

MISSISSIPPI LAND BANK, ACA

**2019
Quarterly Report
Third Quarter**



For the Quarter Ended September 30, 2019

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.




Craig B. Shideler
President and CEO
November 7, 2019



Abbott R. Myers
Chairman, Board of Directors
November 7, 2019



Claire B. Pegram
Chief Financial Officer
November 7, 2019



Lawson McClellan
Chairman, Audit Committee
November 7, 2019

**MISSISSIPPI LAND BANK, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Mississippi Land Bank, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended September 30, 2019. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2018 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Loan Portfolio:

Total loans outstanding at September 30, 2019, including nonaccrual loans and sales contracts, were \$726,261,829 compared to \$696,697,127 at December 31, 2018, reflecting an increase of 4.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.1 percent at both September 30, 2019 and December 31, 2018.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ended September 30, 2019, and \$0 in recoveries and \$0 in charge-offs for the same period in 2018. The Association's allowance for loan losses was 0.1 percent of total loans outstanding as of both September 30, 2019 and December 31, 2018.

Agribusiness Loan Program

The Association utilizes the Mississippi Development Authority's Agribusiness Enterprise Loan Program (ABE) to lower the cost of financing for its borrowers. The ABE loan program is designed to provide a percentage of low-cost state financing that is combined with private financial lending institutions' loan proceeds to encourage loans to the agribusiness industry in the state.

The Association guarantees payment of the borrower's ABE loan to the Mississippi Development Authority (MDA) and, therefore, the amount of ABE loans outstanding and due to MDA is included in "Loans" on the consolidated balance sheet with an offsetting liability at "Guaranteed obligations to government entities." ABE loans totaled \$6,424,713 and \$7,310,433 as of September 30, 2019 and December 31, 2018, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	September 30, 2019		December 31, 2018	
	Amount	%	Amount	%
Nonaccrual	\$ 905,063	84.8%	\$ 1,094,310	87.1%
Formally restructured	162,200	15.2%	162,247	12.9%
Total	\$ 1,067,263	100.0%	\$ 1,256,557	100.0%

Results of Operations:

The Association had net income of \$3,125,103 and \$8,907,426 for the three and nine months ended September 30, 2019, as compared to net income of \$2,800,246 and \$8,114,374 for the same period in 2018, reflecting an increase of 11.6 and 9.8 percent. Net interest income was \$4,527,834 and \$13,365,872 for the three and nine months ended September 30, 2019, compared to \$4,352,688 and \$12,819,431 for the same period in 2018.

	Nine Months Ended			
	September 30, 2019		September 30, 2018	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 693,550,274	\$ 25,981,101	\$ 645,428,185	\$ 23,138,951
Interest-bearing liabilities	584,725,070	12,615,229	542,417,338	10,319,520
Impact of capital	<u>\$ 108,825,204</u>		<u>\$ 103,010,847</u>	
Net interest income		<u>\$ 13,365,872</u>		<u>\$ 12,819,431</u>

	2019	2018
	Average Yield	Average Yield
Yield on loans	5.01%	4.79%
Cost of interest-bearing liabilities	2.88%	2.54%
Interest rate spread	2.12%	2.25%
Net interest income as a percentage of average assets	2.58%	2.66%

	Three months ended: September 30, 2019 vs. September 30, 2018		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 1,725,201	\$ 1,116,949	\$ 2,842,150
Interest expense	804,893	1,490,816	2,295,709
Net interest income	<u>\$ 920,308</u>	<u>\$ (373,867)</u>	<u>\$ 546,441</u>

Interest income for the three and nine months ended September 30, 2019, increased by \$776,063 and \$2,842,150, or 9.5 and 12.3 percent, respectively, from the same period of 2018, primarily due to increases in average loan volume coupled with increases in yields on earning assets. Interest expense for the three and nine months ended September 30, 2019, increased by \$600,917 and \$2,295,709, or 15.8 and 22.2 percent, from the same period of 2018 due to an increase in cost of interest-bearing liabilities coupled with an increase in average debt volume. Average loan volume for the third quarter of 2019 was \$713,762,871, compared to \$670,621,777 in the third quarter of 2018. The average net interest rate spread on the loan portfolio for the third quarter of 2019 was 2.07 percent, compared to 2.16 percent in the third quarter of 2018.

The Association's return on average assets for the nine months ended September 30, 2019, was 1.64 percent compared to 1.60 percent for the same period in 2018. The Association's return on average equity for the nine months ended September 30, 2019, was 9.26 percent, compared to 8.94 percent for the same period in 2018.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (Bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	September 30, 2019	December 31, 2018
Note payable to the Bank	\$ 610,252,287	\$ 579,172,359
Accrued interest on note payable	1,439,154	1,387,738
Total	<u>\$ 611,691,441</u>	<u>\$ 580,560,097</u>

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$610,252,287 as of September 30, 2019, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.86 percent at September 30, 2019. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2018, is primarily due to the Association's increase in outstanding loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were

\$106,444,129 at September 30, 2019. The maximum amount the Association may borrow from the Bank as of September 30, 2019, was \$700,000,000 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2019. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year.

Capital Resources:

The Association's capital position increased by \$8,940,317 at September 30, 2019, compared to December 31, 2018. The Association's debt as a ratio of members' equity was 4.68:1 as of September 30, 2019, compared to 4.74:1 as of December 31, 2018.

Farm Credit Administration 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 capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2019, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted, and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association's financial condition or its results of operations but will impact the fair value measurements disclosures.

In August 2017, the FASB issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” 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. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance did not materially impact the Association’s financial condition and results of operations but did impact lease disclosures. The Association adopted this guidance on January 1, 2019, and upon adoption, recorded at \$98,848 right of use asset with an offsetting lease liability of the same amount.

Relationship with the Farm Credit Bank of Texas:

The Association’s financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder’s investment in the Association. The Management’s Discussion and Analysis and Notes to Financial Statements contained in the 2018 Annual Report of Mississippi Land Bank, ACA more fully describe the Association’s relationship with the Bank.

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the Bank are also available on its website at www.farmcreditbank.com.

The Association’s quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Mississippi Land Bank, ACA, P.O. Box 667, Senatobia, Mississippi 38668-0667, or calling (662) 562-9671. Copies of the Association’s quarterly stockholder reports can also be requested on the Association’s website, www.mslandbank.com, or can be requested by e-mailing Jessica.Stanford@mslandbank.com.

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2019 (unaudited)	December 31, 2018
<u>ASSETS</u>		
Cash	\$ 1,827	\$ 4,727
Loans	726,261,829	696,697,127
Less: allowance for loan losses	946,972	901,405
Net loans	<u>725,314,857</u>	<u>695,795,722</u>
Accrued interest receivable	13,998,286	10,984,180
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	10,957,900	10,957,900
Other	254,228	2,528,450
Premises and equipment, net	3,355,002	3,601,794
Other assets	<u>2,669,627</u>	<u>271,400</u>
Total assets	<u><u>\$ 756,551,727</u></u>	<u><u>\$ 724,144,173</u></u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 610,252,287	\$ 579,172,359
Guaranteed obligations to government entities	6,424,713	7,310,433
Accrued interest payable	1,562,079	1,387,738
Drafts outstanding	1,487,283	3,103,579
Patronage distributions payable	14	4,100,057
Other liabilities	<u>3,662,239</u>	<u>4,847,212</u>
Total liabilities	<u><u>623,388,615</u></u>	<u><u>599,921,378</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	3,336,260	3,294,150
Unallocated retained earnings	129,789,897	120,882,471
Accumulated other comprehensive income (loss)	<u>36,955</u>	<u>46,174</u>
Total members' equity	<u>133,163,112</u>	<u>124,222,795</u>
Total liabilities and members' equity	<u><u>\$ 756,551,727</u></u>	<u><u>\$ 724,144,173</u></u>

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

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<u>INTEREST INCOME</u>				
Loans	\$ 8,941,652	\$ 8,165,589	\$ 25,981,101	\$ 23,138,951
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	4,413,818	3,812,901	12,614,861	10,319,520
Advance conditional payments	-	-	368	-
Total interest expense	4,413,818	3,812,901	12,615,229	10,319,520
Net interest income	4,527,834	4,352,688	13,365,872	12,819,431
<u>PROVISION FOR LOAN LOSSES</u>				
	50,000	50,000	37,120	100,000
Net interest income after provision for loan losses	4,477,834	4,302,688	13,328,752	12,719,431
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	729,759	626,874	2,186,728	1,762,874
Loan fees	32,230	21,431	91,792	77,103
Financially related services income	308	173	905	944
Gain on sale of premises and equipment, net	-	-	77,478	80,530
Other noninterest income	7	17,616	167,051	403,571
Total noninterest income	762,304	666,094	2,523,954	2,325,022
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,402,397	1,471,114	4,449,521	4,679,882
Travel	134,088	127,124	369,113	377,102
Insurance Fund premiums	124,079	116,912	362,252	333,639
Purchased services	80,657	62,826	216,042	185,979
Advertising	69,798	59,785	246,911	243,089
Occupancy and equipment	66,096	65,223	242,931	198,103
Supervisory and exam expense	64,837	52,844	194,509	181,150
Communications	28,796	29,399	84,564	79,281
Public and member relations	27,844	31,780	170,559	140,632
Directors' expense	25,729	69,403	202,847	188,897
Other components of net periodic postretirement benefit cost	14,180	12,339	42,539	37,018
Training	18,661	28,618	94,146	72,648
Other insurance expense	-	-	105,113	79,833
Other noninterest expense	44,069	39,693	124,401	130,610
Total noninterest expenses	2,101,231	2,167,060	6,905,448	6,927,863
Income before income taxes	3,138,907	2,801,722	8,947,258	8,116,590
Provision for (benefit from) income taxes	13,804	1,476	39,832	2,216
NET INCOME	3,125,103	2,800,246	8,907,426	8,114,374
Other comprehensive income:				
Change in postretirement benefit plans	(3,073)	(3,969)	(9,219)	(11,907)
COMPREHENSIVE INCOME	\$ 3,122,030	\$ 2,796,277	\$ 8,898,207	\$ 8,102,467

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

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2017	\$ 3,176,875	\$ 114,223,262	\$ (130,750)	\$ 117,269,387
Comprehensive income	-	8,114,374	(11,907)	8,102,467
Capital stock/participation certificates issued	396,075			396,075
Capital stock/participation certificates retired	(325,735)			(325,735)
Balance at September 30, 2018	<u>\$ 3,247,215</u>	<u>\$ 122,337,636</u>	<u>\$ (142,657)</u>	<u>\$ 125,442,194</u>
Balance at December 31, 2018	\$ 3,294,150	\$ 120,882,471	\$ 46,174	\$ 124,222,795
Comprehensive income	-	8,907,426	(9,219)	8,898,207
Capital stock/participation certificates issued	371,270			371,270
Capital stock/participation certificates retired	(329,160)			(329,160)
Balance at September 30, 2019	<u>\$ 3,336,260</u>	<u>\$ 129,789,897</u>	<u>\$ 36,955</u>	<u>\$ 133,163,112</u>

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

MISSISSIPPI LAND BANK, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Mississippi Land Bank, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Alcorn, Attala, Benton, Bolivar, Calhoun, Chickasaw, Choctaw, Clay, Coahoma, DeSoto, Itawamba, Lafayette, Lee, Lowndes, Marshall, Monroe, Noxubee, Oktibbeha, Panola, Pontotoc, Prentiss, Quitman, Sunflower, Tallahatchie, Tate, Tippah, Tishomingo, Tunica, Union, Webster, Winston, and Yalobusha in the state of Mississippi. The Association is a lending institution of the Farm Credit System (System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2018, as contained in the 2018 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with GAAP, except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2018, as contained in the 2018 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2018. Descriptions of the significant accounting policies are included in the 2018 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost.” The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association’s financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans.” The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association’s financial condition or its results of operations but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement.” The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted, and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association’s financial condition or its results of operations but will impact the fair value measurements disclosures.

In August 2017, the FASB issued guidance entitled “Targeted Improvements to Accounting for Hedging Activities.” The guidance better aligns an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments

in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association’s financial condition or its results of operations.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” 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. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance did not materially impact the Association’s financial condition and results of operations but did impact lease disclosures. The Association adopted this guidance on January 1, 2019 and upon adoption, recorded at \$94,848 right of use asset with an offsetting lease liability of the same amount.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended September 30, 2019, are not necessarily indicative of the results to be expected for the year ended December 31, 2018. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	September 30, 2019 Amount	December 31, 2018 Amount
Production agriculture:		
Real estate mortgage	\$ 589,693,886	\$ 578,775,581
Production and intermediate term	96,693,628	81,571,946
Agribusiness:		
Processing and marketing	21,445,913	19,972,715
Farm-related business	2,462,183	3,548,314
Loans to cooperatives	1,194,581	1,143,700
Rural residential real estate	9,000,755	8,515,576
Communication	5,770,883	3,138,869
Energy	-	30,426
Total	\$ 726,261,829	\$ 696,697,127

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2019:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	\$ 23,812,542	\$ -	\$ -	\$ -	\$ 23,812,542	\$ -
Real estate mortgage	4,005,713	-	10,964,450	-	14,970,163	-
Communication	5,770,883	-	-	-	5,770,883	-
Production and intermediate term	-	1,847,541	-	-	-	1,847,541
Total	<u>\$ 33,589,138</u>	<u>\$ 1,847,541</u>	<u>\$ 10,964,450</u>	<u>\$ -</u>	<u>\$ 44,553,588</u>	<u>\$ 1,847,541</u>

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were \$6,619,092 and \$7,508,307 at September 30, 2019, and December 31, 2018, respectively.

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Nonaccrual loans:		
Real estate mortgage	<u>\$ 905,063</u>	<u>\$ 1,094,310</u>
Total nonaccrual loans	905,063	1,094,310
Accruing restructured loans:		
Real estate mortgage	<u>162,200</u>	162,247
Total accruing restructured loans	162,200	162,247
Total nonperforming loans	<u>1,067,263</u>	<u>1,256,557</u>
Total nonperforming assets	<u>\$ 1,067,263</u>	<u>\$ 1,256,557</u>

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2019	December 31, 2018
Real estate mortgage		
Acceptable	99.3 %	99.4 %
OAEM	0.1	0.1
Substandard/doubtful	0.6	0.5
	100.0	100.0
Production and intermediate term		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Agribusiness		
Acceptable	83.5	100.0
OAEM	16.5	-
Substandard/doubtful	-	-
	100.0	100.0
Energy and water/waste water		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Communication		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Rural residential real estate		
Acceptable	99.1	97.3
OAEM	0.2	0.3
Substandard/doubtful	0.7	2.4
	100.0	100.0
Total loans		
Acceptable	98.9	99.5
OAEM	0.6	0.1
Substandard/doubtful	0.5	0.4
	100.0 %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) as of:

September 30, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 607,404	\$ 187,633	\$ 795,037	\$ 600,792,376	\$ 601,587,413	\$ -
Production and intermediate term	-	-	-	98,634,925	98,634,925	-
Processing and marketing	-	-	-	21,470,895	21,470,895	-
Rural residential real estate	25,035	-	25,035	9,051,362	9,076,397	-
Communication	-	-	-	5,778,734	5,778,734	-
Farm-related business	-	-	-	2,516,945	2,516,945	-
Loans to cooperatives	-	-	-	1,194,815	1,194,815	-
Energy	-	-	-	(9)	(9)	-
Total	\$ 632,439	\$ 187,633	\$ 820,072	\$ 739,440,043	\$ 740,260,115	\$ -

December 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 914,737	\$ 96,102	\$ 1,010,839	\$ 587,050,813	\$ 588,061,652	\$ -
Production and intermediate term	-	-	-	83,137,644	83,137,644	-
Processing and marketing	-	-	-	19,996,229	19,996,229	-
Rural residential real estate	-	-	-	8,549,609	8,549,609	-
Farm-related business	-	-	-	3,623,371	3,623,371	-
Communication	-	-	-	3,138,975	3,138,975	-
Loans to cooperatives	-	-	-	1,143,354	1,143,354	-
Energy	-	-	-	30,473	30,473	-
Total	\$ 914,737	\$ 96,102	\$ 1,010,839	\$ 706,670,468	\$ 707,681,307	\$ -

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs, and may also reflect a previous direct write-down of the investment.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of September 30, 2019, the total recorded investment of troubled debt restructured loans was \$308,173, including \$145,973 classified as nonaccrual and \$162,200 classified as accrual. There was no specific allowance for loan losses related to the loans based upon current net realizable value analyses. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring at September 30, 2019, or at December 31, 2018.

The Association had no loans meet the requirements for troubled debt restructuring designation during the three or nine months ended September 30, 2019 but had one loan with a total recorded investment of \$102,866 meet the requirements for TDR designation during the same period in 2018. For the one loan that met the TDR designation requirements, the premodification outstanding recorded investment was \$102,227 and represents the recorded investment of the loan as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment of \$102,866 represents the recorded investment of the loan as of the quarter end the restructuring occurred.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). The Association had no charge-offs recorded at the modification date for the quarter ending September 30, 2019.

The predominant form of concession granted for troubled debt restructuring is interest rate reduction, although other forms of concession could include deferral of principal or principal or accrued interest reductions. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the Association assesses all of the modified terms to determine if the overall modification qualifies as a TDR. For the loans meeting the requirements for TDR designation, all but one were granted an interest rate that was considered lower than the current market rate for new debt with similar risk while the other loan was granted a deferral of principal. No principal or interest was forgiven as part of any of these concessions.

The following table presents information regarding loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months and for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Troubled debt restructurings that subsequently defaulted:	Recorded Investment at September 30, 2019	Recorded Investment at December 31, 2018
Real estate mortgage	<u>\$ 88,191</u>	<u>\$ 96,102</u>
Total	<u>\$ 88,191</u>	<u>\$ 96,102</u>

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table included in the Management's Discussion and Analysis, included in this stockholder report.

	<u>Loans Modified as TDRs</u>		<u>TDRs in Nonaccrual Status*</u>	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Real estate mortgage	<u>\$ 308,173</u>	<u>\$ 329,574</u>	<u>\$ 145,972</u>	<u>\$ 167,327</u>
Total	<u>\$ 308,173</u>	<u>\$ 329,574</u>	<u>\$ 145,972</u>	<u>\$ 167,327</u>

*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	<u>September 30, 2019</u>			<u>December 31, 2018</u>		
	Recorded Investment	Unpaid Principal Balance^a	Related Allowance	Recorded Investment	Unpaid Principal Balance^a	Related Allowance
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	<u>\$ 1,066,768</u>	<u>\$ 1,066,768</u>	<u>\$ -</u>	<u>\$ 1,256,015</u>	<u>\$ 1,268,895</u>	<u>\$ -</u>
Total	<u>\$ 1,066,768</u>	<u>\$ 1,066,768</u>	<u>\$ -</u>	<u>\$ 1,256,015</u>	<u>\$ 1,268,895</u>	<u>\$ -</u>
Total impaired loans:						
Real estate mortgage	<u>\$ 1,066,768</u>	<u>\$ 1,066,768</u>	<u>\$ -</u>	<u>\$ 1,256,015</u>	<u>\$ 1,268,895</u>	<u>\$ -</u>
Total	<u>\$ 1,066,768</u>	<u>\$ 1,066,768</u>	<u>\$ -</u>	<u>\$ 1,256,015</u>	<u>\$ 1,268,895</u>	<u>\$ -</u>

^a Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended			
	<u>September 30, 2019</u>		<u>September 30, 2018</u>	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	<u>\$ 1,069,021</u>	<u>\$ 4,738</u>	<u>\$ 2,036,219</u>	<u>\$ 4,599</u>
Total	<u>\$ 1,069,021</u>	<u>\$ 4,738</u>	<u>\$ 2,036,219</u>	<u>\$ 4,599</u>
Total impaired loans:				
Real estate mortgage	<u>\$ 1,069,021</u>	<u>\$ 4,738</u>	<u>\$ 2,036,219</u>	<u>\$ 4,599</u>
Total	<u>\$ 1,069,021</u>	<u>\$ 4,738</u>	<u>\$ 2,036,219</u>	<u>\$ 4,599</u>

	For the Nine Months Ended			
	September 30, 2019		September 30, 2019	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	<u>\$1,154,472</u>	<u>\$ 16,602</u>	<u>\$ 1,448,614</u>	<u>\$ 24,342</u>
Total	<u>\$1,154,472</u>	<u>\$ 16,602</u>	<u>\$ 1,448,614</u>	<u>\$ 24,342</u>
Total impaired loans:				
Real estate mortgage	<u>\$1,154,472</u>	<u>\$ 16,602</u>	<u>\$ 1,448,614</u>	<u>\$ 24,342</u>
Total	<u>\$1,154,472</u>	<u>\$ 16,602</u>	<u>\$ 1,448,614</u>	<u>\$ 24,342</u>

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at June 30, 2019	\$ 760,080	\$ 60,124	\$ 56,056	\$ 2,952	\$ -	\$ 19,885	\$ 899,097
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	52,162	8,845	(11,972)	(2)	15	952	50,000
Other	761	(530)	(2,341)	-	(15)	-	(2,125)
Balance at September 30, 2019	<u>\$ 813,003</u>	<u>\$ 68,439</u>	<u>\$ 41,743</u>	<u>\$ 2,950</u>	<u>\$ -</u>	<u>\$ 20,837</u>	<u>\$ 946,972</u>
Balance at December 31, 2018	\$ 716,864	\$ 116,845	\$ 25,032	\$ 1,769	\$ -	\$ 40,895	\$ 901,405
Charge-offs	-	-	-	-	-	-	-
Recoveries	12,880	-	-	-	-	-	12,880
Provision for loan losses	82,533	(48,455)	21,990	1,181	(70)	(20,058)	37,121
Other	726	49	(5,279)	-	70	-	(4,434)
Balance at September 30, 2019	<u>\$ 813,003</u>	<u>\$ 68,439</u>	<u>\$ 41,743</u>	<u>\$ 2,950</u>	<u>\$ -</u>	<u>\$ 20,837</u>	<u>\$ 946,972</u>
Ending Balance:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,500	\$ 3,500
Collectively evaluated for impairment	813,003	68,439	41,743	2,950	-	17,337	943,472
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Balance at September 30, 2019	<u>\$ 813,003</u>	<u>\$ 68,439</u>	<u>\$ 41,743</u>	<u>\$ 2,950</u>	<u>\$ -</u>	<u>\$ 20,837</u>	<u>\$ 946,972</u>
Balance at June 30, 2018	\$ 635,779	\$ 96,118	\$ 26,647	\$ 3,776	\$ -	\$ 39,885	\$ 802,205
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	37,634	6,325	5,215	(28)	487	367	50,000
Other	267	8,511	(7,792)	-	(487)	-	499
Balance at September 30, 2018	<u>\$ 673,680</u>	<u>\$ 110,954</u>	<u>\$ 24,070</u>	<u>\$ 3,748</u>	<u>\$ -</u>	<u>\$ 40,252</u>	<u>\$ 852,704</u>
Balance at December 31, 2017	\$ 588,603	\$ 98,896	\$ 28,676	\$ 5,607	\$ -	\$ 30,423	\$ 752,205
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	85,077	12,517	(5,603)	(1,859)	38	9,829	100,000
Other	-	(459)	997	-	(38)	-	499
Balance at September 30, 2018	<u>\$ 673,680</u>	<u>\$ 110,954</u>	<u>\$ 24,070</u>	<u>\$ 3,748</u>	<u>\$ -</u>	<u>\$ 40,252</u>	<u>\$ 852,704</u>
Ending Balance:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,000	\$ 22,000
Collectively evaluated for impairment	673,680	110,954	24,070	3,748	-	18,252	830,704
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Balance at September 30, 2018	<u>\$ 673,680</u>	<u>\$ 110,954</u>	<u>\$ 24,070</u>	<u>\$ 3,748</u>	<u>\$ -</u>	<u>\$ 40,252</u>	<u>\$ 852,704</u>

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at							
September 30, 2019	\$ 601,587,413	\$ 98,634,925	\$ 25,182,655	\$ 5,778,734	\$ (9)	\$ 9,076,397	\$ 740,260,115
Individually evaluated for impairment	\$ 3,605,716	\$ 6,003	\$ -	\$ -	\$ -	\$ 61,350	\$ 3,673,069
Collectively evaluated for impairment	\$ 597,981,697	\$ 98,628,922	\$ 25,182,655	\$ 5,778,734	\$ (9)	\$ 9,015,047	\$ 736,587,046
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Balance at							
December 31, 2018	\$ 588,061,652	\$ 83,137,644	\$ 24,762,954	\$ 3,138,975	\$ 30,473	\$ 8,549,609	\$ 707,681,307
Individually evaluated for impairment	\$ 3,123,575	\$ -	\$ -	\$ -	\$ -	\$ 191,710	\$ 3,315,285
Collectively evaluated for impairment	\$ 584,938,077	\$ 83,137,644	\$ 24,762,954	\$ 3,138,975	\$ 30,473	\$ 8,357,899	\$ 704,366,022
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Minimums	Conservation Buffer	Total	As of September 30, 2019	As of December 31, 2018
Common equity tier 1 ratio	4.50%	2.50%	7.00%	15.83%	15.84%
Tier 1 capital ratio	6.00%	2.50%	8.50%	15.83%	15.84%
Total capital ratio	8.00%	2.50%	10.50%	15.95%	15.96%
Permanent capital ratio	7.00%	0.00%	7.00%	15.85%	15.86%
Non-risk-adjusted:					
Tier 1 leverage ratio	4.00%	1.00%	5.00%	16.18%	16.16%
UREE leverage ratio	1.50%	0.00%	1.50%	17.21%	17.13%

The components of the Association's risk-adjusted capital, based on 90-day average balances, were as follows:

	at September 30, 2019			
	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	126,606,685	126,606,685	126,606,685	126,606,685
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	3,327,355	3,327,355	3,327,355	3,327,355
Allowance for loan losses and reserve for credit losses subject to certain limitations	-		924,990	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(10,957,900)	(10,957,900)	(10,957,900)	(10,957,900)
	<u>118,976,140</u>	<u>118,976,140</u>	<u>119,901,130</u>	<u>118,976,140</u>
Denominator:				
Risk-adjusted assets excluding allowance	762,650,401	762,650,401	762,650,401	762,650,401
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(10,957,900)	(10,957,900)	(10,957,900)	(10,957,900)
Allowance for loan losses	-	-	-	(899,629)
	<u>751,692,501</u>	<u>751,692,501</u>	<u>751,692,501</u>	<u>750,792,872</u>

	at December 31, 2018			
	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	121,971,801	121,971,801	121,971,801	121,971,801
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	3,268,899	3,268,899	3,268,899	3,268,899
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	874,990	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(10,123,802)	(10,123,802)	(10,123,802)	(10,123,802)
	<u>115,116,898</u>	<u>115,116,898</u>	<u>115,991,888</u>	<u>115,116,898</u>
Denominator:				
Risk-adjusted assets excluding allowance	736,867,114	736,867,114	736,867,114	736,867,114
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(10,123,802)	(10,123,802)	(10,123,802)	(10,123,802)
Allowance for loan losses	-	-	-	(853,245)
	<u>726,743,312</u>	<u>726,743,312</u>	<u>726,743,312</u>	<u>725,890,067</u>

The components of the Association’s non-risk-adjusted capital, based on 90-day average balances, were as follows:

	at September 30, 2019	
	Tier 1	UREE
	leverage ratio	leverage ratio
Numerator:		
Unallocated retained earnings	126,606,685	126,606,685
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	3,327,355	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(10,957,900)	-
	118,976,140	126,606,685
Denominator:		
Total Assets	751,231,626	751,231,626
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(15,775,008)	(15,775,008)
	735,456,618	735,456,618
	at December 31, 2018	
	Tier 1	UREE
	leverage ratio	leverage ratio
Numerator:		
Unallocated retained earnings	121,971,801	121,971,801
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	3,268,899	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(10,123,802)	-
	115,116,898	121,971,801
Denominator:		
Total Assets	727,060,360	727,060,360
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(14,848,554)	(14,848,554)
	712,211,806	712,211,806

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes. The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in “Salaries and employee benefits” in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2019	2018
Accumulated other comprehensive income (loss) at January 1	\$ 46,174	\$ (130,750)
Amortization of prior service (credit) costs included in salaries and employee benefits	(9,219)	(11,907)
Other comprehensive income (loss), net of tax	(9,219)	(11,907)
Accumulated other comprehensive income at September 30	\$ 36,955	\$ (142,657)

NOTE 4 — INCOME TAXES:

Mississippi Land Bank, ACA, and its subsidiary, Mississippi, PCA, are subject to federal and certain other income taxes. The Association operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. During the nine months ended September 30, 2019, the Association did not participate in a patronage program.

Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will, therefore, impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the nine months ended September 30, 2019 and 2018, the Association carried a deferred tax asset of \$46,447 and \$359,286, respectively. The year-over-year decrease in deferred tax asset of \$312,839 was related to a correction made in the third quarter of 2019 to income allocation between the taxable and non-taxable subsidiaries. The correction had no effect on the Association's net income or consolidated balance sheet as there is a full valuation allowance recorded against the deferred tax asset.

NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2018 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

<u>September 30, 2019</u>	<u>Fair Value Measurement Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
Loans*	\$ -	\$ -	\$ -
Other property owned	-	-	-
<u>December 31, 2018</u>	<u>Fair Value Measurement Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
Loans*	\$ -	\$ -	\$ -
Other property owned	-	-	-

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

The Association also participates in letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. At September 30, 2019, the Association had \$205,482 in outstanding standby letters of credit and \$3,167 in outstanding commercial letters of credit, all issued primarily in conjunction with participation loans.

Uncertainty of Fair Value Measurements

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 2 to the 2018 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2018 Annual Report to Stockholders.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the nine months ended September 30:

	Other Benefits	
	2019	2018
Service cost	\$ 11,927	\$ 14,156
Interest cost	51,757	48,925
Amortization of prior service (credits) costs	(9,219)	(11,907)
Net periodic benefit cost	<u>\$ 54,465</u>	<u>\$ 51,174</u>

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2019, was \$1,552,776 and is included in "Other Liabilities" in the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "Other components of net periodic postretirement benefit cost" in the income statement.

The structure of the District's defined benefit pension plan (DB Plan) is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The annual contribution is paid in January with the expense amortized monthly to the "Salaries and employee benefits" line item on the consolidated balance sheet. The following table represents DB Plan contributions made, amounts amortized into expense and the remaining unamortized contribution amounts as of September 30:

	2019	2018
DB contribution	\$ 443,500	\$ 825,904
YTD amortization	(332,625)	(619,428)
Remaining contribution	<u>\$ 110,875</u>	<u>\$ 206,476</u>

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 7, 2019, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 7, 2019.