

Michigan Agriculture Producer and Credit Outlook

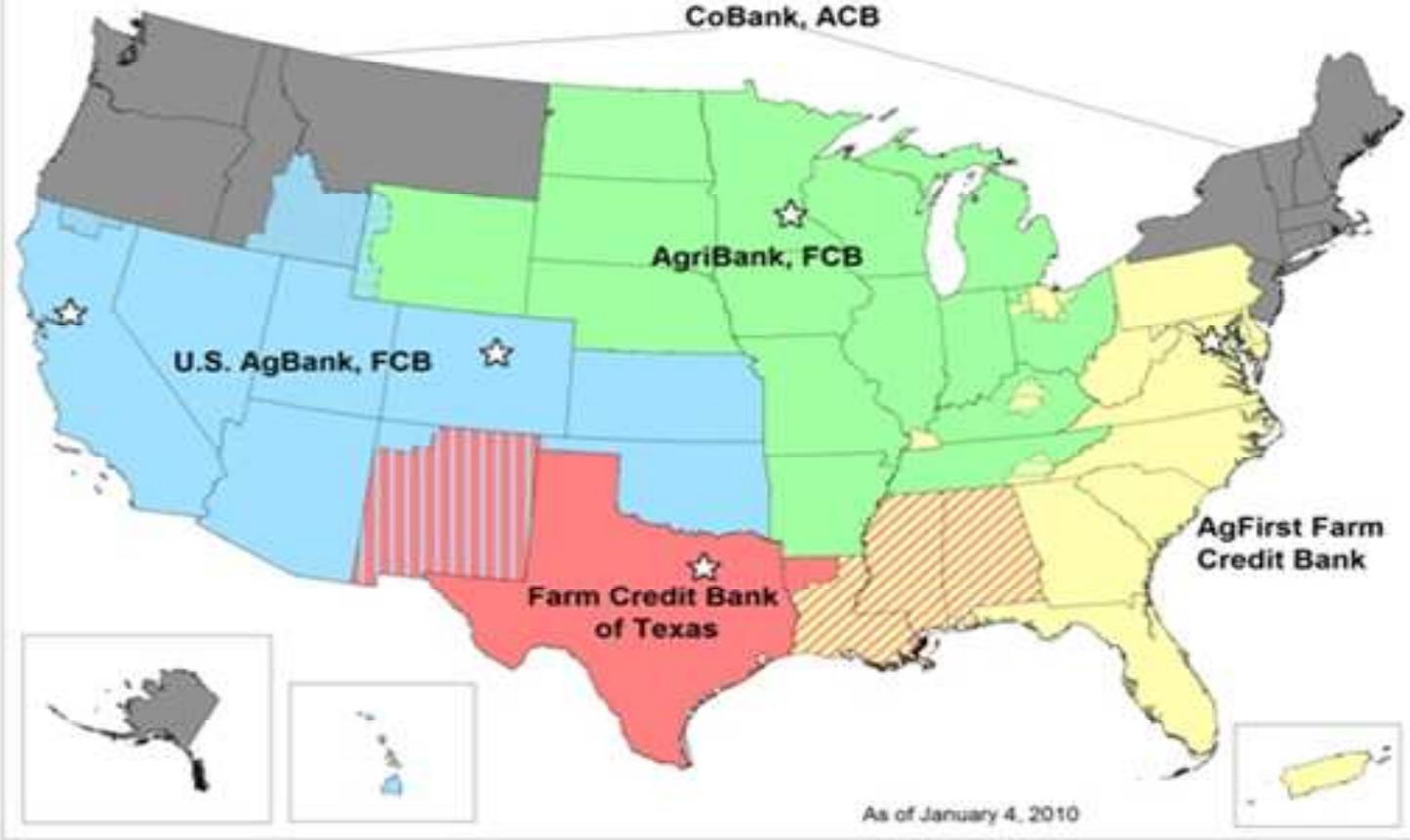
Paul Anderson, Chief Credit Officer

December , 2010

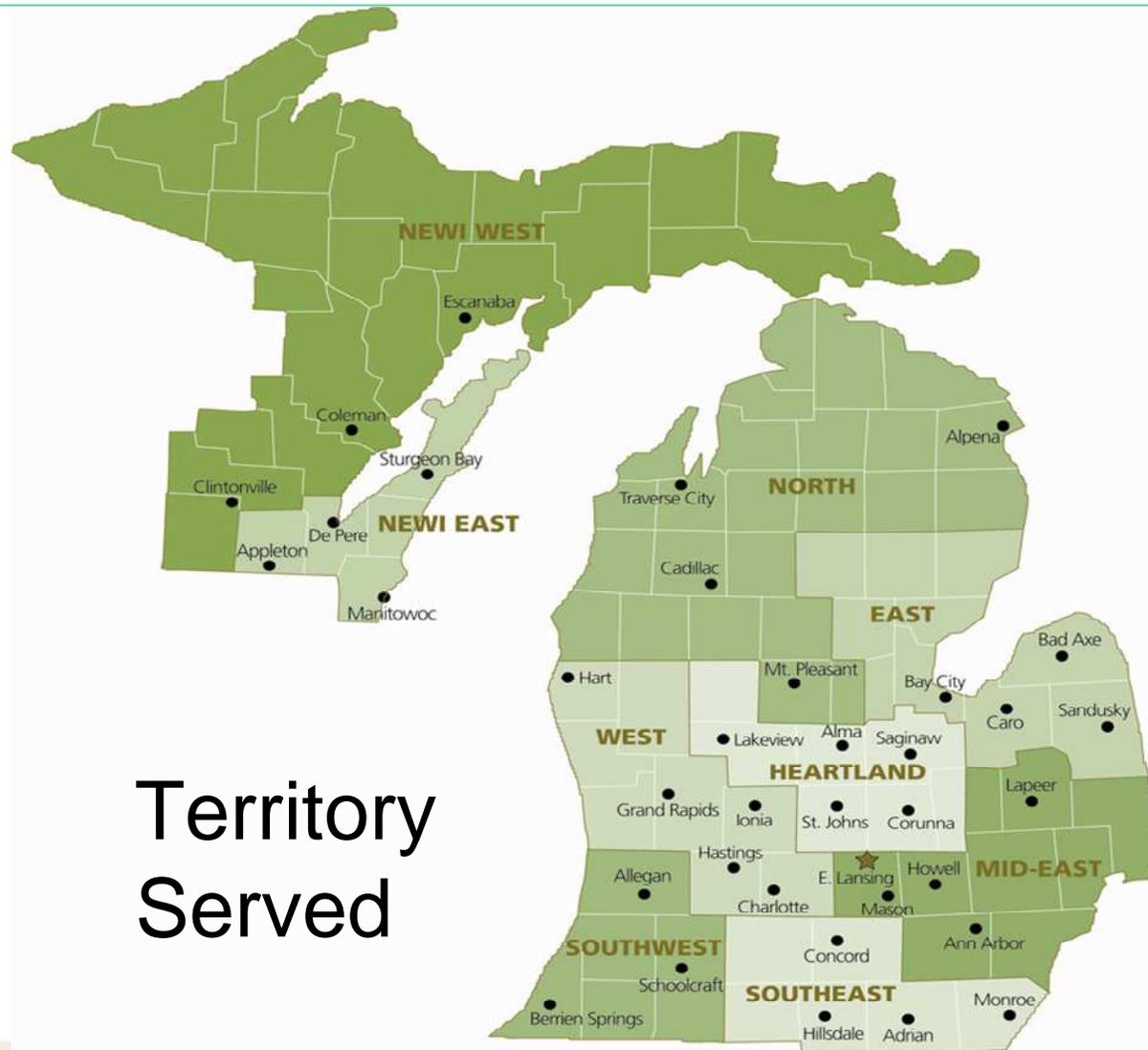
Areas of Discussion

- Current Financial Health of MI Agriculture.
- Outlook for 2011
- Impact on Financing
- Parting Thoughts

Farm Credit System Bank Chartered Territories



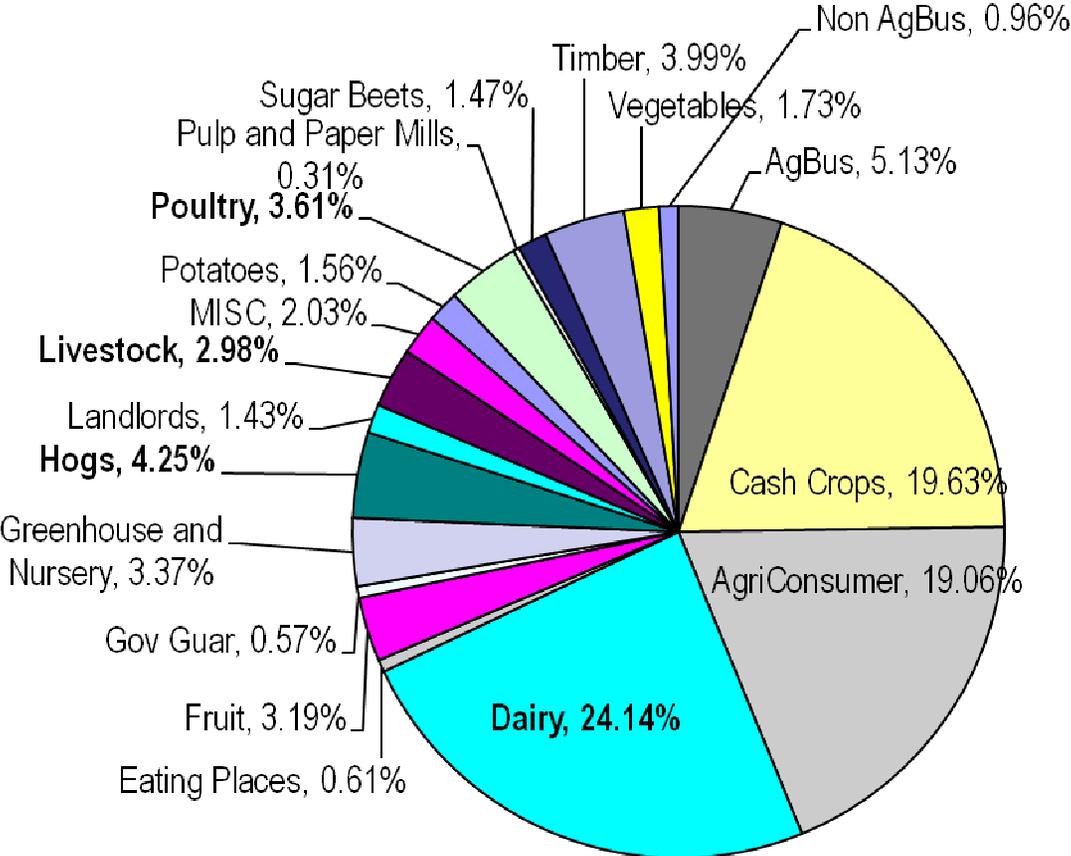
Territory Served



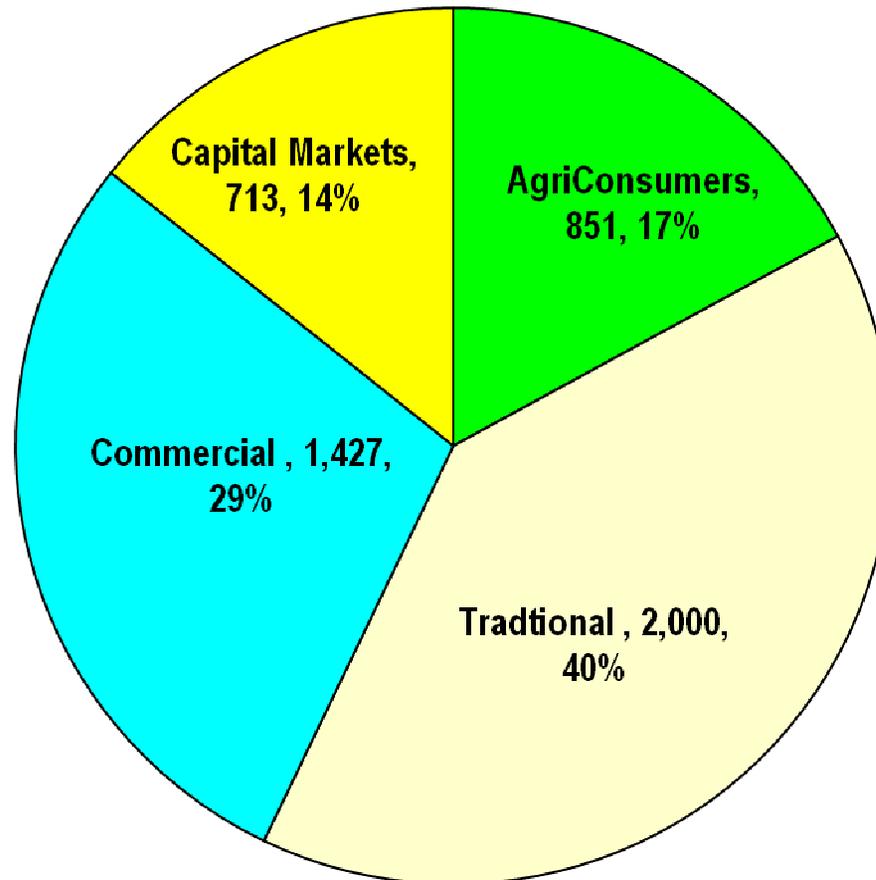
Overview of GreenStone FCS

- \$5.1 billion in loan volume (6th largest Farm Credit in the US)
- +60% market share (compared to selected banks)
 - 90% market share of the large commercial producer
- 94% customer satisfaction rating
- Strong capital position of 13.6% (\$806MM of surplus)
- Strong earnings, 2010 will be a record year ,approx. \$90MM
- Paid member/borrowers \$67 million in patronage since 2005
- 450 employees
- 37 office locations to serve owners

Perspective – \$5.1B Portfolio Financed



Perspective – Market Segment



June 30, 2010

Current Financial Health of Michigan Agriculture

- GreenStone Credit Quality
 - Credit Quality 6.7% adversely classified assets
 - Traditional 1.7% Commercial Producer 13.9%
 - AgriConsumer 5.6% Capital Markets 8.1%
 - Delinquencies 0.6% is excellent
 - Nonaccrual loans 2.05%
 - Net charge offs to average loans (y-t-d) = 0.36%
 - Timber, Dairy Participations, Broiler & AgriConsumer

Current Financial Health of Michigan Agriculture

USDA's August forecast for 2010 net farm income:

- Increase \$15B from \$62B to \$77B in 2010 over 2009
- 2010 will be \$8.4B or 9.0% above the last five year average

2011 will vary widely based on the commodity

Current Financial Health of Michigan Agriculture

Cash crops

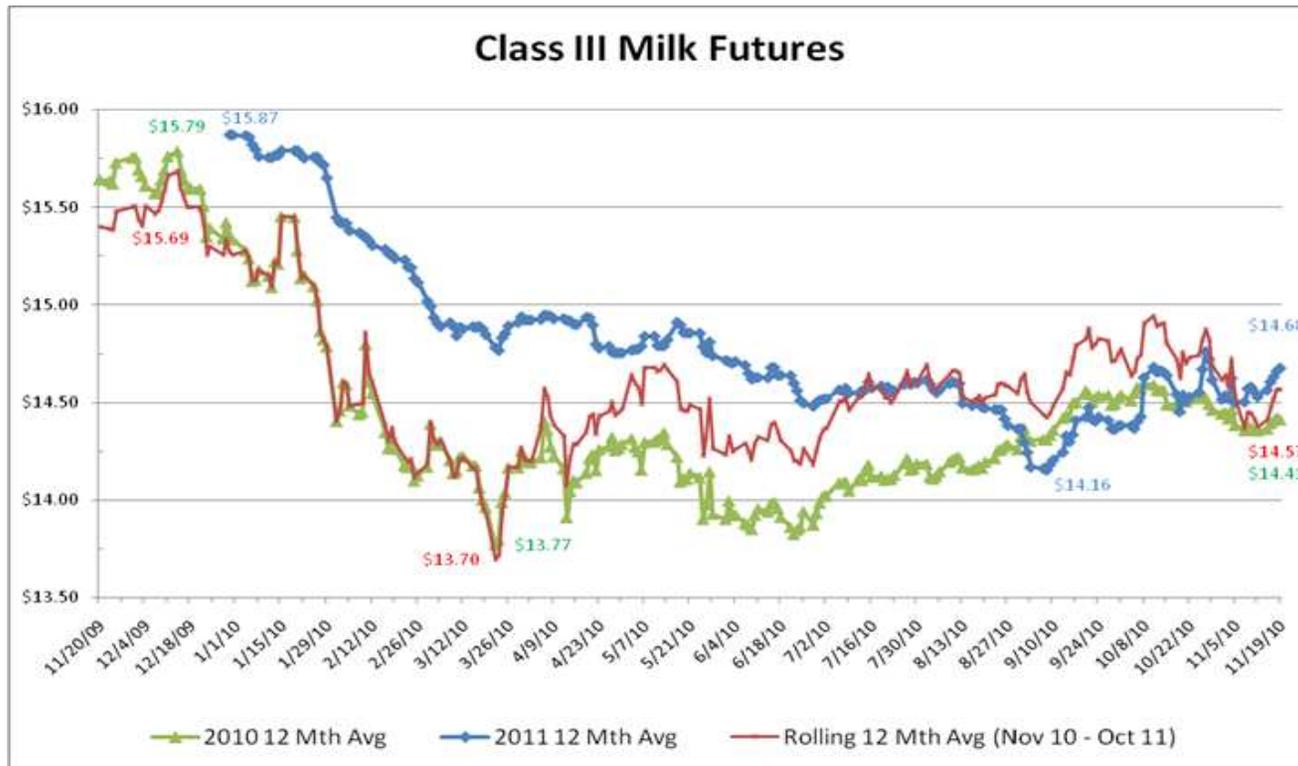
- Row crops (corn and soybeans) very good year
 - Weather market – Russian wheat, US corn yields
 - Export demand – China
- Sugar Beets – Excellent
 - Record year 2009
 - 2010 yield and quality very good, strong price
 - 2011 outlook very favorable
- Potato industry – another solid profit year
 - Yields were down but quality better
 - Inventory levels are tight chip contract favorable
- 2011 key variables: input costs and rent

Current Financial Health of Michigan Agriculture

Dairy

- 2010 - profitable year of \$200 - \$500 per cow.
 - Balance sheets will be partially rebuilt in 2010 but not healed
 - Industry has not rationalized cow numbers.
 - Price is dependant on exporting growing production levels
- 2011 outlook is for reduced margins to breakeven range
 - Milk price outlook is similar to 2010.
 - Grain prices and cost of inputs key variables, assumed higher based on current information.
 - Midwest advantage over Western dairy are feed inventories

Dairy Price Trends - CME



Current Financial Health of Michigan Agriculture

Hogs

- Record prices 2010.
 - Operations recaptured a significant portion of the losses they incurred during the 27 month period of industry losses
 - Increased grain prices and softening of hog prices have margins back to a break even level
 - Inventory levels are 7% below previous year levels
- 2011 profit outlook is significantly reduced over 2010,
 - Dependant on grain prices and export levels.

Current Financial Health of Michigan Agriculture

Table eggs (poultry)

- Prices are down YoY from \$0.80 to \$0.50 per dozen but remain at or above breakeven levels.
 - Hatch has been running at expansion levels (2.0% increase)
 - Grain prices may dampen expansion plans which needs to occur.
-
- Turkey
 - Excess inventory levels corrected.
 - The industry experienced a good margin in 2010.
 - Current grain prices will cut into this margin in 2011

Current Financial Health of Michigan Agriculture

Greenhouse – Nursery

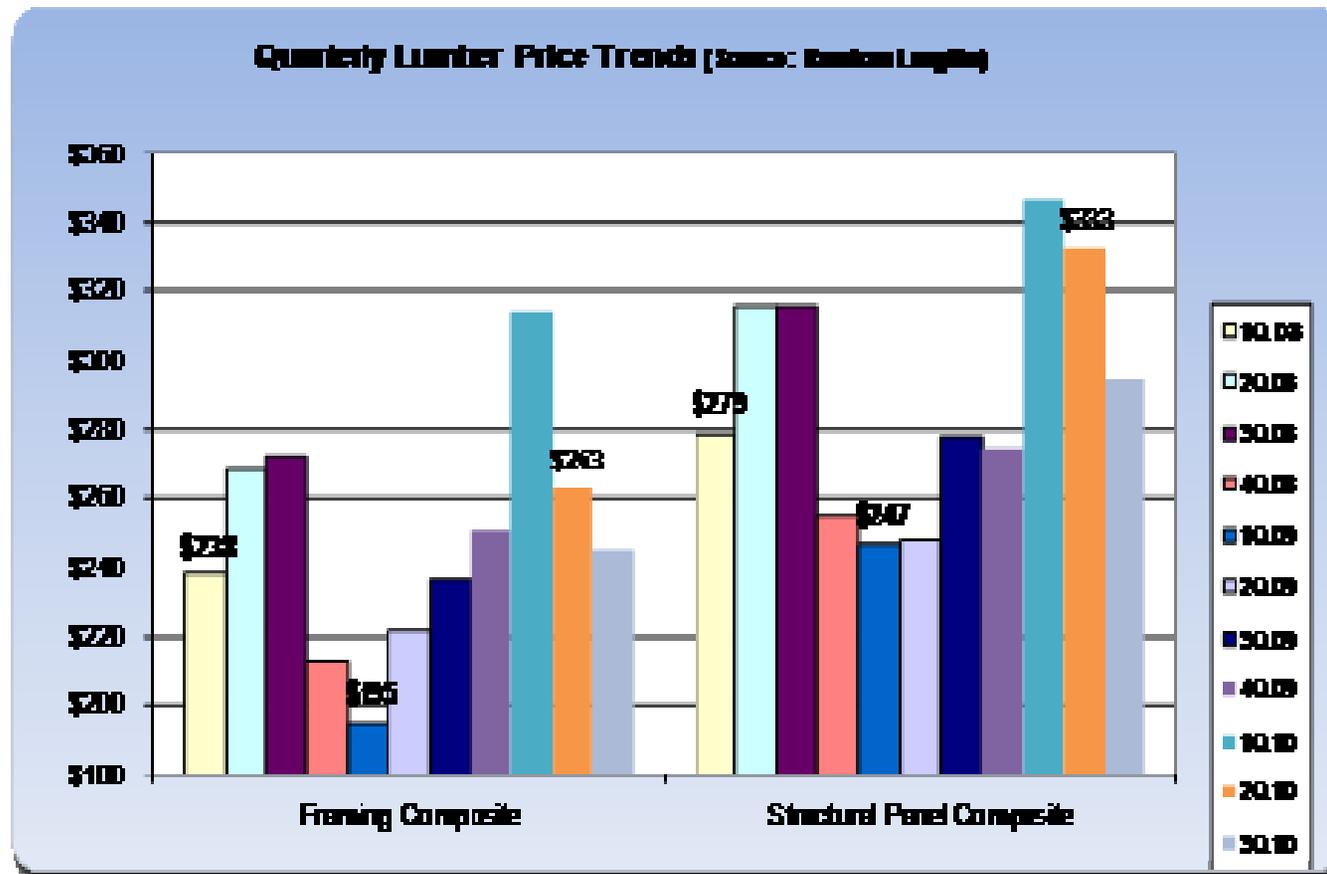
- 2010 – most growers reported profits, but at reduced levels
- Industry continues to be subject to weather and economic conditions
- Management, market position and balance sheet structure key determinants to variation in financial results
- Industry consolidation and realignment playing out

Current Financial Health of Michigan Agriculture

Timber

- Temporary rise in hardwood and softwood prices from historically low levels for a quarter in 2010 giving way again
- Prices trending toward 2009 historical lows
- Sawmill capacity excessive
- Paper industry has picked up. Increased activity for pulp putting harvesters back into the woods
- Industry continues to consolidate as mills are going to a business model of relying on key fiber procurers that provide the needed through put.

Softwood Price Trends



Current Financial Health of Michigan Agriculture

Apples

- Short crop due to frost damage. Michigan apple crop is 15-18 million bushels in 2010, compared to 29 million bushels in 2009.
- Washington State and New York are reporting a very good Apple crop in 2010. Size of apples being reported is down substantially.
- Crop insurance on production, minimize losses and has protected them from a large loss.
- Overall, balance sheets are in good shape so this year will have minimal impact in the Michigan market.

Current Financial Health of Michigan Agriculture

Tart Cherries

- Frost damage, fourth smallest crop nationally since 1970.
- National crop was 189MM lbs compared to 355MM lbs in 2009, down 46.7%.
- Michigan produced 134MM lbs or 70.8% of the national crop.
- Prices for 2010 crop will remain low due to very large inventory carry over from prior year's crop, estimated at 190 million +/- pounds.
- Two low price years will stress balance sheets for producers

2011 Areas of Focus

Volatility Net Income

- Producer management of their business risk profile

Variables

- Input prices
 - China's appetite for resources
 - Oil and fertilizer prices
- Export levels – protein sector
 - US monetary policy helping exports
 - Geo-political issues (Russia, China limiting imports)
- Crop Prices - weather cycle
 - Corn and soybean ending stocks

2011 Areas of Focus

Ag Land “Bubble” Formation?

- Current monetary policy creating artificially cheap debt capital
- High and potentially higher grain prices in 2011 - 2012
- Potential Threat - Irrational competitors in the market place
 - Lack of discipline by banks in loan structuring & terms
 - Private Equity cash moving into agriculture land investments

Parting Thoughts

Lessons Relearned

- Capital and Balance sheet structure counts even for the most efficient business.
- Insufficient liquidity can be fatal.
- Balance sheet structure must be aligned with risk management and mitigation of the business model

Volatility (degree and duration) will increase

- Increased reliance on exports
- Industry consolidation will continue

Parting Thoughts

Volatility Equals Opportunity

- Agriculture businesses that are nimble enough to take advantage of opportunities, effectively manage risk, and provide value will prosper in the months and years to come because at the end of the day, the world needs to eat.

Parting Thoughts

GS has unlimited funding to qualified borrowers

- Businesses that have positioned themselves properly for 2011 opportunities we will finance
- Remain focused on mission to be a dependable source of constructive credit to rural America



Questions

