) ensures the timely payment of principal and interest on Systemwide debt obligations and the retirement of protected borrower capital at par or stated value.

Due to the nature of our financial relationship with 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, contact us at:

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Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as stated above.

Forward-Looking Information

This Annual Report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook", "could", "should", "will" and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- Political, legal, regulatory, financial markets, international, and economic conditions and developments in the United States (U.S.) and abroad
- Economic fluctuations in the agricultural and farm-related business sectors
- Unfavorable weather, disease, and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency actions relating to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Credit, interest rate, and liquidity risks inherent in our lending activities
- Changes in our assumptions for determining the allowance for loan losses, other-than-temporary impairment, and fair value measurements

Agricultural and Economic Conditions

Overall, the leading U.S. economic indicators are favorable and support continued growth in 2018. Gross Domestic Product (GDP) growth is expected to continue as long as business and consumer confidence remain strong. The new tax reform measures will incent new business investments, while consumers may benefit from lower individual tax rates. With the consumer confidence index at its highest level since 2000 and the unemployment rate at 4.1%, spending growth should be supported into 2018.

In its advance estimate, the U.S. Bureau of Economic Analysis reported an increase to the real GDP at an annual rate of 2.6% in the fourth quarter of 2017. The fourth quarter increase in real GDP reflected positive contributions from personal consumption expenditures, non-residential fixed investment, exports, residential fixed investment, federal government spending, and state and local government spending. These were partly offset by a negative contribution from private inventory investment.

The unemployment rate held steady at 4.1% in December 2017, as the jobs report showed strength in the U.S. labor market with 148,000 jobs added. During the last three months of 2017, jobs added averaged 203,700 per month. This is the highest three-month average since September 2016, and suggests solid momentum for 2018. Wage growth reported in December 2017 was 2.5% compared to the prior year, which is the strongest increase in more than seven years and evidence that economic growth is translating into gains for workers.

The Institute of Supply Management (ISM) index reported its second fastest pace of expansion in six years, measuring at 59.7 in December. The ISM index has measured above 58.0 for the last five months. The last time the index posted such a run was in 2004. New orders fueled the rise, which surged to its 13-year high point. International demand was a large contributor to the increase in orders, as improving economic conditions abroad continued to assist exports. The service sector is also expanding while the ISM non-manufacturing index slipped in December to 55.9. Overall, the ISM report suggests solid momentum to start 2018.

Total construction outlays were up 0.8% in November, led by private residential spending. Both public and private spending increased for the third straight month. The gains were largely driven by the residential sector, which rose 1.1%. Public residential construction was up 5.1% after a decline in October. Private residential spending rose 1.0% driven by outlays for single-family homes and repairs. The U.S. Census Bureau and the U.S. Department of Housing and Urban Development's housing start report showed privately-owned housing unit starts were up 3.3% in November 2017 and single-family housing starts in November were up 5.3% compared to the prior month. Building permits, a leading indicator of future starts, was down in privately-owned housing units by 1.4% in November, while single-family permits increased by 1.4% over the prior month.

The Federal Open Market Committee (FOMC) raised the federal funds rate to a target range of 1.25% to 1.5% in December 2017. The committee's decision was supported by their assessment that a gradual removal of monetary policy accommodation will sustain a strong labor market and help foster a return of inflation to 2.0%. The committee recognized domestic economic growth, expanding household spending, increased business investments, and favorable economic conditions abroad. The committee expects the labor market to remain strong with sustained job creation, ample opportunities for workers, and rising wages. During the press conference, the FOMC reemphasized its commitment to steadily normalize rates through 2018 if economic growth remains on track. The FOMC dot-plot projection suggests three additional rate hikes in 2018, to a median range of 2.1% at the end of 2018 and 2.7% at the end of 2019. Additionally, the balance sheet normalization program is underway. The Federal Reserve System (the Fed) acquired these securities during quantitative easing, which ended in 2014. Since the Fed is no longer replacing all of the securities it owns, it will create more supply in the Treasuries market. If the Fed follows its stated plan, approximately $240.0 billion in Treasury debt would mature and not be reinvested in 2018.

The U.S. agriculture industry remains challenged with large global supplies and significant competition. After three consecutive years of decline, farm sector profits were relatively stable in 2017. The strong demand in the livestock sectors are contrasting with weak markets for many crops. The United States Department of Agriculture (USDA) is forecasting net cash farm income to increase 3.9% to $96.9 billion in 2017. Despite the forecast upturn in these profit measures relative to 2016, the 2017 levels would be below all other years since 2009. In inflation-adjusted dollars, farm income appears to be stabilizing near its historical average.

Farm cash receipts are expected to rise 2.4% to $365.1 billion in 2017, led by a $12.4 billion or 7.6% increase in livestock receipts, specifically cattle/calves, hogs, broilers, and dairy after they posted significant declines in 2016. Cash receipts for crops are forecast to fall $3.8 billion or 2.0% in 2017, largely reflecting expected declines in fruit/nut and soybean cash receipts.

After two years of declines, total production expenses are forecast to rise in 2017 and will further intensify the concerns in the farm sector. Total production expenses are forecast to increase 1.5% to $355.8 billion in 2017, led by increases in expenditures on interest, hired labor, fuels, and oil. Partially offsetting these increases are expected price drops in feed and fertilizer and lime expenses. Oil prices are expected to rise by 4.9% to $55.61 per barrel in 2018. However, oil prices remain relatively low compared to recent price history and will continue to provide farmers, manufacturers, fertilizer producers, and farm product exporters a lower-cost environment.

After registering a small profit in 2017, average U.S. dairy producer returns in 2018 are projected to be near breakeven, implying stress for higher-cost producers who are already reporting losses. 2018 Class III milk futures quotes have dropped substantially during the last three months of 2017, and bearish factors are keeping futures prices in check with heavy global inventories, particularly dried milk products in the European Union (EU). The EU is currently the world's largest exporter of milk powder; last year they moved 50.0% more powder into the world market than the U.S. So even though there are glimpses of positive trends domestically – U.S. cow numbers not growing greatly and total U.S. milk production only growing at around 1.0% – this positive news does not put enough weight on the global supply and the anticipated future price increases.

The processing capacity constraints in Michigan have placed additional pressure on Michigan producers with severely challenged basis. The most recently reported mailbox milk price average in Michigan was $15.77 per hundred weight (cwt). This was $2.28 per cwt lower than prices in Wisconsin, and $1.78 per cwt lower than the national reported average. The compressed basis and deteriorating margins are expected to lead to below breakeven prices for a significant portion of producers in 2018, particularly in Michigan.

With the exception of lamb and eggs, larger year-over-year protein supplies are accompanied by lower prices for 2018. For pork, a large second-half 2017 pig crop will be driving a 4.3% increase in pork production during the first half of 2018. The industry has sustained domestic demand and has experienced robust foreign demand for U.S. pork products. Another positive factor has been the increase in pork packer competition for hogs, which occurred when two new plants opened in September 2017 located in Coldwater, MI and Sioux City, IA. This additional packer demand will help absorb the increase in hog production coming on line in 2018. The USDA is forecasting hog prices to fall 2.4% in the first half of 2018 compared to the same period a year earlier.

The broiler industry has increased at a relatively steady and manageable pace. Barring any disruptive events in 2018, the year is expected to be similar to 2017. The USDA forecasts domestic broiler production to increase by 1.8% to a total of 42.3 billion pounds. Export demand is forecasted to increase by 2.9% in 2018, while domestic demand is expected to remain relatively stable. The national composite broiler price is expected to decline to a range of 85.0-92.0 cents per pound compared to 93.4 cents per pound in 2017.

A modest recovery in domestic turkey demand and exports is forecast to drive small increases in production, but low prices continue to underscore the slow pace of demand recovery relative to supply levels. In 2018, first-half turkey prices are expected to fall by 9.8%, indicating that turkey meat demand has not kept pace with recent production. The USDA is forecasting turkey prices to range from 93.0-100.0 cents per pound in 2018 compared to 95.7 cents per pound in 2017.

On a positive note, egg prices are forecast to increase by 17.7% during the first-half 2018 reflecting the year earlier low prices that prevailed due to record level supplies. This is the highest pricing level since the 2015 aftermath of highly pathogenic avian influenza (HPAI). Future production expansion of table eggs has become more likely. The number of egg-type chicks hatched shows that producers are looking to expand their flocks. The USDA is projecting egg production to increase by 173 million dozen in 2018 compared to 2017. Egg prices are forecast to increase to a range of 100.0-107.0 cents per dozen in 2018 compared to 100.3 cents per dozen in 2017. This compares to an average low of 85.7 cents per dozen in 2016 following the disruption of HPAI.

The value of the U.S. dollar has declined since the beginning of 2017 and is expected to generally trend weaker against the currencies of many trading partners and competitors into 2018. During 2017, these currencies gained back some of the value that was lost during the period of dramatic dollar strengthening that began in late 2014. Nevertheless, the dollar remains well above 2011-2014 levels, supported by a stronger than previously expected U.S. economy and the likelihood that U.S. monetary policy will be restrictive compared to most of the rest of the world.

U.S. export demand could be challenged in the future if there are any changes to trade agreements, particularly the North American Free Trade Agreement (NAFTA). If NAFTA is terminated, the U.S. could risk Mexico and Canada adding tariffs on U.S. products making them less competitive in the export market. At the American Farm Bureau annual meeting, President Trump assured that the administration is "working very hard to get a better deal for our country and for our farmers and for our manufacturers," implying that negotiations are underway with NAFTA.

The USDA Assets, Debt, and Wealth report shows a decline in cropland values throughout parts of the Midwest and Great Plains, but the current average rate of decline is mild enough to prevent alarm among lenders regarding collateral values. There are some areas that are recording steeper declines than others, but overall demand for cropland appears to be sufficient to avoid a sharp drop in values. The USDA estimates U.S. cropland values to be stable at $4,090 per acre. This compares to $4,100 per acre reported two years earlier. In Michigan, cropland real estate value decreased to an average of $4,450 per acre, down 1.1% from 2016. On the other hand, Wisconsin cropland real estate value increased to $5,200 per acre, an increase of 6.1% from 2016.

With net farm income down sharply, farmers have taken on more debt to continue operating. Farm real estate debt in 2017 is expected to reach a historic high of $236.4 billion. The 4.6% increase in real estate mortgage loans reflects continued expected demand for cropland combined with anticipated low interest rates. Another contributing factor is the use of real estate as collateral to secure non-real estate borrowing. Farm non-real estate debt, which includes short-term production and intermediate-term loans for machinery and equipment, is expected to remain relatively flat in 2017 with a 0.4% increase over the prior year.

Loan Portfolio

LOAN PORTFOLIO

Total loans were $8.2 billion at December 31, 2017, an increase of $410.7 million from December 31, 2016.

Components of Loans
(in thousands)

As of December 31	2017	2016	2015
Accrual loans:			
Real estate mortgage	$4,890,254	$4,590,963	$4,322,681
Production and intermediate term	2,079,463	2,017,184	2,160,692
Agribusiness	851,382	842,667	445,927
Other	345,153	304,222	321,393
Nonaccrual loans	46,004	46,522	41,954
Total loans	$8,212,256	$7,801,558	$7,292,647

The other category is primarily comprised of rural residential real estate and rural infrastructure related loans as well as loans originated under the mission related investment authority.

As part of the AgriBank Asset Pool program (managed loans), we have sold participation interests in real estate loans to AgriBank. Our total participation interests in this program were $179.6 million, $212.9 million, and $256.9 million at December 31, 2017, 2016, and 2015, respectively.

Our growth in owned and managed loans for 2017 was 4.7%. This level of growth is slightly lower than the 6.2% growth rate experienced in 2016. Growth in all of our market segments was positively impacted by continued historically low interest rates in both 2017 and 2016. Owned and managed mortgage volume increased 6.5% over December 2016. The year end commercial loan volume decreased slightly by 0.3% when compared to December 2016. We experienced loan growth in all market segments as our three major segments each showed positive results. Our Traditional Farm segment, including our large commercial loans, grew 5.6% in 2017 compared to 6.9% in 2016. Our Capital Markets segment experienced a 2.7% growth rate in 2017 compared to a 13.2% growth rate in 2016. Our Country Living segment growth rate was 6.0% in 2017 compared to 3.9% in 2016. This growth is reflective of the improving economic conditions in our marketplace while more lenders are expanding their lending.

The outlook for overall portfolio growth for 2018 will have similar challenges to our experience in 2017. Increased competitive pressure is expected to create additional challenges to our growth in the Capital Markets segment. New entrants into the agricultural lending market will continue to put pressure on our growth level and returns in this segment. We expect low to moderate demand for expansion capital in dairy and some animal protein sectors during 2018. The level of this demand will depend on the expected profit margins in these segments, which look challenged today due to lower market prices. We are also seeing a slight decline in land values in our regions. Combined with low cash crop prices, growth in our Traditional Farm segment, including our large commercial loans, will also be challenged. The general non-farm economy continues to improve in our territory. This should provide further opportunities in the Country Living segment, which is also experiencing high levels of competition with regard to pricing and new competitors continuing to reach the rural segment. Overall, we expect all market segments to show positive growth in 2018, with the Country Living segment providing the highest growth rate. However, we also expect to see continuing loan pricing pressure within all market segments.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan programs and fixed interest rate lease programs to our borrowers. We determine interest margins charged on each lending program based on cost of funds, credit quality, market conditions, and the need to generate sufficient earnings.

PORTFOLIO DISTRIBUTION

We are chartered to operate throughout Michigan and in certain counties in Wisconsin. Our portfolio volume is fairly evenly distributed among the territory with no material concentrations in any one county. This is evidenced by there being no individual county representing greater than 5.0% of our total loan volume at December 31, 2017.

Agricultural Concentrations

As of December 31	2017	2016	2015
Dairy	24.6%	24.2%	23.1%
Cash crops	20.9	21.3	22.5
Country home living	16.9	16.5	16.8
Agribusiness	4.5	4.5	4.3
Timber	4.3	4.5	4.4
Fruit	3.2	3.0	3.1
Hogs	3.1	3.3	3.1
Livestock	2.9	2.8	3.0
Poultry	2.7	2.4	2.3
Potatoes	1.9	1.9	1.8
Landlords	1.8	1.4	1.5
Sugar beets	1.7	1.7	1.7
Greenhouse and nursery	1.6	1.8	2.0
Vegetables	1.5	1.6	1.3
Grain and field beans	1.1	0.7	1.0
Broilers	1.0	1.1	1.1
Government guarantee	0.3	0.4	0.5
Food products and distribution	—	0.3	0.6
Other	6.0	6.6	5.9
Total	100.0%	100.0%	100.0%

Commodities are based on the borrower's primary intended commodity at the time of loan origination and may change due to borrower business decisions as a result of changes in weather, prices, input costs, and other circumstances.

Our level of portfolio diversification has not changed materially over the last year and continues to be one of our portfolio strengths. Due mainly to our diversity in commodities and the varied operating cycles that those commodities experience, our commercial volume levels do not show significant levels of seasonality.

PORTFOLIO CREDIT QUALITY

The credit quality of our loan portfolio slowly declined throughout 2017. Adversely classified owned assets increased from 1.8% of the portfolio at December 31, 2016, to 3.3% of the portfolio at December 31, 2017. Adversely classified assets are assets that we identified as showing some credit weakness outside normal credit standards. The credit quality of our core market of traditional production farm loans remained at satisfactory levels. Weaker borrowers in our dairy, cash crop, and poultry portfolios continued to be challenged financially during 2017. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

The resulting level of credit quality, when combined with our earnings and addition to capital surplus, resulted in an adverse asset to risk funds ratio of 18.6% at December 31, 2017. This ratio has increased from 10.8% at December 31, 2016, but remains below our goal of maintaining this ratio at or below 25.0%. This ratio is a good measure of our risk-bearing ability.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At December 31, 2017, $291.6 million of our loans were, to some level, guaranteed under these programs compared to $279.0 million at December 31, 2016.

RISK ASSETS

Components of Risk Assets
(dollars in thousands)

As of December 31	2017	2016	2015
Loans:			
Nonaccrual	$46,004	$46,522	$41,954
Accruing restructured	3,566	3,374	3,459
Accruing loans 90 days or more past due	262	65	34
Total risk loans	49,832	49,961	45,447
Acquired property	1,572	1,583	2,440
Total risk assets	$51,404	$51,544	$47,887
Total risk loans as a percentage of total loans	0.6%	0.6%	0.6%
Nonaccrual loans as a percentage of total loans	0.6%	0.6%	0.6%
Current nonaccrual loans as a percentage of total nonaccrual loans	83.6%	76.5%	78.6%
Total delinquencies as a percentage of total loans	0.3%	0.4%	0.3%

Note: Accruing loans include accrued interest receivable.

Our risk assets remained at acceptable levels during 2017. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The $518 thousand decrease in nonaccrual volume from December 31, 2016, was primarily due to a large greenhouse relationship that was sold in December of 2017 which reduced nonaccrual volume by $9.6 million, in addition to paydowns from another greenhouse relationship of $1.5 million during 2017. This was partially offset by a large dairy relationship that transferred into nonaccrual in September of 2017 which increased nonaccrual volume by $10.2 million. As of December 31, 2017, 33.9% of the nonaccrual loan portfolio was comprised of dairy loans, 21.7% cash crop, 13.3% part-time farmers, and 12.7% greenhouse and nursery.

Accruing restructured loans increased slightly during 2017 from $3.4 million as of December 31, 2016, to $3.6 million as of December 31, 2017. At December 31, 2017, 89.4% of our accruing restructured loans were current in their payment status.

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

Acquired property inventory decreased $11 thousand from December 31, 2016, and was $1.6 million at December 31, 2017. There were $1.5 million of properties sold and $135 thousand of write-downs, which were offset by $1.6 million of loans transferred into acquired property.

ALLOWANCE FOR LOAN LOSSES

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

Allowance Coverage Ratios

As of December 31	2017	2016	2015
Allowance as a percentage of:			
Loans	0.9%	0.6%	0.5%
Nonaccrual loans	157.9%	99.7%	81.7%
Total risk loans	145.8%	92.8%	75.5%
Net charge-offs as a percentage of average loans	—	0.1%	—
Adverse assets to risk funds	18.6%	10.8%	8.3%

Note: Risk funds includes permanent capital and allowance for loan losses.

The allowance for loan losses increased $26.3 million from December 31, 2016 to December 31, 2017 to a total of $72.6 million. This was mostly due to provision for loan losses of $24.5 million recorded in 2017. Included in our allowance is additional general industry reserves for our dairy and cash grain portfolios due to low commodity prices in the near future, primarily the milk price. The additional general industry reserve for the dairy portfolio increased from $12.9 million at December 31, 2016 to $31.4 million at December 31, 2017. The additional general industry reserve for the cash grain portfolio increased from $5.8 million at December 31, 2016 to $7.1 million at December 31, 2017. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2017.

Additional loan information is included in Notes 3, 11, 12, and 13 to the accompanying Consolidated Financial Statements.

Investment Securities

In addition to loans, we held investment securities. Investment securities totaled $12.4 million, $16.7 million, and $20.6 million at December 31, 2017, 2016, and 2015, respectively. Our investment securities consisted of loans fully guaranteed by the Small Business Administration. The securities have been classified as held-to-maturity.

The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2017, 2016 and 2015, we have not recognized any impairment on our investment portfolio.

Additional investment securities information is included in Note 5 to the accompanying Consolidated Financial Statements.

Results of Operations

Profitability Information
(dollars in thousands)

For the year ended December 31	2017	2016	2015
Net income	$151,695	$131,917	$141,087
Return on average assets	1.8%	1.7%	2.0%
Return on average members' equity	9.9%	9.3%	10.7%

Changes in the chart above relate directly to:

- Changes in income discussed on the following page
- Changes in assets discussed in the Loan Portfolio and Investment Securities sections
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income
(in thousands)

For the year ended December 31	2017	2016	2015
Net interest income	$209,387	$194,499	$181,169
Provision for credit losses	(22,120)	(20,161)	(3,273)
Patronage income	41,391	23,550	23,433
Financially related services income	10,263	9,479	9,514
Fee income	14,682	15,444	13,572
Acquired property net income	276	161	267
Miscellaneous income, net	956	1,216	754
Operating expenses	(94,188)	(90,452)	(85,570)
(Provision for) benefit from income taxes	(8,952)	(1,819)	1,221
Net income	$151,695	$131,917	$141,087

Changes in Significant Components of Net Income
(in thousands)

Increase (decrease) in net income	2017 vs. 2016	2016 vs. 2015
Net interest income	$14,888	$13,330
Provision for credit losses	(1,959)	(16,888)
Patronage income	17,841	117
Financially related services income	784	(35)
Fee income	(762)	1,872
Acquired property net income	115	(106)
Miscellaneous income, net	(260)	462
Operating expenses	(3,736)	(4,882)
(Provision for) benefit from income taxes	(7,133)	(3,040)
Net income	$19,778	$(9,170)

NET INTEREST INCOME

Changes in Net Interest Income
(in thousands)

	2017 vs. 2016	2016 vs. 2015
Changes in volume	$12,315	$17,503
Changes in interest rates	(468)	(3,274)
Changes in nonaccrual income and other	3,041	(899)
Net change	$14,888	$13,330

Net interest income included income on nonaccrual loans that totaled $4.1 million, $1.0 million, and $1.4 million in 2017, 2016, and 2015, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.6% in 2017 and 2016, and 2.7% in 2015. We expect margins to remain fairly consistent in the future if interest rates rise but competition remains strong.

PROVISION FOR (REVERSAL OF) CREDIT LOSSES

During 2017, a provision for loan losses of $24.5 million was recorded which was partially offset by a reversal of $2.4 million on unfunded loan commitments, resulting in a total net provision of $22.1 million. This net provision for loan losses was primarily due to added risk in our loan portfolio related to lower milk prices in the near future. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

PATRONAGE 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)

For the year ended December 31	2017	2016	2015
Wholesale patronage	$34,210	$15,790	$14,565
Asset pool patronage	4,849	5,342	6,432
AgDirect partnership distribution	2,253	2,349	2,388
Other Farm Credit Institutions	79	69	48
Total patronage income	$41,391	$23,550	$23,433

Wholesale patronage income is based on the average balance of our note payable to AgriBank. The patronage rates from AgriBank were 45.0 basis points, 25.6 basis points, and 26.0 basis points in 2017, 2016, and 2015, respectively. The increase in the patronage rate in 2017 was primarily due to a change in AgriBank's capital plan effective July 1, 2017. The capital plan was modified to pay out 100% of net earnings beginning in 2017. Previously, 50% of net earnings was paid. See the Relationship with AgriBank section for further discussion on patronage income.

Since 2008, we have participated in the AgriBank Asset Pool program in which we sell participation interests in certain real estate loans to AgriBank. As part of this program, we received patronage income in an amount that approximated the net earnings of the loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. In addition, we received patronage income in an amount that approximated the wholesale patronage had we retained the volume.

We also received a partnership distribution resulting from our participation in the AgDirect trade credit financing program. The AgDirect trade credit financing program is facilitated by another AgriBank District association through a limited liability partnership (AgDirect, LLP), in which we are a partial owner. AgriBank purchases a 100% participation interest in the program loans from AgDirect, LLP. Patronage distributions are paid to AgDirect, LLP, which in turn pays partnership distributions to the participating associations. We received a partnership distribution in an amount that approximated our share of the net earnings of the loans in the program, adjusted for required return on capital and servicing and origination fees.

OPERATING EXPENSES

Components of Operating Expenses
(dollars in thousands)

For the year ended December 31	2017	2016	2015
Salaries and employee benefits	$59,382	$56,675	$56,391
Purchased and vendor services	4,614	3,658	3,080
Communications	1,569	1,402	1,418
Occupancy and equipment	8,902	8,599	7,452
Advertising and promotion	2,719	2,604	2,545
FCA examination	1,989	1,795	1,526
Farm Credit System insurance	9,963	10,669	7,443
Other	5,050	5,050	5,715
Total operating expenses	$94,188	$90,452	$85,570
Operating rate	1.2%	1.2%	1.3%

The increase in operating expenses from 2016 to 2017 was primarily related to increases in employee compensation, which was partially offset by a decrease in the rate for FCSIC premiums. FCSIC insurance expense decreased in 2017 primarily due to a decrease in the premium rate charged on accrual loans by FCSIC from 17 basis points in 2016 to 15 basis points in

2017. The FCSIC has announced premiums will decrease to 9 basis points for 2018. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

(PROVISION FOR) BENEFIT FROM INCOME TAXES

The variance in (provision for) benefit from income taxes was related to our estimate of higher pre-tax income and more income generated on the taxable ACA entity. Patronage distributions to members reduced our tax liability in 2017, 2016, and 2015. Additional discussion is included in Note 9 to the accompanying Consolidated Financial Statements.

Funding and Liquidity

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 7 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2017, we had $1.2 billion available under our line of credit. We generally apply excess cash to this line of credit.

Note Payable Information
(dollars in thousands)

For the year ended December 31	2017	2016	2015
Average balance	$6,574,556	$6,168,075	$5,602,093
Average interest rate	2.0%	1.7%	1.7%

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.

We have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac), a System institution, to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $7.5 million, $8.4 million, and $9.5 million at December 31, 2017, 2016, and 2015, respectively. We paid Farmer Mac commitment fees totaling $41 thousand, $42 thousand, and $51 thousand in 2017, 2016, and 2015, respectively. These amounts are included in "Other operating expenses" in the Consolidated Statements of Income. As of December 31, 2017, no loans have been sold to Farmer Mac under this agreement.

Capital Adequacy

Total members' equity was $1.6 billion, $1.5 billion, and $1.4 billion at December 31, 2017, 2016, and 2015, respectively. Total members' equity increased $100.3 million from December 31, 2016, primarily due to net income for the year which was 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. Additional Pension Restoration Plan information is included in Note 10 to the accompanying Consolidated Financial Statements.

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

Regulatory Capital Requirements and Ratios

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

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years under the FCA capital requirements.

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

Additional discussion of these regulatory ratios is included in Note 8 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum total regulatory capital target range. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2017, our optimum total regulatory capital target range was 13.5% to 18.5%.

Capital ratios are directly impacted by changes in capital, assets, and off-balance sheet commitments. Refer to the Loan Portfolio and the Investment Securities sections for further discussion of the changes in assets. Additional members' equity information is included in Note 8 to the accompanying Consolidated Financial Statements. Refer to Note 8 in our Annual Report for the year ended December 31, 2016, for a more complete description of the ratios effective as of December 31, 2016 and 2015. We were in compliance with the minimum required capital ratios as of December 31, 2016, and 2015.

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

Relationship with AgriBank

BORROWING

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 7 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA 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

In the periods presented, we were not subject to the risk premium component. Certain factors may impact our cost of funds, which primarily include market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset Liability Committee.

INVESTMENT

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. As of December 31, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. Effective January 1, 2014, we entered into a contractual agreement with AgriBank whereby our required investment in AgriBank was reduced by $40.0 million. In return for this lower required investment amount, we agreed to pay an additional spread on a portion of our note payable with AgriBank equal to the reduction in our required investment. This contractual agreement was terminated effective December 31, 2016.

As of December 31, 2017, we were required to hold AgriBank stock equal to 8.0% of the quarter end balance in the AgriBank Asset Pool program as discussed in the Loan Portfolio section.

At December 31, 2017, our investment in AgriBank was $164.8 million, of which, $73.7 million consisted of stock representing distributed AgriBank surplus and $91.1 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

As an AgDirect, LLP partnering association, we are required to purchase stock in AgDirect, which purchases an equivalent amount of stock in AgriBank. Specifically, the AgDirect trade credit financing program is required to own stock in AgriBank in the amount of 6.0% of the AgDirect program's outstanding participation loan balance at quarter end plus 6.0% of the expected balance to be originated during the following quarter.

PATRONAGE

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

We receive different types of discretionary patronage from AgriBank. Beginning in 2017, patronage income earned may be paid in cash and AgriBank stock. Patronage income for 2017, 2016, and 2015 was paid in the form of cash. AgriBank's Board of Directors sets the level of:

- Wholesale patronage which includes:
  - Patronage on the annual average daily balance of our note payable with AgriBank
  - Equalization patronage based on our excess stock in AgriBank
- Patronage based on the balance and net earnings of loans in the AgriBank Asset Pool program
- Partnership distribution based on our share of the net earnings of the loans in the AgDirect trade credit financing program, adjusted for required return on capital and servicing and origination fees

PURCHASED SERVICES

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, tax reporting services, technology services, and insurance services.

The total cost of services we purchased from AgriBank was $1.9 million in 2017 and $1.8 million in 2016 and 2015. During 2016, District associations and AgriBank conducted research related to the creation of a separate service entity to provide many of the business services offered by AgriBank. A separate service entity allows District associations and AgriBank to develop and maintain long-term, cost effective technology and business services. The service entity would be owned by certain District associations and AgriBank and will be named SunStream Business Services (SunStream). An application to form the service entity was submitted in May 2017 to the FCA for approval.

IMPACT ON MEMBERS' INVESTMENT

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment.

Other Relationships and Programs

RELATIONSHIPS WITH OTHER FARM CREDIT INSTITUTIONS

ProPartners Financial: We participate in ProPartners Financial (ProPartners) alliance with certain other associations in the Farm Credit System to provide producer financing through agribusinesses that sell crop inputs. ProPartners is directed by representatives from participating associations. The income, expense, and credit risks are allocated based on each association's participation interest of the ProPartners volume. Each association's allocation is established based on mutual agreement of the owners. We had $154.2 million, $156.9 million, and $162.5 million of ProPartners volume at December 31, 2017, 2016, and 2015, respectively. We also had $200.7 million of available commitment on ProPartners loans at December 31, 2017.

Federal Agricultural Mortgage Corporation: We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac. This agreement allows us to sell loans identified under the agreement to Farmer Mac. Refer to the Funding and Liquidity section for further discussion of this agreement.

BGM Technology Collaboration: We participate in the BGM Technology Collaboration (BGM) with certain other AgriBank District associations to facilitate the development and maintenance of certain retail technology systems essential to providing credit and other services to our members. BGM operations are governed by representatives of each participating association. The expenses of BGM are allocated to each of the participating associations based on an agreed upon formula. The systems developed are owned by each of the participating associations. In 2018, the BGM collaboration will become the Centric Technology Collaboration (CTC), which will participate with certain other AgriBank District associations. The CTC will facilitate the development and maintenance of the technology previously supported by BGM.

As the facilitating association for BGM, we provide various support functions. This includes support for technology, human resources, accounting, payroll, reporting, and other finance functions. Beginning in 2018, we will be the facilitating association for CTC.

Farm Credit Leasing: We have an agreement with Farm Credit Leasing (FCL), a System entity specializing in leasing products and providing industry expertise. Leases are originated and serviced by FCL and we purchase a participation interest in the cash flows of some of the transactions. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $171 thousand, $119 thousand, and $80 thousand at December 31, 2017, 2016, and 2015, respectively.

Farm Credit Services of America, ACA: We have a relationship with Farm Credit Services of America, ACA (FCS of America), an AgriBank District association, which involves purchasing or selling participation interests in loans. As part of this relationship, our equity investment in FCS of America was $1 thousand at December 31, 2015. We had no equity investment as of December 31, 2017 and 2016.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), which involves purchasing human resource information systems, and benefit, payroll, and workforce management services. As of December 31, 2017, 2016, and 2015, our investment in Foundations was $59 thousand. The total cost of services we purchased from Foundations was $322 thousand, $302 thousand, and $258 thousand in 2017, 2016, and 2015, respectively.

UNINCORPORATED BUSINESS ENTITIES (UBES)

In certain circumstances we may establish separate entities to acquire and manage complex collateral, primarily for legal liability purposes.

AgDirect, LLP: We participate in the AgDirect trade credit financing program, which includes origination and refinancing of agriculture equipment loans through independent equipment dealers. The program is facilitated by another AgriBank District association through a limited liability partnership in which we are a partial owner. Our investment in AgDirect, LLP, was $16.6 million, $15.9 million, and $16.8 million at December 31, 2017, 2016, and 2015, respectively.

PROGRAMS

We are involved in a number of programs designed to improve our credit delivery, related services, and marketplace presence.

AgDirect: We participate in the AgDirect trade credit financing program. Refer to the UBEs section for further discussion on this program.

AgriSolutions: We have an alliance with AgriSolutions, a farm software and consulting company, to provide farm records, income tax planning and preparation services, farm business consulting, and producer education seminars.

Farm Cash Management: We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank investment bond to optimize members' use of funds.

Report of Management

GREENSTONE FARM CREDIT SERVICES, ACA

We prepare the Consolidated Financial Statements of GreenStone Farm Credit Services, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Consolidated Financial Statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the Consolidated Financial Statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the Consolidated Financial Statements. They also consider internal controls to the extent necessary to design audit procedures that comply with auditing standards generally accepted in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report, which has been prepared 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

March 8, 2018

Report on Internal Control Over Financial Reporting

GREENSTONE FARM CREDIT SERVICES, ACA

The GreenStone Farm Credit Services, ACA (the Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2017. In making the assessment, management used the 2013 framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2017.

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

March 8, 2018

Report of Audit Committee

GREENSTONE FARM CREDIT SERVICES, ACA

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of GreenStone Farm Credit Services, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Consolidated Financial Statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2017, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited Consolidated Financial Statements in the Annual Report for the year ended December 31, 2017.

Eugene B. College
Chair of the Audit Committee
GreenStone Farm Credit Services, ACA

Darl E. Evers, Scott A. Roggenbuck, and Dale L. Wagner
Members of the Audit Committee

March 8, 2018

pwc

Report of Independent Auditors

To the Board of Directors of GreenStone Farm Credit Services, ACA,

We have audited the accompanying Consolidated Financial Statements of GreenStone Farm Credit Services, ACA and its subsidiaries (the Association), which comprise the consolidated statements of condition as of December 31, 2017, 2016, and 2015, and the related consolidated statements of income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Consolidated Financial Statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of GreenStone Farm Credit Services, ACA and its subsidiaries as of December 31, 2017, 2016, and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 8, 2018

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
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Consolidated Statements of Condition

GREENSTONE FARM CREDIT SERVICES, ACA
(In thousands)

As of December 31	2017	2016	2015
ASSETS			
Loans	$8,212,256	$7,801,558	$7,292,647
Allowance for loan losses	72,640	46,382	34,290
Net loans	8,139,616	7,755,176	7,258,357
Investment in AgriBank, FCB	164,805	159,936	111,217
Investment securities	12,414	16,749	20,587
Accrued interest receivable	61,306	54,054	50,409
Premises and equipment, net	45,760	41,740	39,753
Acquired property	1,572	1,583	2,440
Deferred tax assets, net	2,547	5,279	4,917
Other assets	54,835	44,712	38,960
Total assets	$8,482,855	$8,079,229	$7,526,640
LIABILITIES			
Note payable to AgriBank, FCB	$6,783,097	$6,506,325	$6,060,273
Accrued interest payable	35,730	27,164	23,976
Patronage distribution payable	50,000	32,979	35,272
Other liabilities	45,382	44,428	37,996
Total liabilities	6,914,209	6,610,896	6,157,517
Contingencies and commitments (Note 12)			
MEMBERS' EQUITY			
Protected members' equity	1	1	2
Capital stock and participation certificates	22,141	21,693	21,436
Unallocated surplus	1,548,350	1,446,639	1,347,685
Accumulated other comprehensive loss	(1,846)	—	—
Total members' equity	1,568,646	1,468,333	1,369,123
Total liabilities and members' equity	$8,482,855	$8,079,229	$7,526,640

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

GREENSTONE FARM CREDIT SERVICES, ACA
(In thousands)

For the year ended December 31	2017	2016	2015
Interest income	$343,425	$302,346	$275,298
Interest expense	134,038	107,847	94,129
NET INTEREST INCOME	209,387	194,499	181,169
Provision for credit losses	22,120	20,161	3,273
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	187,267	174,338	177,896
Non-interest income			
Patronage income	41,391	23,550	23,433
Financially related services income	10,263	9,479	9,514
Fee income	14,682	15,444	13,572
Acquired property net income	276	161	267
Miscellaneous income, net	956	1,216	754
TOTAL NON-INTEREST INCOME	67,568	49,850	47,540
Operating expenses			
Salaries and employee benefits	59,382	56,675	56,391
Other operating expenses	34,806	33,777	29,179
TOTAL OPERATING EXPENSES	94,188	90,452	85,570
INCOME BEFORE INCOME TAXES	160,647	133,736	139,866
Provision for (benefit from) income taxes	8,952	1,819	(1,221)
NET INCOME	$151,695	$131,917	$141,087

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)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance as of December 31, 2014	$2	$21,105	$1,241,867	$—	$1,262,974
Net income	—	—	141,087	—	141,087
Unallocated surplus designated for patronage distributions	—	—	(35,269)	—	(35,269)
Capital stock and participation certificates issued	—	1,976	—	—	1,976
Capital stock and participation certificates retired	—	(1,645)	—	—	(1,645)
Balance as of December 31, 2015	2	21,436	1,347,685	—	1,369,123
Net income	—	—	131,917	—	131,917
Unallocated surplus designated for patronage distributions	—	—	(32,963)	—	(32,963)
Capital stock and participation certificates issued	—	1,925	—	—	1,925
Capital stock and participation certificates retired	(1)	(1,668)	—	—	(1,669)
Balance as of December 31, 2016	1	21,693	1,446,639	—	1,468,333
Net income	—	—	151,695	—	151,695
Other comprehensive loss and other	—	—	—	(1,846)	(1,846)
Unallocated surplus designated for patronage distributions	—	—	(49,984)	—	(49,984)
Capital stock and participation certificates issued	—	2,136	—	—	2,136
Capital stock and participation certificates retired	—	(1,688)	—	—	(1,688)
Balance as of December 31, 2017	$1	$ 22,141	$1,548,350	$(1,846)	$1,568,646

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

Consolidated Statements of Cash Flows

GREENSTONE FARM CREDIT SERVICES, ACA
(In thousands)

For the year ended December 31	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$151,695	$131,917	$141,087
Depreciation on premises and equipment	2,980	2,795	2,630
Gain on sale of premises and equipment, net	(205)	(514)	(135)
Amortization of premiums on loans and investment securities, net	240	590	652
Provision for credit losses	22,120	20,161	3,273
Stock patronage received from Farm Credit Institutions	(52)	(39)	(32)
Write-down on acquired property	135	197	211
Gain on acquired property, net	(119)	(149)	(317)
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	(18,115)	(13,397)	(13,491)
(Increase) decrease in other assets	(6,686)	(6,897)	1,186
Increase in accrued interest payable	8,566	3,188	2,652
(Decrease) increase in other liabilities	(892)	6,432	(5,347)
Net cash provided by operating activities	159,667	144,284	132,369
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in loans, net	(396,371)	(507,649)	(564,303)
Purchases of investment in AgriBank, FCB, net	(4,869)	(48,719)	(7,849)
(Purchases) redemptions of investment in other Farm Credit Institutions, net	(653)	822	525
Decrease in investment securities, net	4,150	3,385	4,495
Decrease in acquired property, net	1,380	1,668	1,299
Purchases of premises and equipment, net	(6,795)	(4,268)	(7,722)
Net cash used in investing activities	(403,158)	(554,761)	(573,555)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in note payable to AgriBank, FCB, net	276,772	446,052	477,778
Patronage distributions paid	(32,963)	(35,256)	(36,197)
Capital stock and participation certificates retired, net	(318)	(319)	(395)
Net cash provided by financing activities	243,491	410,477	441,186
Net change in cash	—	—	—
Cash at beginning of year	7	7	7
Cash at end of year	$7	$7	$7
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES			
Stock financed by loan activities	$2,067	$1,874	$1,932
Stock applied against loan principal	1,296	1,297	1,199
Stock applied against interest	5	2	7
Interest transferred to loans	10,858	9,750	10,720
Loans transferred to acquired property	1,598	882	2,633
Qualified cash patronage distributions payable to members	50,000	32,979	35,272
Financed sales of acquired property	213	23	904
Decrease in members' equity from employee benefits	(1,846)	—	—
SUPPLEMENTAL INFORMATION			
Interest paid	$125,472	$104,659	$91,477
Taxes paid, net	3,488	3,105	2,316

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

Notes to Consolidated Financial Statements

GREENSTONE FARM CREDIT SERVICES, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

FARM CREDIT SYSTEM AND DISTRICT

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2018, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 69 customer-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2018, the District consisted of 14 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

ASSOCIATION

GreenStone Farm Credit Services, ACA (the Association) and its subsidiaries, GreenStone Farm Credit Services, FLCA and GreenStone Farm Credit Services, PCA (subsidiaries) are lending institutions of the System. We are a customer-owned cooperative providing credit and credit related services to, or for the benefit of, eligible members for qualified agricultural purposes in the state of Michigan and the counties of Brown, Door, Florence, Kewaunee, Manitowac, Marinette, Menominee, Oconto, Outagamie, Shawano, and Waupaca in the state of Wisconsin.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans and provides lease financing options. The ACA and PCA make short-term and intermediate-term loans and provide lease financing options for agricultural production or operating purposes. At this time, the ACA holds all short-term and intermediate-term loans and the PCA has no assets.

We offer credit life, term life, credit disability, crop hail, and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer farm records, fee appraisals, and income tax planning and preparation services to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING PRINCIPLES AND REPORTING POLICIES

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. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements present the consolidated financial results of GreenStone Farm Credit Services, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

SIGNIFICANT ACCOUNTING POLICIES

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Material loan fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

Generally we place loans in nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, the borrower has demonstrated payment performance, and the loan is not classified as doubtful or loss.

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 formally restructured loan for regulatory purposes. 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 troubled debt restructurings are considered risk loans (as defined below).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets, or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets, or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses in our loan 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.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity, recorded in "Provision for credit losses" in the Consolidated Statements of Income, and recoveries and charge-offs.

Investment in AgriBank: Our stock investment in AgriBank is on a cost plus allocated equities basis.

Investment Securities: We are authorized to purchase and hold certain types of investments. As we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is expensed through "Miscellaneous income, net" in the Consolidated Statements of Income in the period of impairment. The non-credit related component is recognized in other comprehensive income. Purchased premiums and discounts are amortized or accreted using the straight-line method, which approximates the interest method, over the terms of the respective securities. Realized gains and losses are determined using specific identification method and are recognized in current operations.

Acquired Property: Acquired property, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in "Acquired property net income" in the Consolidated Statements of Income.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight line method over the estimated useful lives of the assets. Gains or losses on disposition are included in "Miscellaneous income, net" in the Consolidated Statements of Income. Depreciation, maintenance, and repairs are included in "Other operating expenses" in the Consolidated Statements of Income, and improvements are capitalized.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans are included in "Salaries and employee benefits" in the Consolidated Statements of Income.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee's contributions. We provide benefits under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred. All employees hired after December 31, 2006 only participate in this plan.

Certain employees also participate in the Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations.

Certain employees participate in the AgriBank District Retirement Plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001, are on the cash balance formula or on the final average pay formula. Benefits eligible employees hired between

October 1, 2001, and December 31, 2006, are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the AgriBank District Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Beginning in 2017, the pension liability attributable to the Pension Restoration Plan at the Association and the related accumulated other comprehensive loss are included in the Statements of Condition.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees' active service period.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Any reserve for unfunded lending commitments is based on management's best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve is recorded in "Other liabilities" in the Consolidated Statements of Condition and a corresponding loss is recorded in "Provision for credit losses" in the Consolidated Statements of Income.

Cash: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current, or principal market information that is not released publicly
- Inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates
- Inputs derived principally from or corroborated by observable market data by correlation or other means

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own judgments about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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 on the public effective date or aligned with other System institutions, whichever is earlier.

Standard

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09 "Revenue from Contracts with Customers."

Description

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.

Effective date and financial statement impact

We have adopted the new standard effective January 1, 2018, using the modified retrospective approach. As the majority of the Association's revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial position, results of operations, equity, or cash flows.

Standard

In March 2017, the FASB issued ASU 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost."

Description

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.

Effective date and financial statement impact

The guidance is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within those annual periods. For other entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted with certain restrictions. However, we have no plans to early adopt. We are currently evaluating the impact of the guidance on our results of operations and financial statement disclosures. The guidance will have no impact on the financial condition or cash flows.

Standard

In January 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities."

Description

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.

Effective date and financial statement impact

The guidance is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within that year. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our Notes to Consolidated Financial Statements. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2017, for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

Standard

In February 2016, the FASB issued ASU 2016-02 "Leases."

Description

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.

Effective date and financial statement impact

The guidance is effective for public entities for annual reporting periods beginning after December 15, 2018, including interim periods within that year. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019, and interim periods the subsequent year. Early adoption is permitted and modified retrospective adoption is required. However, we have no plans to early adopt. We have determined after preliminary review, this guidance will not have a material impact on our financial condition, results of operations, and financial statement disclosures, and will have no impact on combined cash flows.

Standard

In June 2016, the FASB issued ASU 2016-13 "Financial Instruments – Credit Losses."

Description

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.

Effective date and financial statement impact

The guidance is effective for non-U.S. Securities Exchange Commission filers for annual reporting periods beginning after December 15, 2020, including interim periods within those annual periods. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. However, we have no plans to early adopt. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type
(dollars in thousands)

	2017		2016		2015	
As of December 31	Amount	Percentage	Amount	Percentage	Amount	Percentage
Real estate mortgage	$4,912,667	59.8%	$4,612,265	59.1%	$4,345,125	59.6%
Production and intermediate term	2,099,435	25.6	2,039,670	26.1	2,177,244	29.9
Agribusiness	852,151	10.4	842,667	10.8	445,927	6.1
Other	348,003	4.2	306,956	4.0	324,351	4.4
Total	$8,212,256	100.0%	$7,801,558	100.0%	$7,292,647	100.0%

The other category is primarily comprised of rural residential real estate and rural infrastructure related loans as well as loans originated under the mission related investment authority.

PORTFOLIO CONCENTRATIONS

Concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, which could cause them to be similarly impacted by economic conditions. We lend primarily within agricultural industries.

As of December 31, 2017, volume plus commitments to our ten largest borrowers totaled an amount equal to 4.8% of total loans and commitments.

Total loans plus any unfunded commitments represent the maximum potential credit risk. However, the vast majority of our lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property.

PARTICIPATIONS

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with the FCA Regulations or General Financing Agreement (GFA) limitations.

Participations Purchased and Sold
(in thousands)

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2017	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ —	$(225,820)	$198,137	$(135,586)	$142,313	$ —	$340,450	$(361,406)
Production and intermediate term	—	(47,841)	216,379	(88,265)	8,772	—	225,151	(136,106)
Agribusiness	—	(7,860)	440,519	(19,794)	7,143	—	447,662	(27,654)
Other	—	(6,942)	142,382	—	—	—	142,382	(6,942)
Total	$ —	$ (288,463)	$ 997,417	$(243,645)	$158,228	$ —	$1,155,645	$ (532,108)
As of December 31, 2016								
Real estate mortgage	$ —	$(262,238)	$208,772	$(100,946)	$136,182	$ —	$344,954	$(363,184)
Production and intermediate term	—	(37,810)	224,706	(57,722)	9,303	(2)	234,009	(95,534)
Agribusiness	—	(6,208)	469,377	(23,182)	18,571	—	487,948	(29,390)
Other	—	(8,103)	106,402	—	—	—	106,402	(8,103)
Total	$ —	$(314,359)	$1,009,257	$(181,850)	$164,056	$(2)	$1,173,313	$(496,211)
As of December 31, 2015								
Real estate mortgage	$ —	$(263,031)	$228,838	$(70,058)	$125,802	$(3)	$354,640	$(333,092)
Production and intermediate term	—	(41,260)	282,214	(88,833)	39,440	(6)	321,654	(130,099)
Agribusiness	—	(31,804)	227,093	(34,232)	—	—	227,093	(66,036)
Other	—	(9,735)	117,287	—	—	—	117,287	(9,735)
Total	$ —	$(345,830)	$855,432	$(193,123)	$165,242	$(9)	$1,020,674	$(538,962)

Information in the preceding chart excludes loans entered into under our mission related investment authority.

CREDIT QUALITY AND DELINQUENCY

We utilize the FCA Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

We had no loans categorized as loss at December 31, 2017, 2016, or 2015.

Credit Quality of Loans
(dollars in thousands)

	Acceptable		Special Mention		Substandard/ Doubtful		Total
As of December 31, 2017	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount
Real estate mortgage	$4,647,432	93.9%	$131,848	2.7%	$ 170,166	3.4%	$4,949,446
Production and intermediate term	1,968,773	92.9	72,474	3.4	78,988	3.7	2,120,235
Agribusiness	831,126	97.2	4,939	0.6	18,613	2.2	854,678
Other	340,314	97.5	3,035	0.9	5,490	1.6	348,839
Total	$7,787,645	94.1%	$212,296	2.6%	$273,257	3.3%	$ 8,273,198
As of December 31, 2016							
Real estate mortgage	$4,440,901	95.6%	$129,709	2.8%	$72,690	1.6%	$4,643,300
Production and intermediate term	1,940,047	94.2	67,588	3.3	51,683	2.5	2,059,318
Agribusiness	815,213	96.5	18,408	2.2	11,380	1.3	845,001
Other	298,493	97.0	2,520	0.8	6,621	2.2	307,634
Total	$7,494,654	95.4%	$218,225	2.8%	$142,374	1.8%	$7,855,253
As of December 31, 2015							
Real estate mortgage	$4,266,077	97.6%	$53,291	1.2%	$54,069	1.2%	$4,373,437
Production and intermediate term	2,143,198	97.5	14,405	0.7	39,709	1.8	2,197,312
Agribusiness	441,979	98.9	2,728	0.6	2,190	0.5	446,897
Other	313,623	96.5	3,578	1.1	7,856	2.4	325,057
Total	$7,164,877	97.6%	$74,002	1.0%	$103,824	1.4%	$7,342,703

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans
(in thousands)

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	90 Days Past Due and Accruing
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
As of December 31, 2016						
Real estate mortgage	$14,447	$3,890	$18,337	$4,624,963	$4,643,300	$ —
Production and intermediate term	5,612	2,374	7,986	2,051,332	2,059,318	65
Agribusiness	—	—	—	845,001	845,001	—
Other	2,518	444	2,962	304,672	307,634	—
Total	$22,577	$6,708	$29,285	$7,825,968	$7,855,253	$65
As of December 31, 2015						
Real estate mortgage	$9,265	$2,920	$12,185	$4,361,252	$4,373,437	$ —
Production and intermediate term	2,711	2,537	5,248	2,192,064	2,197,312	34
Agribusiness	—	—	—	446,897	446,897	—
Other	2,049	1,076	3,125	321,932	325,057	—
Total	$14,025	$6,533	$20,558	$7,322,145	$7,342,703	$ 34

Note: Accruing loans include accrued interest receivable.

All loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

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. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information
(in thousands)

As of December 31	2017	2016	2015
Nonaccrual loans:			
Current as to principal and interest	$38,447	$35,568	$32,981
Past due	7,557	10,954	8,973
Total nonaccrual loans	46,004	46,522	41,954
Accruing restructured loans	3,566	3,374	3,459
Accruing loans 90 days or more past due	262	65	34
Total risk loans	$49,832	$49,961	$45,447
Volume with specific allowance	$23,088	$25,850	$27,935
Volume without specific allowance	26,744	24,111	17,512
Total risk loans	$49,832	$49,961	$45,447
Total specific allowance	$7,704	$11,355	$11,904
For the year ended December 31	**2017**	**2016**	**2015**
Income on accrual risk loans	$220	$257	$233
Income on nonaccrual loans	4,110	1,037	1,413
Total income on risk loans	$4,330	$1,294	$1,646
Average recorded risk loans	$50,813	$49,487	$50,285

Note: Accruing loans include accrued interest receivable.

The $518 thousand decrease in total nonaccrual loans from December 31, 2016, was primarily due to a large greenhouse relationship that was sold in December of 2017 which reduced nonaccrual volume by $9.6 million, in addition to paydowns from another greenhouse relationship of $1.5 million during 2017. This was partially offset by a large dairy relationship that transferred into nonaccrual in September of 2017 which increased nonaccrual volume by $10.2 million. As of December 31, 2017, 33.9% of the nonaccrual loan portfolio was comprised of dairy loans, 21.7% cash crop, 13.3% part-time farmers, and 12.7% greenhouse and nursery.

Accruing restructured loans increased slightly during 2017 from $3.4 million as of December 31, 2016, to $3.6 million as of December 31, 2017. At December 31, 2017, 89.4% of our accruing restructured loans were current in their payment status.

Nonaccrual Loans by Loan Type
(in thousands)

As of December 31	2017	2016	2015
Real estate mortgage	$22,413	$21,301	$22,445
Production and intermediate term	19,972	22,486	16,552
Agribusiness	769	—	—
Other	2,850	2,735	2,957
Total	$46,004	$46,522	$41,954

Additional Impaired Loan Information by Loan Type
(in thousands)

	As of December 31, 2017			For the year ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$7,744	$8,512	$1,765	$7,455	$ —
Production and intermediate term	13,650	16,786	5,226	15,430	—
Agribusiness	—	—	—	—	—
Other	1,694	2,027	713	1,674	—
Total	$23,088	$27,325	$7,704	$24,559	$ —
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$17,491	$21,345	$—	$16,835	$2,073
Production and intermediate term	7,063	16,781	—	7,987	1,847
Agribusiness	769	739	—	28	159
Other	1,421	3,886	—	1,404	251
Total	$26,744	$42,751	$—	$26,254	$4,330
Total impaired loans:					
Real estate mortgage	$25,235	$29,857	$1,765	$24,290	$2,073
Production and intermediate term	20,713	33,567	5,226	23,417	1,847
Agribusiness	769	739	—	28	159
Other	3,115	5,913	713	3,078	251
Total	$49,832	$70,076	$7,704	$50,813	$4,330

	As of December 31, 2016			For the year ended December 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$8,785	$10,861	$2,675	$9,402	$ —
Production and intermediate term	15,267	19,420	8,078	13,764	—
Agribusiness	—	—	—	—	—
Other	1,798	2,115	602	1,866	—
Total	$25,850	$32,396	$11,355	$25,032	$ —
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$15,221	$29,085	$ —	$16,290	$577
Production and intermediate term	7,791	15,753	—	7,024	429
Agribusiness	—	5	—	—	123
Other	1,099	3,935	—	1,141	165
Total	$24,111	$48,778	$ —	$24,455	$1,294
Total impaired loans:					
Real estate mortgage	$24,006	$39,946	$2,675	$25,692	$577
Production and intermediate term	23,058	35,173	8,078	20,788	429
Agribusiness	—	5	—	—	123
Other	2,897	6,050	602	3,007	165
Total	$49,961	$81,174	$11,355	$49,487	$1,294

	As of December 31, 2015			For the year ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$13,492	$17,415	$4,864	$15,425	$ —
Production and intermediate term	12,268	14,355	6,259	13,030	—
Agribusiness	—	—	—	—	—
Other	2,175	2,525	781	2,281	—
Total	$27,935	$34,295	$11,904	$30,736	$ —
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$11,685	$26,021	$ —	$13,360	$589
Production and intermediate term	4,881	11,410	—	5,185	620
Agribusiness	—	57	—	14	179
Other	946	4,053	—	990	258
Total	$17,512	$41,541	$ —	$19,549	$1,646
Total impaired loans:					
Real estate mortgage	$25,177	$43,436	$4,864	$28,785	$589
Production and intermediate term	17,149	25,765	6,259	18,215	620
Agribusiness	—	57	—	14	179
Other	3,121	6,578	781	3,271	258
Total	$45,447	$75,836	$11,904	$50,285	$1,646

The recorded investment in the loan is the unpaid principal amount 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.

Unpaid principal balance represents the contractual principal balance of the loan.

We had two relationships in which we had commitments to lend additional money whose loans were at risk at December 31, 2017. The balance of the unfunded loan commitments was $531 thousand. Refer to the allowance for loan losses section in Note 3 for further discussion.

TROUBLED DEBT RESTRUCTURINGS (TDRS)

Included within our loans are TDRs. These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

TDR Activity
(in thousands)

For the year ended December 31	2017		2016		2015	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	$831	$827	$335	$337	$143	$177
Production and intermediate term	703	677	64	53	283	285
Other	—	—	28	20	108	111
Total	$1,534	$1,504	$427	$410	$534	$573

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment of the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off.

The primary types of modification included interest rate reduction below market and extension of maturity.

TDRs that Occurred Within the Previous 12 Months that Subsequently Defaulted
(in thousands)

	2017	2016	2015
Real estate mortgage	$47	$—	$—
Production and intermediate term	74	28	30
Total	$121	$28	$30

TDRs Outstanding
(in thousands):

As of December 31	2017	2016	2015
Accrual status:			
Real estate mortgage	$2,821	$2,706	$2,732
Production and intermediate term	480	506	563
Other	265	162	164
Total TDRs in accrual status	$3,566	$3,374	$3,459
Nonaccrual status:			
Real estate mortgage	$1,629	$972	$841
Production and intermediate term	797	252	425
Other	141	263	382
Total TDRs in nonaccrual status	$2,567	$1,487	$1,648
Total TDRs:			
Real estate mortgage	$4,450	$3,678	$3,573
Production and intermediate term	1,277	758	988
Other	406	425	546
Total TDRs	$6,133	$4,861	$5,107

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at December 31, 2017.

ALLOWANCE FOR LOAN LOSSES

Changes in Allowance for Loan Losses
(in thousands)

For the year ended December 31	2017	2016	2015
Balance at beginning of year	$46,382	$34,290	$34,106
Provision for loan losses	24,549	19,929	2,640
Loan recoveries	4,656	983	820
Loan charge-offs	(2,947)	(8,820)	(3,276)
Balance at end of year	$72,640	$46,382	$34,290

The allowance for loan losses increased $26.3 million from December 31, 2016 to December 31, 2017 to a total of $72.6 million. This was mostly due to provision for loan losses of $24.5 million recorded in 2017. Included in our allowance is additional general industry reserves for our dairy and cash grain portfolios due to low commodity prices in the near future, primarily the milk price. The additional general industry reserve for the dairy portfolio increased from $12.9 million at December 31, 2016 to $31.4 million at December 31, 2017. The additional general industry reserve for the cash grain portfolio increased from $5.8 million at December 31, 2016 to $7.1 million at December 31, 2017.

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

Credit Loss Information on Unfunded Commitments
(in thousands)

For the year ended December 31	2017	2016	2015
(Reversal of) provision for credit losses	$(2,429)	$232	$631
As of December 31	**2017**	**2016**	**2015**
Accrued credit losses	$531	$2,960	$2,729

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type
(in thousands)

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2016	$21,210	$17,927	$6,033	$1,212	$46,382
Provision for (reversal of) loan losses	18,074	7,319	(1,157)	313	24,549
Loan recoveries	280	677	3,502	197	4,656
Loan charge-offs	(217)	(2,463)	—	(267)	(2,947)
Balance as of December 31, 2017	$39,347	$23,460	$8,378	$1,455	$72,640
Ending balance: individually evaluated for impairment	$1,765	$5,226	$—	$713	$7,704
Ending balance: collectively evaluated for impairment	$37,582	$18,234	$8,378	$742	$64,936
Recorded investments in loans outstanding:					
Ending balance as of December 31, 2017	$4,949,446	$2,120,235	$854,678	$348,839	$8,273,198
Ending balance: individually evaluated for impairment	$25,235	$20,713	$769	$3,115	$49,832
Ending balance: collectively evaluated for impairment	$4,924,211	$2,099,522	$853,909	$345,724	$8,223,366

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2015	$13,740	$18,145	$864	$1,541	$34,290
Provision for loan losses	7,361	1,099	11,467	2	19,929
Loan recoveries	449	459	2	73	983
Loan charge-offs	(340)	(1,776)	(6,300)	(404)	(8,820)
Balance as of December 31, 2016	$21,210	$17,927	$6,033	$1,212	$46,382
Ending balance: individually evaluated for impairment	$2,675	$8,078	$ —	$602	$11,355
Ending balance: collectively evaluated for impairment	$18,535	$9,849	$6,033	$610	$35,027
Recorded investments in loans outstanding:					
Ending balance as of December 31, 2016	$4,643,300	$2,059,318	$845,001	$307,634	$7,855,253
Ending balance: individually evaluated for impairment	$24,006	$23,058	$—	$2,897	$49,961
Ending balance: collectively evaluated for impairment	$4,619,294	$2,036,260	$845,001	$304,737	$7,805,292

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2014	$12,569	$18,788	$923	$1,826	$34,106
Provision for (reversal of) loan losses	1,290	1,495	(49)	(96)	2,640
Loan recoveries	447	223	4	146	820
Loan charge-offs	(566)	(2,361)	(14)	(335)	(3,276)
Balance as of December 31, 2015	$13,740	$18,145	$864	$1,541	$34,290
Ending balance: individually evaluated for impairment	$4,864	$6,259	$ —	$781	$11,904
Ending balance: collectively evaluated for impairment	$8,876	$11,886	$864	$760	$22,386
Recorded investments in loans outstanding:					
Ending balance as of December 31, 2015	$4,373,437	$2,197,312	$446,897	$325,057	$7,342,703
Ending balance: individually evaluated for impairment	$25,177	$17,149	$ —	$3,121	$45,447
Ending balance: collectively evaluated for impairment	$4,348,260	$2,180,163	$446,897	$321,936	$7,297,256

The recorded investment in the loan is the unpaid principal amount 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.

NOTE 4: INVESTMENT IN AGRIBANK

As of December 31, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate if the District is also growing above a targeted growth rate. Effective January 1, 2014, we entered into a contractual agreement with AgriBank whereby our required investment in AgriBank was reduced by $40.0 million. In return for this lower required investment amount, we agreed to pay an additional spread on a portion of our note payable with AgriBank equal to the reduction in our required investment. This contractual agreement was terminated effective December 31, 2016.

As of December 31, 2017, we were also required by AgriBank to maintain an investment equal to 8.0% of the quarter end balance of the participation interests in real estate loans sold to AgriBank under the AgriBank Asset Pool program.

The balance of our investment in AgriBank, all required stock, was $164.8 million, $159.9 million, and $111.2 million at December 31, 2017, 2016, and 2015, respectively.

NOTE 5: INVESTMENT SECURITIES

We held investment securities of $12.4 million, $16.7 million, and $20.6 million at December 31, 2017, 2016, and 2015, respectively. Our investment securities consisted of loans fully guaranteed by the Small Business Administration. The securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2017, 2016 and 2015, we have not recognized any impairment on our investment portfolio.

Additional Investment Securities Information
(dollars in thousands)

As of December 31	2017	2016	2015
Amortized cost	$12,414	$16,749	$20,587
Unrealized gains	531	787	831
Fair value	$12,945	$17,536	$21,418
Weighted average yield	3.5%	1.8%	1.5%

Investment income is recorded in "Interest income" in the Consolidated Statements of Income and totaled $526 thousand, $331 thousand, and $338 thousand in 2017, 2016, and 2015, respectively.

NOTE 6: PREMISES AND EQUIPMENT, NET

Premises and Equipment
(in thousands)

As of December 31	2017	2016	2015
Land, buildings, and improvements	$54,002	$48,995	$45,658
Furniture and equipment	21,890	20,217	19,505
Subtotal	75,892	69,212	65,163
Less: accumulated depreciation	30,132	27,472	25,410
Premises and equipment, net	$45,760	$41,740	$39,753

NOTE 7: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and our assets serve as collateral.

Note Payable Information
(dollars in thousands)

As of December 31	2017	2016	2015
Line of credit	$8,000,000	$7,000,000	$7,000,000
Outstanding principal under the line of credit	6,783,097	6,506,325	6,060,273
Interest rate	2.2%	1.8%	1.7%

Our note payable matures December 31, 2019, at which time the note will be renegotiated.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. At December 31, 2017, and throughout the year, we were not declared in default under any GFA covenants or provisions.

NOTE 8: MEMBERS' EQUITY

CAPITALIZATION REQUIREMENTS

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

PROTECTION MECHANISMS

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If we were to be unable to retire protected borrower equity at par value or stated value, the FCSIC would provide the amounts needed to retire this equity.

REGULATORY CAPITALIZATION REQUIREMENTS

Regulatory Capital Requirements and Ratios

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

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years under the FCA capital requirements.

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

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

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

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

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

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total regulatory capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt, and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

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

Refer to Note 8 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016 and 2015. We were in compliance with the minimum required capital ratios as of December 31, 2016, and 2015.

DESCRIPTION OF EQUITIES

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value.

	Number of Shares		
As of December 31	2017	2016	2015
Class A common stock (protected)	1	1	1
Class B common stock (at-risk)	3,954,488	3,865,183	3,802,566
Class E participation certificates (at-risk)	473,841	473,348	484,581
Class F participation certificates (protected)	153	153	352

Under our bylaws, we are also authorized to issue Class C and Class D common stock. Each of these classes of stock is at-risk and nonvoting with a $5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class B common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2017, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any assets remaining after payment or retirement of all liabilities shall be distributed pro rata to all holders of stock and participation certificates.

In the event of impairment, losses will be absorbed by concurrent impairment of all classes of stock and participation certificates; however, protected stock will be retired at par value regardless of impairment.

All classes of stock and participation certificates, except Class A common stock and Class F participation certificates, are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

PATRONAGE DISTRIBUTIONS

We accrued patronage distributions of $50.0 million, $33.0 million, and $35.3 million at December 31, 2017, 2016, and 2015, respectively. The patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. Additionally, effective January 1, 2017, patronage distributions may be restricted or prohibited without prior FCA approval if capital ratios fall below the total requirements, including the buffer amounts. We do not foresee any events that would result in this prohibition in 2018.

NOTE 9: INCOME TAXES

PROVISION FOR (BENEFIT FROM) INCOME TAXES

The Tax Cuts and Jobs Act (the Act) was enacted in December of 2017. This Act contained various tax law changes, including a federal statutory tax rate change to 21% from 35%, effective January 1, 2018. Because deferred tax assets and liabilities are expected to be recognized in the Association's tax return in a future year, when the new statutory tax rate would be applicable, the deferred tax assets and liabilities as of December 31, 2017, have been valued using a blended federal/state effective tax rate based on the new federal statutory tax rate. The effect of this revaluation is recognized in our provision for (benefit from) income taxes for the year ended December 31, 2017.

Provision for (Benefit from) Income Taxes
(dollars in thousands)

For the year ended December 31	2017	2016	2015
Current:			
Federal	$5,409	$2,043	$(1,135)
State	811	138	(339)
Total current	6,220	2,181	(1,474)
Deferred:			
Federal	2,712	(581)	254
State	20	219	(1)
Total deferred	2,732	(362)	253
Provision for (benefit from) income taxes	$8,952	$1,819	$(1,221)
Effective tax rate	5.6%	1.4%	(0.9%)

Reconciliation of Taxes at Federal Statutory Rate to Provision for (Benefit from) Income Taxes
(in thousands)

For the year ended December 31	2017	2016	2015
Federal tax at statutory rates	$56,227	$46,808	$48,953
State tax, net	383	310	497
Patronage distributions	(3,500)	(3,500)	(3,500)
Effect of non-taxable entity	(45,204)	(41,816)	(41,627)
Change in statutory tax rates due to the Tax Cuts and Jobs Act	1,656	—	—
Other	(610)	17	(5,544)
Provision for (benefit from) income taxes	$8,952	$1,819	$(1,221)

DEFERRED INCOME TAXES

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

Deferred Tax Assets and Liabilities
(in thousands)

As of December 31	2017	2016	2015
Allowance for loan losses	$5,012	$7,951	$7,051
Postretirement benefit accrual	581	934	986
Accrued incentive	589	806	931
Accrued patronage income not received	(884)	(661)	(431)
AgriBank 2002 allocated stock	(1,012)	(1,610)	(1,683)
Accrued pension asset	(1,608)	(1,945)	(1,471)
Depreciation	(37)	(110)	(241)
Other assets	238	268	207
Other liabilities	(332)	(354)	(432)
Deferred tax assets, net	$2,547	$5,279	$4,917
Gross deferred tax assets	$6,420	$9,959	$9,175
Gross deferred tax liabilities	$(3,873)	$(4,680)	$(4,258)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2017, 2016, or 2015.

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $46.0 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $1.4 billion as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various U.S. taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2017. In addition, we believe we are no longer subject to income tax examinations for years prior to 2014.

NOTE 10: EMPLOYEE BENEFIT PLANS

PENSION AND POST-EMPLOYMENT BENEFIT PLANS

Complete financial information for the pension and post-employment benefit plans may be found in the Combined AgriBank and District Associations 2017 Annual Report (District financial statements).

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for employer decisions regarding all benefit plans including retirement benefits. These decisions could include plan design changes, vendor changes, determination of employer subsidies (if any), and termination of specific benefit plans. Any action to change or terminate the retirement plan can only occur at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

AgriBank District Retirement Plan Information
(in thousands)

As of December 31	2017	2016	2015
Unfunded liability	$352,516	$374,305	$453,825
Projected benefit obligation	1,371,013	1,269,625	1,255,259
Fair value of plan assets	1,018,497	895,320	801,434
Accumulated benefit obligation	1,184,550	1,096,913	1,064,133

For the year ended December 31	2017	2016	2015
Total plan expense	$44,730	$53,139	$63,800
Our allocated share of plan expenses	4,158	5,010	5,911
Contributions by participating employers	90,000	90,000	62,722
Our allocated share of contributions	8,493	8,555	5,809

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these Consolidated Financial Statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Income.

Benefits paid to participants in the District were $103.7 million in 2017. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2018 is $90.0 million. Our allocated share of these pension contributions is expected to be $8.5 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Nonqualified Retirement Plan: We also participate in the District-wide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

Pension Restoration Plan Information
(in thousands)

As of December 31	2017	2016	2015
Our Unfunded liability	$4,021	$1,936	$1,760
Projected benefit obligation for the Combined District	37,190	28,514	31,650
Accumulated benefit obligation for the Combined District	29,844	22,778	26,323

For the year ended December 31	2017	2016	2015
Total plan expense	$8,336	$5,767	$3,776
Our allocated share of plan expenses	508	435	737
Our cash contributions	269	258	258

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. Beginning in 2017, the recognition of the unfunded liability includes the impact of prior service cost and unamortized gain/loss. The increase in the liability was offset against accumulated other comprehensive loss and had no impact to net income. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Income. The Pension Restoration Plan is unfunded and we make annual contributions to fund benefits paid to our retirees covered by the plan. Our cash contributions are equal to the benefits paid. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee's active status.

Retiree Medical Plan Information
(in thousands)

For the year ended December 31	2017	2016	2015
Postretirement benefit expense	$63	$58	$115
Our cash contributions	153	152	152

Postretirement benefit costs are included in "Salaries and employee benefits" in the Consolidated Statements of Income. Our cash contributions are equal to the benefits paid.

DEFINED CONTRIBUTION PLANS

We participate in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

We also participate in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the defined contribution plan if it were not for certain IRS limitations.

Employer contribution expenses for the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Income, were $2.6 million, $2.4 million, and $2.3 million in 2017, 2016, and 2015, respectively. These expenses were equal to our cash contributions for each year.

NOTE 11: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. FCA Regulations also require disclosure of a loan to a senior officer or director, or to any organization affiliated with such persons that involves more than the normal risk of collectability. In 2017, we had two directors that met the criteria of more than the normal risk of collectability.

Matthew L. Berge has a loan relationship with GreenStone Farm Credit Services, ACA through an affiliated entity. Subsequent to March 2017, each of the loans under the relationship were classified as substandard as the loans were deemed to involve more than the normal risk of collectability. The largest aggregate amount of indebtedness outstanding at any time during 2017 was $5.4 million. The purposes of these loans are operating expenses, hedging transactions, and equipment and real estate purchases. The aggregate principal balances of the loans were $5.3 million on December 31, 2017. The reason these loans involve more than the normal risk of collectability is due to insufficient earnings which was deemed to create inadequate repayment capacity. The loan payments were current with no amount past due as of December 31, 2017.

Ronald W. Lucas has a loan relationship with GreenStone Farm Credit Services, ACA through an affiliated entity. Subsequent to May 2017, each of the loans under the relationship were classified as substandard as the loans were deemed to involve more than the normal risk of collectability. The largest aggregate amount of indebtedness outstanding at any time during 2017 was $2.6 million. The purposes of these loans are operating expenses and equipment and real estate purchases. The aggregate principal balances of the loans were $2.6 million on December 31, 2017. The reason these loans involve more than the normal risk of collectability is due to insufficient earnings which was deemed to create inadequate repayment capacity. The loan payments were current with no amount past due as of December 31, 2017.

Related Party Loans Information
(in thousands)

As of December 31:	2017	2016	2015
Total related party loans	$46,737	$46,446	$44,615
For the year ended December 31:	**2017**	**2016**	**2015**
Advances to related parties	$23,396	$23,571	$24,426
Repayments by related parties	31,508	34,928	49,251

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. Advances and repayments on loans in the preceding chart are related to those considered related parties at year end.

As discussed in Note 7, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio.

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, tax reporting services, technology services, and insurance services. The total cost of services we purchased from AgriBank was $1.9 million in 2017 and $1.8 million in 2016 and 2015.

We also purchase human resource information systems, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2017, 2016, and 2015, our investment in Foundations was $59 thousand. The total cost of services purchased from Foundations was $322 thousand, $302 thousand, and $258 thousand in 2017, 2016, and 2015, respectively.

NOTE 12: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, 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.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2017, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $2.2 billion. Additionally, we had $19.5 million of issued standby letters of credit as of December 31, 2017.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 13: 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 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 December 31, 2017, 2016, or 2015.

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 December 31, 2017	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	$ —	$—	$16,154	$16,154
Acquired property	—	—	4,483	4,483

As of December 31, 2016	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	$ —	$6,999	$8,221	$15,220
Acquired property	—	4,360	—	4,360

As of December 31, 2015	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	$ —	$9,168	$7,665	$16,833
Acquired property	—	5,377	—	5,377

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 14: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 8, 2018, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our 2017 Consolidated Financial Statements or disclosures in the Notes to Consolidated Financial Statements.

Disclosure Information Required By Regulations

GREENSTONE FARM CREDIT SERVICES, ACA
(Unaudited)

DESCRIPTION OF BUSINESS
General information regarding the business is incorporated herein by reference from Note 1 to the Consolidated Financial Statements in this Annual Report.

The description of significant business developments, if any, is incorporated herein by reference from the Management's Discussion and Analysis section of this Annual Report.

DESCRIPTION OF PROPERTY

Property Information

Location	Description	Usage
Adrian, MI	Owned	Branch Office
Allegan, MI	Owned	Branch Office
Alma, MI	Owned	Branch Office
Alpena, MI	Owned	Branch Office
Ann Arbor, MI	Owned	Branch Office
Bad Axe, MI	Owned	Branch Office
Bay City, MI	Owned	Branch Office
Berrien Springs, MI	Owned	Branch Office
Cadillac, MI	Owned	Branch Office
Caro, MI	Owned	Branch Office
Charlotte, MI	Leased	Branch Office
Clintonville, WI	Owned	Branch Office
Coleman, WI	Owned	Branch Office
Concord, MI	Owned	Branch Office
Corunna, MI	Owned	Branch Office
West Rd, East Lansing, MI	Owned	Corporate
Abbey Rd, East Lansing, MI[(1)]	Owned	Leased to Tenant
Escanaba, MI	Leased	Branch Office
Grand Rapids, MI	Owned	Branch Office
Hart, MI	Leased	Branch Office
Hastings, MI	Owned	Branch Office
Hillsdale, MI	Owned	Branch Office
Howell, MI	Leased	Branch Office
Ionia, MI	Owned	Branch Office
Lakeview, MI	Owned	Branch Office
Lapeer, MI	Owned	Branch Office
Little Chute, WI	Owned	Branch Office
Manitowoc, WI	Leased	Branch Office
Mason, MI	Leased	Branch Office
Monroe, MI	Owned	Branch Office
Mt. Pleasant, MI	Owned	Branch Office
Saginaw, MI	Owned	Branch Office
Sandusky, MI	Owned	Branch Office
Schoolcraft, MI	Owned	Branch Office
St. Johns, MI	Owned	Branch Office
Sturgeon Bay, WI	Leased	Branch Office
Traverse City, MI	Owned	Branch Office

[1]Former corporate office, currently occupied by a tenant on a long-term lease.

LEGAL PROCEEDINGS
Information regarding legal proceedings is discussed in Note 12 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2017.

Pursuant to FCA Regulation 620.5, the permanent capital ratio, total surplus ratio, and core surplus ratios were 14.6%, 14.3%, and 14.3% as of December 31, 2012, respectively. Refer to the Consolidated Five Year Summary of Selected Financial Data for capital ratio calculations for the past five years.

DESCRIPTION OF CAPITAL STRUCTURE
Information regarding our capital structure is discussed in Note 8 to the Consolidated Financial Statements in this Annual Report.

DESCRIPTION OF LIABILITIES
Information regarding liabilities is discussed in Notes 7, 8, 9, 10, and 12 to the Consolidated Financial Statements in this Annual Report. All debt and other liabilities in the financial statements are uninsured.

SELECTED FINANCIAL DATA
The Consolidated Five-Year Summary of Selected Financial Data is presented at the beginning of the Consolidated Financial Statements in this Annual Report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the Management's Discussion and Analysis section of this Annual Report.

BOARD OF DIRECTORS

Board of Directors as of December 31, 2017, including business experience during the last five years

Name	Term	Principal Occupation and Other Affiliations
Edward L. Reed (Age 55) Board Chair Executive Committee, Chair Compensation Committee, Vice Chair Service Began: 2008	2014-2018	**Principal Occupation:** Self-employed livestock and grain producer Member-Manager: Reed Family Farms, LLC Member-Manager: Reed Family Properties, LLC **Other Affiliations:** Board Member: Michigan Pork Producers Association Board Chair: Three Rivers Health Foundation
Bruce E. Lewis (Age 52) Board Vice Chair Executive Committee, Vice Chair Compensation Committee, Chair Service Began: 2011	2017-2021	**Principal Occupation:** Self-employed dairy and cash crop farmer **Other Affiliations:** Vice President: Hillsdale-Litchfield Local Michigan Milk Producers Association Advisory Committee and Resolutions Committee
Matthew L. Berge (Age 41) Finance Committee, Chair Service Began: 2013	2015-2019	**Principal Occupation:** Self-employed dairy and heifer operator Member-Manager: Badger Pride Dairy, LLC Director: The Heifer Authority, LLC
Laura A. Braun (Age 58) Legislative/Public Policy Committee, Chair Service Began: 2012	2015-2019	**Principal Occupation:** Self-employed farmer and small business owner Member-Manager: Golden Maple Farms, LLC **Other Affiliations:** Board Member: AgriBank District Farm Credit Council Board Member: Rural Development Fund Committee: Michigan Farm Bureau AgriPAC
Wm. "Hank" Choate (Age 67) Finance Committee Service Began: 2014	2017-2021	**Principal Occupation:** Self-employed dairy and cash grain farmer Partner: Choate's Belly Acres Member-Manager: Liberty Centennial, LLC **Other Affiliations:** Board Member: Michigan Milk Producers Association (milk marketing cooperative owned by dairy farmers in Michigan, Indiana, Ohio, and Wisconsin) Board Member: United Dairy of Michigan Planning Committee: Liberty Township Advisory Committee: NorthStar Cooperative (member farmer owned cooperative that enhances producers profitability through integrated services) Advisory Committee: Michigan Farm Bureau Dairy Commodity (considers and makes dairy policy recommendations for approval by its members) Committee: Jackson County Republican
Eugene B. College (Age 72) Appointed Director Audit Committee, Chair Service Began: 2009	2018-2022	**Principal Occupation:** Retired Senior Vice President and Chief Financial Officer of Farm Credit Services of America, ACA
Christine M. Crumbaugh (Age 48) Executive Committee Compensation Committee Service Began: 2012	2015-2018	**Principal Occupation:** Self-employed grain farmer and sugar beet producer Vice President/Secretary/Treasurer: Crumbaugh Legacy, Inc. Member-Manager: Crumbaugh Legacy Farmland, LLC **Other Affiliations:** Commissioner: Natural Resources Commission for Governor Rick Snyder of Michigan President: Gratiot Area Chamber of Commerce Member-Manager: Captured by Christine Crumbaugh, LLC (photography business)
Thomas R. Durand (Age 62) Legislative/Public Policy Committee Service Began: 2013	2016-2020	**Principal Occupation:** Self-employed sugar beet, dry beans, and grain farmer President: Durand Farms, Inc. **Other Affiliations:** President: Corn Marketing Program of Michigan appointed by Governor Rick Snyder

Name	Term	Principal Occupation and Other Affiliations
Darl E. Evers (Age 74) Audit Committee Service Began: 1990	2014-2018	**Principal Occupation:** Self-employed grain and livestock farmer Partner: Evers and Evers Farm, LLC
Terri J. Hawbaker (Age 37) Finance Committee, Vice Chair Service Began: 2015	2015-2019	**Principal Occupation:** Self-employed dairy farmer Owner/Operator: Grazeway Dairy Farms
Ronald W. Lucas (Age 61) Legislative/Public Policy Committee, Vice Chair Service Began: 2013	2016-2020	**Principal Occupation:** Self-employed dairy farmer Member-Manager: Lucas Dairy Farms, LLC **Other Affiliations:** Supervisor: Wellington Township Secretary/Treasurer: Hillman Local Michigan Milk Producers Associationn
Peter C. Maxwell (Age 33) Finance Committee Service Began: 2016	2016-2020	**Principal Occupation:** Self-employed cash crop farmer Independent Sales Agent: ACH Seeds Employee: Maxwell Seed Farms raising cash crops **Other Affiliations:** Chair: Gladwin County Farm Bureau Young Farmer Director: Michigan Sugar Company West District
Dennis C. Muchmore (Age 71) Appointed Director Legislative/Public Policy Committee Service Began: 2002	2017-2021	**Principal Occupation:** GA and Regulatory Advisor: Honigman Miller Schwartz and Cohn, LLP **Other Affiliations:** Former Chief of Staff to Governor of the State of Michigan Partner: TOMDEN Enterprises, LLC (privately held investment firm with limited business interests in aeronautic composites)
Scott A. Roggenbuck (Age 55) Audit Committee Service Began: 2007	2016-2020	**Principal Occupation:** Self-employed cash crop farmer President: Cedar Pond Farms Inc. (grain and sugar beet operation) President: Cedar Pond Holdings, LLC (family partnership owning farmland) President: Cedar Pond Ag Services Inc. (custom farming and consulting) **Other Affiliations:** Committee Member: Sugar Beet Advancement Committee and the REACh Committee (both committees provide research and education in the advancement of the production of sugar beets in Michigan and Ontario) Chair: Michigan Sugar Industry Education Institute (creating educational opportunities about the production and processing of sugar to the public)
Aaron "Andy" Snider (Age 55) Executive Committee Compensation Committee Service Began: 2012	2015-2018	**Principal Occupation:** Self-employed turkey, hog, and cash grain farmer Member-Manager: Snider Farms, LLC Member-Manager: Snider RE, LLC Member-Manager: A Z Snider, LLC **Other Affiliations:** Board Member: Michigan Turkey Producers Co-op Executive Council: Land-O-Lakes Co-op Region IV Committee Member: Land-O-Lakes Policy and Resolutions Committee
Dale L. Wagner (Age 58) Audit Committee, Vice Chair Service Began: 2012	2015-2019	**Principal Occupation:** Self-employed dairy, cash grain farmer, and custom harvester Member-Manager: Twin Elm Family Farm, LLC Member-Manager: Union 151, LLC **Other Affiliations:** Vice Chair: Wisconsin Farm Credit Legislative Committee (GreenStone representative)

In 2017, the Board Chair and Chair of the Audit Committee received annual retainer fees of $28,000 each and the Board Vice Chair received $26,000. The remaining board members received an annual retainer fee of $24,000. All board members also received a $600 computer allowance. The retainer fees are paid quarterly. In 2017, the board members did not receive compensation for individual board or regular committee meetings attended. Per diem at a rate of $500 per day is paid for attendance at ad hoc committee meetings only. In 2017, there was one board member that received $1,000 for attendance at two days of ad hoc meetings while there were no per diem payments for attendance at ad hoc committee meetings in 2016 or 2015.

Information regarding compensation paid to each director who served during 2017 follows:

	Number of Days Served		
	Board Meetings	Other Official Activities	Total Compensation Paid in 2017
Matthew L. Berge	4	12	$24,600
Laura A. Braun	4	34	24,600
Wm. "Hank" Choate	3	15	24,600
Eugene B. College	4	18	28,600
Christine M. Crumbaugh	4	20	24,600
Thomas R. Durand	4	15	24,600
Darl E. Evers	4	12	24,600
Terri J. Hawbaker	4	14	24,600
Bruce E. Lewis	4	11	26,600
Ronald W. Lucas	4	21	24,600
Peter C. Maxwell	4	15	24,600
Dennis C. Muchmore	4	19	24,600
Edward L. Reed	4	15	28,600
Scott A. Roggenbuck	4	16	24,600
Aaron "Andy" Snider	4	24	25,600
Dale L. Wagner	4	19	24,600
			$404,600

SENIOR OFFICERS
The senior officers include:

David B. Armstrong
Chief Executive Officer

Paul E. Anderson
Executive Vice President – Chief Credit Officer

Travis D. Jones, CPA
Executive Vice President – Chief Financial Officer

Stephen A. Junglas
Executive Vice President – Chief Information Officer and Chief Information Security Officer

Peter L. Lemmer
Executive Vice President – Chief Legal Counsel

Bethany L. Barker, SPHR
Executive Vice President – Chief Human Resources Officer

Melissa A. Stolicker, CPA
Executive Vice President – Chief Internal Auditor

David B. Armstrong was promoted to Chief Executive Officer (CEO) in 2009. Paul E. Anderson was promoted to Chief Credit Officer in 2009. Travis D. Jones was hired as Chief Financial Officer in 2007. Stephen A. Junglas was promoted to Chief Information Officer in 2012. Peter L. Lemmer was hired as Chief Legal Counsel in 2008. Bethany L. Barker has been in her position since 1998. Melissa A. Stolicker has been in her position since 2004.

OTHER BUSINESS INTERESTS WHERE A SENIOR OFFICER SERVED AS A BOARD OF DIRECTOR OR SENIOR OFFICER INCLUDE:
David B. Armstrong serves as a director on the executive committee of the Michigan Economic Development Corporation (promotes economic development within the state of Michigan). He serves as a board member and Treasurer for the Michigan Livestock Exhibition (non-profit to generate funding for youth scholarships through annual livestock shows and auctions). He also serves as a board member of the Farm Credit System Association Captive Insurance Company (privately-held insurance association that is owned by the System) and as a board member for Crystal Flash Energy Company (provides fuels and lubes to residential and commercial customers throughout primarily the state of Michigan).

Paul E. Anderson serves as a director on the Michigan Strategic Fund board (promotes economic development and job creation in Michigan).

Travis D. Jones serves as a board member for Michigan Finance Authority (offers effective low-cost financing to public and private agencies providing essential services to the citizens of Michigan).

Peter L. Lemmer is the Commissioner for Michigan Community Service Commission (Michigan state agency that leads the state in volunteer activities to strengthen Michigan communities).

Bethany L. Barker serves as a board member of Great Lakes Leadership Academy (non-profit that promotes positive change, economic vitality, and resource conservation).

Melissa A. Stolicker serves as a member of the Board of Trustees and a member of the Audit Committee for Oakland University (major public university in Michigan offering bachelor's and graduate degrees).

Information related to compensation paid to senior officers is provided in our Annual Meeting Information Statement (AMIS). The AMIS is available for public inspection at our office.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS
Information regarding related party transactions is discussed in Note 11 to the Consolidated Financial Statements in this Annual Report.

TRAVEL, SUBSISTENCE, AND OTHER RELATED EXPENSES
Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at:

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

The total directors' travel, subsistence, and other related expenses were $172 thousand, $145 thousand, and $215 thousand in 2017, 2016, and 2015, respectively.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS
No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2018, or at any time during 2017.

MEMBER PRIVACY
The FCA Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our Association or our members not normally contained in published reports or press releases.

RELATIONSHIP WITH QUALIFIED PUBLIC ACCOUNTANT
There were no changes in independent auditors since the last Annual Report to members, and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2017 for audit services were $78 thousand. We also paid $4 thousand for tax services.

FINANCIAL STATEMENTS
The Report of Management, Report on Internal Control Over Financial Reporting, Report of Audit Committee, Report of Independent Auditors, Consolidated Financial Statements, and Notes to Consolidated Financial Statements are presented prior to this portion of the Consolidated Financial Statements in this Annual Report.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS
Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

Young, Beginning, and Small Farmers and Ranchers

GREENSTONE FARM CREDIT SERVICES, ACA
(Unaudited)

We have specific programs in place to serve the credit and related needs of young, beginning, and small (YBS) farmers and ranchers in our territory. The definitions of YBS as developed by the Farm Credit Administration (FCA) follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less of experience at farming, ranching, or producing or harvesting aquatic products as of the loan transaction date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

YOUNG, BEGINNING, AND SMALL FARMER DEMOGRAPHICS
The local service area of the Association includes the entire state of Michigan and 11 counties in the northeastern part of the state of Wisconsin. Results from the United States Department of Agriculture's (USDA) 2012 Census of Agriculture became available in May 2014 and were studied to try and determine the numbers of YBS farmers within our territory.

This most recent agricultural census represents the best demographic information available in our territory. Results of this study show the following:

Category	Number	Percent
Number of Farmers 34 and Younger	6,650	10.9%
Number of Farmers on Current Farm Less Than 10 Years	14,291	23.3%
Number of Farmers with Less Than $250,000 Farm Sales	53,987	88.2%
Total Number of YBS Farmers	61,218	

There are several differences in the methods by which the demographic and FCA YBS farmer data is presented:

Young farmers are defined by the FCA as 35 years old or less. The USDA demographic stratification breaks at 34 years. Beginning farmers are defined by the FCA as having 10 years or less farming experience. There is no measurement matching this definition in the USDA census; however, the census does identify farmers on their current farm less than 10 years. That statistic may include beginning farmers, but may also include experienced farmers who have recently changed farmsteads. The FCA small farmer definition matches closely with the USDA delineation. Even though the statistical results of the census do not match the FCA definitions exactly, they do provide a consistent source of measurement with which to assess Association targets and goals.

DESCRIPTION AND STATUS REPORT ON THE YOUNG, BEGINNING, AND SMALL FARMER PROGRAM

The mission statement of the program is as follows:

"GreenStone Farm Credit Services recognizes the importance of young, beginning, and small farmers to the future of agriculture. The Association shall serve the unique needs of this market segment through special lending programs that extend credit in a safe and sound manner for both the individual member and the Association. GreenStone also believes in the value of education to prepare these producers to successfully compete in a highly competitive global marketplace and shall support educational opportunities for them that balance the cost of delivery with overall stockholder value."

The Association implemented a board approved YBS lending program comprised of separate components for YBS farmers. Relaxed underwriting standards and loan terms have been approved for farm operating loans, farm equipment and intermediate-term loans, and for real estate loans. These standards and terms are customized for young farmers and beginning farmers.

Quantitative targets based upon reasonably reliable demographic data have been established by board policy for YBS farmers. Targets have also been established for the YBS program in an aggregate. The targets are as follows:

Quantitative Targets	Measure	At 12/31/2017
1. Young farmers in portfolio equal to or greater than percentage of young farmers in the census	10.9%	20.2%
2. Young farmer loans at least 50% of the young farmers in census	50.0%	91.6%
3. Young farmers at least 10% total outstanding loan volume	10.0%	15.2%
4. Young farmers at least 10% of all new loans (number)	10.0%	16.6%
5. Beginning farmers at least 10% total number of loans outstanding	10.0%	29.4%
6. Beginning farmers at least 10% of total outstanding loan volume	10.0%	18.9%
7. Beginning farmers at least 10% of all new loans (number)	10.0%	20.4%
8. Small farmers at least 40% of total number of loans outstanding	40.0%	49.6%
9. Small farmers at least 20% of total outstanding loan volume	20.0%	20.9%
10. Small farmers at least 40% of all new loans (number)	40.0%	41.5%
11. Maintain at least 50% of total loan numbers to YBS farmers	50.0%	59.7%
12. Maintain at least 30% of the total outstanding loan volume to YBS farmers	30.0%	33.2%

The association has also established certain qualitative goals addressing its efforts and to implement effective outreach programs to attract YBS farmers. These goals are as follows:

Qualitative Goals	Measure	At 12/31/2017
1. Related services will be offered to YBS farmers in the territory.		
Goals: Book sales of at least one association offered related service to at least 5% of YBS farmers in the association portfolio.	5% Young 5% Beginning 5% Small	6.2% 6.3% 12.8%
2. Credit services and financially related services to YBS farmers will be coordinated with governmental and private sources of credit.		
Goals: Coordinate with the USDA Farm Service Agency (FSA) to enhance credit services to young and beginning farmers by obtaining guarantees on at least 7.5% loans (by number) and to take advantage of the FSA young farmer financing program utilizing private second mortgage financing or other alternative financing options whenever possible.	7.5% Young 7.5% Beg.	6.9% 3.8%
3. We will implement effective outreach programs to attract YBS farmers.		
Goals: (a) Participate in or sponsor annually at least 10 YBS farmer leadership and educational programs offered in either Michigan or Wisconsin.	10 Programs	28 Programs sponsored
(b) Offer at least five individual scholarships to deserving YBS farmers (or potential YBS farmers) to Michigan and/or Wisconsin Universities or Colleges.	5 Scholarships	20 Scholarships offered

All of the Association's quantitative and qualitative goals were met in 2017 with the following exception: the use of FSA guarantees on young and beginning farmer loans. The strength of the financial position of our YBS borrowers has negated the need for FSA guarantees. We anticipate that the utilization of FSA guarantees will increase over the next several years due to the decline in commodity prices for many agricultural industries.

The Association employs the following methods and strategies to ensure that credit and services offered to YBS farmers are provided in a safe and sound manner and within risk-bearing capacity:

- Board policy includes a specific section discussing program safety and soundness under its operating parameters.
- Board policy includes a maximum level of risk for YBS adverse volume originated under the program.
- The Association's internal audit plan requires periodic auditing of the YBS program, which is done annually in conjunction with the internal credit review. In addition, comprehensive reports are written periodically, the most recent report was as of December 31, 2015.
- The Association's internal audit and loan review plan will annually include a selection of YBS loans within its normal selection criteria and assess individual loan credit administration, coding, and loan quality.

Funds Held Program

GREENSTONE FARM CREDIT SERVICES, ACA
(Unaudited)

The Association offers a Funds Held Program ("Funds Held") that provides funds for customers to make advance payments on designated real estate, operating, and intermediate-term loans, pay insurance premiums, taxes, or any other eligible purpose.

PAYMENT APPLICATION: Loan payments received by the Association before the loan has been billed will normally be placed into Funds Held and applied against the next installment due.

ACCOUNT MAXIMUM: The amount in Funds Held may not exceed the unpaid principal balance of the loan.

INTEREST RATE: Interest will accrue on Funds Held at a simple rate of interest that may be changed by the Association from time to time. The interest rate may never exceed the interest rate charged on the related loan.

Funds Held on real estate loans, operating loans, and intermediate-term loans are paid at a rate of interest equal to 3% (300 basis points) less than the loan rate.

WITHDRAWALS: Money in Funds Held may be withdrawn for the following items: customers with real estate loans, operating loans, and intermediate-term loans may use funds for future installments, insurance premiums, or real estate taxes on collateral for the respective loan. Customers may make withdrawals for other approved purposes in lieu of increasing the loan amount for any eligible loan purpose.

ASSOCIATION OPTIONS: In the event of default on any loan, if Funds Held exceeds the maximum limit as established above or if the Association discontinues their Funds Held program, the Association may apply funds in the account to the unpaid loan balance and other amounts due and shall return any excess funds to the customer.

UNINSURED ACCOUNT: Funds Held is not a depository account and is not insured. In the event of the Association's liquidation, customers having balances in Funds Held shall be notified according to the FCA Regulations.

Office Locations

Corporate Office

East Lansing / 517-318-4100
3515 West Rd., E. Lansing, MI 48823

Michigan

Adrian / 517-263-9798
5285 W. US 223, Adrian, MI 49221

Allegan / 269-673-5541
1517 M-40 North, Allegan, MI 49010

Alma / 989-463-3146
2942 West Monroe Rd., Alma, MI 48801

Alpena / 989-354-4343
2200 M-32 West, Alpena, MI 49707

Ann Arbor / 734-769-2411
7530 Jackson Rd., Ann Arbor, MI 48103

Bad Axe / 989-269-6532
749 S. Van Dyke St., Bad Axe, MI 48413

Bay City / 989-686-5100
3949 S. Three Mile Rd., Bay City, MI 48706

Berrien Springs / 269-471-9329
8302 Edgewood Rd.,
Berrien Springs, MI 49103

Cadillac / 231-775-1361
7597 S. Mackinaw Trail, Cadillac, MI 49601

Caro / 989-673-6128
1570 Cleaver Rd., Caro, MI 48723

Charlotte / 517-543-1360
722 W. Lawrence Ave., Charlotte, MI 48813

Concord / 517-524-6670
100 Spring St., Concord, MI 49237

Corunna / 989-743-5606
704 W. Corunna Ave., Corunna, MI 48817

Escanaba / 906-786-4487
1801 North Lincoln Rd., Suite A,
Escanaba, MI 49829

Grand Rapids / 616-647-0030
3225 Walker Ave. NW,
Grand Rapids, MI 49544

Hart / 231-873-7102
3486 W. Polk Rd., Hart, MI 49420

Hastings / 269-945-9415
333 W. State Street, Hastings MI, 49058

Howell / 517-546-2840
1040 W. Highland, Howell, MI 48843

Ionia / 616-527-1930
1962 S. State Rd., Ionia, MI 48846

Jonesville / 517-437-3336
500 Olds St., Jonesville, MI 49250

Lakeview / 989-352-7203
8897 W. Tamarack Rd., Lakeview, MI 48850

Lapeer / 810-664-5951
455 Lake Nepessing Rd., Lapeer, MI 48446

Mason / 517-676-1086
525 N. Okemos St., Mason, MI 48854

Monroe / 734-243-6711
15615 S. Telegraph Rd.,
Monroe, MI 48161

Mt. Pleasant / 989-773-5175
1075 N. Mission St., Mt. Pleasant, MI 48858

Saginaw / 989-781-4251
11020 Gratiot Rd., Saginaw, MI 48609

Sandusky / 810-648-2600
100 S. Elk St., Sandusky, MI 48471

Schoolcraft / 269-679-5296
225 W. Lyon St., Schoolcraft, MI 49087

St. Johns / 989-224-9321
1104 S. US 27, St. Johns, MI 48879

Traverse City / 231-946-5710
3491 Hartman Rd., Traverse City, MI 49685

Wisconsin

Clintonville / 715-823-2128
280 South Main St., Clintonville, WI 54929

Coleman / 920-897-4046
202 Sado Ln., Coleman, WI 54112

Little Chute / 920-687-4450
340 Patriot Dr., Little Chute, WI 54140

Manitowoc / 920-682-5792
4400 Calumet Ave., Suite 102,
Manitowoc, WI 54220

Sturgeon Bay / 920-743-8150
3030 Park Dr., Suite B,
Sturgeon Bay, WI 54235

The wood fiber used to make this paper contains 10% post consumer waste
and is independently certified to come from responsibly managed forests.

GREENSTONE FARM CREDIT SERVICES
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