

MISSISSIPPI LAND BANK, ACA

**2020
Quarterly Report
Third Quarter**



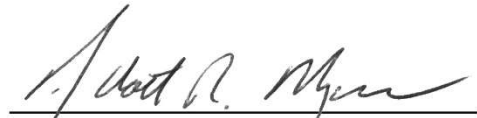
For the Quarter Ended September 30, 2020

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.



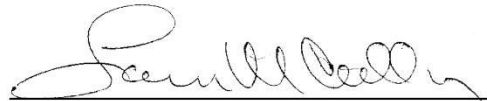
Craig B. Shideler
President and CEO
November 6, 2020



Abbott R. Myers
Chairman, Board of Directors
November 6, 2020



Claire B. Pegrum
Chief Financial Officer
November 6, 2020



Lawson McClellan
Chairman, Audit Committee
November 6, 2020

Third Quarter 2020 Financial Report

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MISSISSIPPI LAND BANK, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Mississippi Land Bank, ACA, referred to as the Association, for the quarter ended September 30, 2020. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2019 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.

Conditions in North Mississippi

The United States has been operating under a presidentially declared emergency since March 13, 2020, due to the Coronavirus Disease 2019 (also referred to as COVID-19). During these unprecedented times, the Association continues to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Loan volume outstanding at September 30, 2020, has increased 6.1 percent from year-end, even with normal payoffs and pay downs received in the first quarter, indicating that demand for loan volume remains strong despite uncertain conditions. Additionally, net income for the quarter and year-to-date was higher than the same periods in the prior year. The credit quality of the Association continues to remain strong at 99.4 percent total acceptable credit quality.

The Association's funding bank, the Farm Credit Bank of Texas (Bank), has been able to maintain access to capital markets in order to redeem and replace preferred stock and callable debt, as well as fund incremental needs. Despite turbulent markets at times, the Association has not experienced any disruption in its access to liquidity in order to fund loans and daily operations.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster certain programs offered by the United States Department of Agriculture (USDA). On April 17, 2020, the USDA announced a \$19 billion Coronavirus Food Assistance Program (CFAP) that provides a \$16 billion program of direct payments for agricultural producers that have been impacted by the decline in commodity prices and the disruption in food supply chains related to COVID-19, and a \$3 billion food purchase and distribution program.

The CARES Act also appropriated funds for the Paycheck Protection Program (PPP), a guaranteed loan program administered by the U.S. Small Business Administration (SBA). The purpose of the program is to support payroll and certain other financial needs of small businesses during the COVID-19 pandemic. Through special guidance from the Farm Credit Administration and the Financial Accounting Standards Board, farm credit associations were granted the ability to assist borrowers affected by COVID-19 by extending the terms of loan repayments, easing some loan documentation requirements and facilitating participation in the PPP. As a service provider to the Association, the Bank has facilitated technology and operational changes to provide a means for processing qualifying loan deferrals. While the Association is an approved lender under the SBA's PPP, no formal applications have been received as of the date of this report.

On September 18, 2020, the USDA announced that it will provide additional direct assistance of up to \$14 billion to farmers and ranchers who continue to face market disruptions and associated costs due to COVID-19. Eligible farmers, including row crop, livestock, and specialty crop producers, can sign up for aid at USDA Farm Service Agency offices through mid-December 2020.

Through September 30, 2020 and the date of this report, there have been no observable delinquencies or credit metrics impacting the credit quality of the Association's loan portfolio related to COVID-19. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as medical professionals, retail services, food processing, timber and beef cattle. The Association has adjusted its portfolio monitoring and servicing practices and, if appropriate, will evaluate its allowance for loan losses as changes in outlook occur. Capital levels remain strong to support pressure that could result from either adversity in credit quality or continued strong loan demand.

In mid-March, the Association formally activated its business continuity plan in order to ensure a safe environment for both employees and borrowers, and modifications to branch operations were and continue to be communicated to borrowers through online resources and various other means. Operationally, the Association continues to function as normal during these challenging times by utilizing technology initiatives that allow personnel to work remotely and support both their families and their customer base. Management does not foresee any material expenditures during this modified work environment. As it relates to the Association's internal controls over financial reporting and operational procedures, the controls and procedures continue to operate effectively, and no material changes to the control environment or financial systems have occurred or are being considered. The business continuity plan was

formally deactivated on June 1, 2020; however, numerous safety measures remain in place, and branches are operating on an appointment-only basis.

The overall impact of COVID-19 continues to evolve, and future events are uncertain. Challenging economic conditions currently exist with likely more ahead as COVID-19 has, once again, caused several imposed restrictions. However, it is simply too early to accurately assess the potential long-term impact of COVID-19 on the global, U.S. and state economies. The Association will continue to closely monitor the situation in the coming quarters, specifically including these conditions as part of the allowance for loan loss analysis.

On October 2, 2020, the U.S. Bureau of Labor Statistics reported that total nonfarm payroll employment rose month-over-month by 661,000 in September, and the national unemployment rate declined from 8.4 to 7.9 percent. Also on October 2, the Bureau of Economic Analysis released second quarter estimates of real gross domestic product (GDP) in each U.S. state. Real GDP decreased in all 50 states, ranging from -20.4 percent in the District of Columbia to -42.2 percent in Hawaii and Nevada. National GDP decreased at an annual rate of 31.4 percent, with Mississippi reporting -32.9 percent. Although countries around the world continue to be impacted by COVID-19, economists generally believe that the U.S. economy began to recover during the third quarter with an initial estimate of 33.1 percent annual rate.

According to the most recent USDA farm income projections presented on September 2, 2020, net farm income, a broad measure of profits, is forecasted to increase by \$19 billion (22.7 percent) year-over-year to \$102.7 billion in 2020. Net cash farm income is similarly forecasted to increase by \$4.9 billion (4.5 percent) year-over-year to \$115.2 billion in 2020. If realized, both income measures would be above the 20-year inflation-adjusted historical average. According to the USDA, the anticipated increase in net farm income is driven by higher government payments and lower anticipated expenses. Farm equity is forecasted to increase by 0.7 percent, while debt to equity is expected to rise by 0.4 percentage points to 16.2 percent.

West Texas Intermediate (WTI) crude oil prices decreased year-over-year from approximately \$54 per barrel in September 2019 to approximately \$40 per barrel by the end of September 2020. On a quarter over-quarter basis, the average price of WTI rose by approximately \$1 per barrel in the third quarter. The overall decline in oil prices has, however, had a positive effect on the farming sector by allowing producers to offset depressed commodity prices by lowering input costs.

Weather across most of the U.S. was relatively volatile during the third quarter. The 2020 hurricane season has been one of the most active on record, and precipitation from these and other storm systems generally ensured that the southeastern U.S. remained relatively drought-free. While much of the Association's territory has been affected by the additional rainfall, no significant damage to crops or delay in harvest has been realized at this point. Additionally, in its September 2020 World Agricultural Supply and Demand Estimate (WASDE) report, USDA projected lower season-average prices in the 2020/2021 marketing year for several crops, including corn and cotton. Meanwhile, USDA expects soybean prices to rise by about 8 percent season-over-season in the 2020/2021 marketing year while steer and poultry prices are projected to decrease in 2020 before increasing in 2021.

Farmers in the Association's territory utilize risk management tools, such as federally-sponsored crop insurance programs and forward, futures and options contracts, to mitigate risk and enhance margins. The Association's portfolio continues to be supported by strong credit quality, robust levels of capital and high diversification.

Loan Portfolio

Total loans outstanding at September 30, 2020, including nonaccrual loans and sales contracts, were \$785,667,702 compared to \$740,313,671 at December 31, 2019, reflecting an increase of 6.1 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.1 percent at September 30, 2020, compared to 0.1 percent at December 31, 2019.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ended September 30, 2020, and \$0 in recoveries and \$0 in charge-offs for the same period in 2019. The Association's allowance for loan losses was 0.1 percent and 0.1 percent of total loans outstanding as of September 30, 2020 and December 31, 2019, respectively.

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 \$8,279,286 and \$7,641,070 as of September 30, 2020 and December 31, 2019, 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, 2020 | | December 31, 2019 | |
|----------------------------------------------|--------------------|---------------|---------------------|---------------|
| | Amount | % | Amount | % |
| Nonaccrual | \$ 615,697 | 79.1% | \$ 711,154 | 65.0% |
| 90 days past due and still accruing interest | - | 0.0% | 24,161 | 2.2% |
| Formally restructured | 162,211 | 20.9% | 162,326 | 14.9% |
| Other property owned, net | - | 0.0% | 195,606 | 17.9% |
| Total | <u>\$ 777,908</u> | <u>100.0%</u> | <u>\$ 1,093,247</u> | <u>100.0%</u> |

Results of Operations

The Association had net income of \$3,607,498 and \$10,104,072 for the three and nine months ended September 30, 2020, as compared to net income of \$3,125,103 and \$8,907,426 for the same period in 2019, reflecting an increase of 15.4 percent and 13.4 percent, respectively. Net interest income was \$4,751,180 and \$13,934,708 for the three and nine months ended September 30, 2020, compared to \$4,527,834 and \$13,365,872 for the same period in 2019.

| | Nine Months Ended | | | |
|---------------------------------------------------------------|-----------------------|----------------------|-----------------------|----------------------|
| | September 30, 2020 | | September 30, 2019 | |
| | Average Balance | Interest | Average Balance | Interest |
| Loans | \$ 742,611,786 | \$ 25,590,062 | \$ 693,550,274 | \$ 25,981,101 |
| Interest-bearing liabilities | 626,778,836 | 11,655,354 | 584,725,070 | 12,615,229 |
| Impact of capital | <u>\$ 115,832,950</u> | | <u>\$ 108,825,204</u> | |
| Net interest income | | <u>\$ 13,934,708</u> | | <u>\$ 13,365,872</u> |
| | 2020 | | 2019 | |
| | Average Yield | | Average Yield | |
| Yield on loans | 4.60% | | 5.01% | |
| Cost of interest-bearing liabilities | 2.48% | | 2.88% | |
| Interest rate spread | 2.12% | | 2.12% | |
| Net interest income as a percentage of average earning assets | 2.51% | | 2.58% | |

| | Nine months ended: | | |
|-------------------------|-------------------------------------------|---------------------|-------------------|
| | September 30, 2020 vs. September 30, 2019 | | |
| | Increase (decrease) due to | | |
| | Volume | Rate | Total |
| Interest income - loans | \$ 1,839,577 | \$ (2,230,616) | \$ (391,039) |
| Interest expense | 908,124 | (1,867,999) | (959,875) |
| Net interest income | <u>\$ 931,454</u> | <u>\$ (362,618)</u> | <u>\$ 568,836</u> |

Interest income for the three and nine months ended September 30, 2020, decreased by \$571,138 and \$391,039, or 6.4 percent and 1.5 percent respectively, from the same period of 2019, primarily due to a decline in yields on earning assets despite an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2020, decreased by \$794,484 and \$959,875, or 18.0 percent and 7.6 percent, from the same period of 2019 due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the third quarter of 2020 was \$768,358,361, compared to \$713,762,871 in the third quarter of 2019. The average net interest rate spread on the loan portfolio for the third quarter of 2020 was 2.12 percent, compared to 2.07 percent in the third quarter of 2019.

The Association's return on average assets for the nine months ended September 30, 2020, was 1.74 percent compared to 1.64 percent for the same period in 2019. The Association's return on average equity for the nine months ended September 30, 2020, was 9.91 percent, compared to 9.26 percent for the same period in 2019.

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, 2020 | December 31, 2019 |
|----------------------------------|-------------------------------|----------------------|
| Note payable to the Bank | \$ 660,525,808 | \$ 616,715,410 |
| Accrued interest on note payable | 1,149,747 | 1,578,424 |
| Total | \$ 661,675,555 | \$ 618,293,834 |

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$660,525,808 as of September 30, 2020, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.08 percent at September 30, 2020. 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 since December 31, 2019, is due to the Association's increase in outstanding loan volume. The decrease in related accrued interest payable on the note to the Bank is primarily the result of a decrease in weighted average interest rate. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$114,440,159 at September 30, 2020. The maximum amount the Association may borrow from the Bank as of September 30, 2020, was \$745,000,000 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, 2023, 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 2020. 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 \$10,218,763 at September 30, 2020, compared to December 31, 2019. The Association's debt as a ratio of members' equity was 4.77:1 as of September 30, 2020, compared to 4.87:1 as of December 31, 2019.

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, 2020, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

Refer to Note 1 – "Organization and Significant Accounting Policies," included in this quarterly report, for disclosures of recent accounting pronouncements which may impact the Association's consolidated financial position and results of operations and for critical accounting policies.

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 2019 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, MS 38668-0667, or by calling (662) 562-9671. The annual and quarterly stockholder reports for the Association are also available on its website at www.mslandbank.com. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing Jessica.Stanford@mslandbank.com.

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

| | September 30, 2020 (unaudited) | December 31, 2019 |
|-----------------------------------------------|-----------------------------------------------|------------------------------|
| <u>ASSETS</u> | | |
| Cash | \$ 3,327 | \$ 6,092 |
| Loans | 785,667,702 | 740,313,671 |
| Less: allowance for loan losses | 1,018,720 | 995,536 |
| Net loans | <u>784,648,982</u> | <u>739,318,135</u> |
| Accrued interest receivable | 12,956,150 | 12,599,238 |
| Investment in and receivable from the Farm | | |
| Credit Bank of Texas: | | |
| Capital stock | 11,808,570 | 11,808,570 |
| Other | 256,965 | 2,953,400 |
| Other property owned, net | - | 195,606 |
| Premises and equipment, net | 3,574,036 | 3,368,756 |
| Other assets | 3,055,439 | 420,771 |
| Total assets | <u><u>\$ 816,303,469</u></u> | <u><u>\$ 770,670,568</u></u> |
| <u>LIABILITIES</u> | | |
| Note payable to the Farm Credit Bank of Texas | \$ 660,525,808 | \$ 616,715,410 |
| Guaranteed obligations to government entities | 8,279,286 | 7,641,070 |
| Advance conditional payments | 68 | - |
| Accrued interest payable | 1,278,706 | 1,578,424 |
| Drafts outstanding | 506,166 | 3,919,475 |
| Patronage distributions payable | 52 | 4,800,014 |
| Other liabilities | 4,242,316 | 4,763,871 |
| Total liabilities | <u><u>674,832,402</u></u> | <u><u>639,418,264</u></u> |
| <u>MEMBERS' EQUITY</u> | | |
| Capital stock and participation certificates | 3,478,625 | 3,354,715 |
| Unallocated retained earnings | 138,105,956 | 128,001,884 |
| Accumulated other comprehensive income (loss) | (113,514) | (104,295) |
| Total members' equity | <u>141,471,067</u> | <u>131,252,304</u> |
| Total liabilities and members' equity | <u><u>\$ 816,303,469</u></u> | <u><u>\$ 770,670,568</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, | |
|--------------------------------------------------------------|--------------------------------|---------------------|------------------------------------|---------------------|
| | 2020 | 2019 | 2020 | 2019 |
| <u>INTEREST INCOME</u> | | | | |
| Loans | \$ 8,370,514 | \$ 8,941,652 | \$ 25,590,062 | \$ 25,981,101 |
| <u>INTEREST EXPENSE</u> | | | | |
| Note payable to the Farm Credit Bank of Texas | 3,619,334 | 4,413,818 | 11,655,350 | 12,614,861 |
| Advance conditional payments | - | - | 4 | 368 |
| Total interest expense | <u>3,619,334</u> | <u>4,413,818</u> | <u>11,655,354</u> | <u>12,615,229</u> |
| Net interest income | 4,751,180 | 4,527,834 | 13,934,708 | 13,365,872 |
| <u>PROVISION FOR LOAN LOSSES</u> | | | | |
| | - | 50,000 | 50,000 | 37,120 |
| Net interest income after provision for loan losses | <u>4,751,180</u> | <u>4,477,834</u> | <u>13,884,708</u> | <u>13,328,752</u> |
| <u>NONINTEREST INCOME</u> | | | | |
| Income from the Farm Credit Bank of Texas: | | | | |
| Patronage income | 814,301 | 729,759 | 2,467,402 | 2,186,728 |
| Loan fees | 286,838 | 32,230 | 576,897 | 91,792 |
| Financially related services income | 202 | 308 | 852 | 905 |
| Gain (loss) on other property owned, net | 14,923 | - | 12,125 | - |
| Gain (loss) on sale of premises and equipment, net | 11,336 | - | 96,719 | 77,478 |
| Other noninterest income | 3,525 | 7 | 208,581 | 167,051 |
| Total noninterest income | <u>1,131,125</u> | <u>762,304</u> | <u>3,362,576</u> | <u>2,523,954</u> |
| <u>NONINTEREST EXPENSES</u> | | | | |
| Salaries and employee benefits | 1,509,166 | 1,402,397 | 4,890,428 | 4,449,521 |
| Insurance Fund premiums | 163,001 | 124,079 | 390,115 | 362,252 |
| Purchased services | 130,580 | 80,657 | 253,745 | 216,042 |
| Occupancy and equipment | 95,624 | 66,096 | 228,980 | 242,931 |
| Travel | 95,042 | 134,088 | 286,832 | 369,113 |
| Advertising | 86,972 | 69,798 | 271,171 | 246,911 |
| Supervisory and exam expense | 58,568 | 64,837 | 199,000 | 194,509 |
| Public and member relations | 31,024 | 27,844 | 135,439 | 170,559 |
| Communications | 26,063 | 28,796 | 83,925 | 84,564 |
| Directors' expense | 23,396 | 25,729 | 128,411 | 202,847 |
| Other components of net periodic postretirement benefit cost | 11,021 | 14,180 | 33,062 | 42,539 |
| Training | 3,302 | 18,661 | 17,099 | 94,146 |
| Other insurance expense | 371 | - | 101,585 | 105,113 |
| Other noninterest expense | <u>45,203</u> | <u>44,069</u> | <u>138,825</u> | <u>124,401</u> |
| Total noninterest expenses | <u>2,279,333</u> | <u>2,101,231</u> | <u>7,158,617</u> | <u>6,905,448</u> |
| Income before income taxes | <u>3,602,972</u> | <u>3,138,907</u> | <u>10,088,667</u> | <u>8,947,258</u> |
| Provision for (benefit from) income taxes | <u>(4,526)</u> | <u>13,804</u> | <u>(15,405)</u> | <u>39,832</u> |
| NET INCOME | <u>3,607,498</u> | <u>3,125,103</u> | <u>10,104,072</u> | <u>8,907,426</u> |
| Other comprehensive income: | | | | |
| Change in postretirement benefit plans | <u>(3,073)</u> | <u>(3,073)</u> | <u>(9,219)</u> | <u>(9,219)</u> |
| COMPREHENSIVE INCOME | <u>\$ 3,604,425</u> | <u>\$ 3,122,030</u> | <u>\$ 10,094,853</u> | <u>\$ 8,898,207</u> |

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, 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> |
| Balance at December 31, 2019 | \$ 3,354,715 | \$ 128,001,884 | \$ (104,295) | \$ 131,252,304 |
| Comprehensive income | - | 10,104,072 | (9,219) | 10,094,853 |
| Capital stock/participation certificates issued | 614,135 | | | 614,135 |
| Capital stock/participation certificates retired | (490,225) | | | (490,225) |
| Balance at September 30, 2020 | <u>\$ 3,478,625</u> | <u>\$ 138,105,956</u> | <u>\$ (113,514)</u> | <u>\$ 141,471,067</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, 2019, as contained in the 2019 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, 2019, as contained in the 2019 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, 2020. Descriptions of the significant accounting policies are included in the 2019 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 March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled “Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association is evaluating the impact of adoption on the institution’s financial condition and its results of operations.

In December 2019, the FASB issued guidance entitled “Simplifying the Accounting for Income Taxes.” This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted, and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association’s financial condition or results of operations.

In August 2018, 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 became 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. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association’s financial condition or 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 became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018. The adoption of this guidance did not impact the Association’s financial condition or its results of operations but did impact the fair value measurements disclosures.

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 was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association’s financial condition and its results of operations.

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, 2020, are not necessarily indicative of the results to be expected for the year ended December 31, 2020. 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, 2020 Amount | December 31, 2019 Amount |
|----------------------------------|---------------------------------|--------------------------------|
| Production agriculture: | | |
| Real estate mortgage | \$ 641,399,388 | \$ 599,443,104 |
| Production and intermediate term | 99,086,973 | 98,321,824 |
| Agribusiness: | | |
| Processing and marketing | 20,567,436 | 22,192,686 |
| Farm-related business | 5,458,837 | 3,095,945 |
| Loans to cooperatives | 1,569,473 | 1,230,550 |
| Rural residential real estate | 10,438,654 | 10,320,906 |
| Communication | 5,672,499 | 5,708,656 |
| Water and waste water | 1,165,750 | - |
| Energy | 308,692 | - |
| Total | \$ 785,667,702 | \$ 740,313,671 |

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, 2020:

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|----------------------------------|--------------------------------|---------------------|------------------------------|----------------|----------------------|---------------------|
| | Participations | Participations | Participations | Participations | Participations | Participations |
| | Purchased | Sold | Purchased | Sold | Purchased | Sold |
| Agribusiness | \$ 24,176,361 | \$ 71,843 | \$ - | \$ - | \$ 24,176,361 | \$ 71,843 |
| Real estate mortgage | 499,427 | - | 10,423,183 | - | 10,922,610 | - |
| Communication | 5,672,499 | - | - | - | 5,672,499 | - |
| Production and intermediate term | 1,996,368 | 1,681,078 | - | - | 1,996,368 | 1,681,078 |
| Water and waste water | 1,165,750 | - | - | - | 1,165,750 | - |
| Energy | 308,692 | - | - | - | 308,692 | - |
| Total | <u>\$ 33,819,097</u> | <u>\$ 1,752,921</u> | <u>\$ 10,423,183</u> | <u>\$ -</u> | <u>\$ 44,242,280</u> | <u>\$ 1,752,921</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 \$9,423,342 and \$7,583,309 at September 30, 2020, and December 31, 2019, respectively.

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

| | September 30, 2020 | December 31, 2019 |
|-------------------------------------------------|-----------------------|----------------------|
| Nonaccrual loans: | | |
| Real estate mortgage | <u>\$ 615,697</u> | <u>\$ 711,154</u> |
| Total nonaccrual loans | <u>615,697</u> | <u>711,154</u> |
| Accruing restructured loans: | | |
| Real estate mortgage | <u>162,211</u> | <u>162,326</u> |
| Total accruing restructured loans | <u>162,211</u> | <u>162,326</u> |
| Accruing loans 90 days or more past due: | | |
| Rural residential real estate | <u>-</u> | <u>24,161</u> |
| Total accruing loans 90 days or more past due | <u>-</u> | <u>24,161</u> |
| Total nonperforming loans | <u>777,908</u> | <u>897,641</u> |
| Other property owned | <u>-</u> | <u>195,606</u> |
| Total nonperforming assets | <u>\$ 777,908</u> | <u>\$ 1,093,247</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, 2020 | December 31, 2019 |
|----------------------------------|-------------------------------|----------------------|
| Real estate mortgage | | |
| Acceptable | 99.4 % | 99.3 % |
| OAEM | 0.1 | 0.2 |
| Substandard/doubtful | 0.5 | 0.5 |
| | 100.0 | 100.0 |
| Production and intermediate term | | |
| Acceptable | 100.0 | 100.0 |
| OAEM | - | - |
| Substandard/doubtful | - | - |
| | 100.0 | 100.0 |
| Agribusiness | | |
| Acceptable | 87.1 | 86.8 |
| OAEM | 6.2 | 13.2 |
| Substandard/doubtful | 6.7 | - |
| | 100.0 | 100.0 |
| Energy and water/waste water | | |
| Acceptable | 100.0 | - |
| OAEM | - | - |
| Substandard/doubtful | - | - |
| | 100.0 | - |
| Communication | | |
| Acceptable | 100.0 | 100.0 |
| OAEM | - | - |
| Substandard/doubtful | - | - |
| | 100.0 | 100.0 |
| Rural residential real estate | | |
| Acceptable | 99.3 | 99.2 |
| OAEM | 0.2 | 0.2 |
| Substandard/doubtful | 0.5 | 0.6 |
| | 100.0 | 100.0 |
| Total loans | | |
| Acceptable | 99.1 | 98.9 |
| OAEM | 0.3 | 0.6 |
| Substandard/doubtful | 0.6 | 0.5 |
| | 100.0 % | 100.0 % |

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

| September 30, 2020 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans | Recorded Investment >90 Days and Accruing |
|----------------------------------|---------------------------|--------------------------------|----------------------|--------------------------------------------------|-----------------------|----------------------------------------------|
| Real estate mortgage | \$ 444,984 | \$ - | \$ 444,984 | \$ 652,122,127 | \$ 652,567,111 | \$ - |
| Production and intermediate term | 13,271 | - | 13,271 | 100,748,858 | 100,762,129 | - |
| Processing and marketing | - | - | - | 20,582,066 | 20,582,066 | - |
| Rural residential real estate | - | - | - | 10,472,262 | 10,472,262 | - |
| Communication | - | - | - | 5,672,823 | 5,672,823 | - |
| Farm-related business | - | - | - | 5,522,172 | 5,522,172 | - |
| Loans to cooperatives | - | - | - | 1,570,768 | 1,570,768 | - |
| Water and waste water | - | - | - | 1,165,819 | 1,165,819 | - |
| Energy | - | - | - | 308,702 | 308,702 | - |
| Total | \$ 458,255 | \$ - | \$ 458,255 | \$ 798,165,597 | \$ 798,623,852 | \$ - |
| | | | | | | |
| December 31, 2019 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans | Recorded Investment >90 Days and Accruing |
| Real estate mortgage | \$ 696,101 | \$ - | \$ 696,101 | \$ 609,339,280 | \$ 610,035,381 | \$ - |
| Production and intermediate term | 19,352 | - | 19,352 | 100,150,381 | 100,169,733 | - |
| Processing and marketing | - | - | - | 22,240,685 | 22,240,685 | - |
| Rural residential real estate | 41,548 | 24,161 | 65,709 | 10,298,002 | 10,363,711 | 24,161 |
| Communication | - | - | - | 5,708,955 | 5,708,955 | - |
| Farm-related business | - | - | - | 3,163,636 | 3,163,636 | - |
| Loans to cooperatives | - | - | - | 1,230,808 | 1,230,808 | - |
| Energy | - | - | - | - | - | - |
| Water and waste water | - | - | - | - | - | - |
| Total | \$ 757,001 | \$ 24,161 | \$ 781,162 | \$ 752,131,747 | \$ 752,912,909 | \$ 24,161 |

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, 2020, the total recorded investment of troubled debt restructured loans was \$207,115, including \$45,410 classified as nonaccrual and \$161,705 classified as accrual. There was no specific allowance for loan losses related to the loans based upon current net realizable value analyses. As of September 30, 2020, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

The Association had no loans meet the requirements for troubled debt restructuring designation during the nine months ended September 30, 2020, nor did it have any meet the requirements for the same period in 2019.

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, 2020.

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 interest reductions. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring. For the loans listed below meeting the requirements for a TDR designation, all were granted an interest rate that was considered lower than market rate for new debt with similar risk. No principal or interest was forgiven as part of the 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: Real estate mortgage Total | Recorded Investment at September 30, 2020 | Recorded Investment at September 30, 2019 |
| | \$ - | \$ 88,191 |
| | \$ - | \$ 88,191 |

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 at:

| | Loans Modified as TDRs | | TDRs in Nonaccrual Status* | |
|----------------------|------------------------|-------------------|----------------------------|-------------------|
| | September 30, 2020 | December 31, 2019 | September 30, 2020 | December 31, 2019 |
| Real estate mortgage | \$ 207,115 | \$ 304,873 | \$ 45,410 | \$ 142,547 |
| Total | \$ 207,115 | \$ 304,873 | \$ 45,410 | \$ 142,547 |

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

Additional impaired loan information is as follows:

| | September 30, 2020 | | | December 31, 2019 | | |
|-------------------------------------------------------------|------------------------|---------------------------------------------|----------------------|------------------------|---------------------------------------------|----------------------|
| | Recorded Investment | Unpaid Principal Balance ^a | Related Allowance | Recorded Investment | Unpaid Principal Balance ^a | Related Allowance |
| Impaired loans with a related allowance for credit losses: | | | | | | |
| Rural residential real estate | \$ - | \$ - | \$ - | \$ 23,832 | \$ 23,435 | \$ 3,500 |
| Total | \$ - | \$ - | \$ - | \$ 23,832 | \$ 23,435 | \$ 3,500 |
| Impaired loans with no related allowance for credit losses: | | | | | | |
| Real estate mortgage | \$ 777,402 | \$ 777,415 | \$ - | \$ 872,859 | \$ 872,859 | \$ - |
| Total | \$ 777,402 | \$ 777,415 | \$ - | \$ 872,859 | \$ 872,859 | \$ - |
| Total impaired loans: | | | | | | |
| Real estate mortgage | \$ 777,402 | \$ 777,415 | \$ - | \$ 872,859 | \$ 872,859 | \$ - |
| Rural residential real estate | - | - | - | 23,832 | 23,435 | 3,500 |
| Total | \$ 777,402 | \$ 777,415 | \$ - | \$ 896,691 | \$ 896,294 | \$ 3,500 |

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

| | For the Three Months Ended | | | |
|-------------------------------------------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|
| | September 30, 2020 | | 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 | \$ 781,751 | \$ 4,975 | \$ 1,069,021 | \$ 4,738 |
| Total | \$ 781,751 | \$ 4,975 | \$ 1,069,021 | \$ 4,738 |
| Total impaired loans: | | | | |
| Real estate mortgage | \$ 781,751 | \$ 4,975 | \$ 1,069,021 | \$ 4,738 |
| Total | \$ 781,751 | \$ 4,975 | \$ 1,069,021 | \$ 4,738 |

| | For the Nine Months Ended | | | |
|-------------------------------------------------------------|---------------------------|----------------------------|------------------------|----------------------------|
| | September 30, 2020 | | 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>\$823,225</u> | <u>\$ 17,878</u> | <u>\$ 1,154,472</u> | <u>\$ 16,602</u> |
| Total | <u>\$823,225</u> | <u>\$ 17,878</u> | <u>\$ 1,154,472</u> | <u>\$ 16,602</u> |
| Total impaired loans: | | | | |
| Real estate mortgage | <u>\$823,225</u> | <u>\$ 17,878</u> | <u>\$ 1,154,472</u> | <u>\$ 16,602</u> |
| Total | <u>\$823,225</u> | <u>\$ 17,878</u> | <u>\$ 1,154,472</u> | <u>\$ 16,602</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, 2020 | \$ 766,236 | \$ 57,757 | \$ 161,803 | \$ 2,837 | \$ 1,633 | \$ 26,979 | \$ 1,017,245 |
| Charge-offs | - | - | - | - | - | - | - |
| Recoveries | - | - | - | - | - | - | - |
| Provision for loan losses | - | - | - | - | - | - | - |
| Other | 407 | (1,796) | 7,977 | (7) | (21) | (5,085) | 1,475 |
| Balance at September 30, 2020 | <u>\$ 766,643</u> | <u>\$ 55,961</u> | <u>\$ 169,780</u> | <u>\$ 2,830</u> | <u>\$ 1,612</u> | <u>\$ 21,894</u> | <u>\$ 1,018,720</u> |
| Balance at December 31, 2019 | \$ 841,336 | \$ 77,041 | \$ 50,802 | \$ 2,914 | \$ - | \$ 23,443 | \$ 995,536 |
| Charge-offs | (1,331) | - | - | - | - | - | (1,331) |
| Recoveries | - | - | - | - | - | - | - |
| Provision for loan losses | (74,382) | (22,635) | 147,102 | (84) | 1,548 | (1,549) | 50,000 |
| Other | 1,020 | 1,555 | (28,124) | - | 64 | - | (25,485) |
| Balance at September 30, 2020 | <u>\$ 766,643</u> | <u>\$ 55,961</u> | <u>\$ 169,780</u> | <u>\$ 2,830</u> | <u>\$ 1,612</u> | <u>\$ 21,894</u> | <u>\$ 1,018,720</u> |
| Ending Balance: | | | | | | | |
| Individually evaluated for impairment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Collectively evaluated for impairment | 766,643 | 55,961 | 169,780 | 2,830 | 1,612 | 21,894 | 1,018,720 |
| Loans acquired with deteriorated credit quality | - | - | - | - | - | - | - |
| Balance at September 30, 2020 | <u>\$ 766,643</u> | <u>\$ 55,961</u> | <u>\$ 169,780</u> | <u>\$ 2,830</u> | <u>\$ 1,612</u> | <u>\$ 21,894</u> | <u>\$ 1,018,720</u> |
| 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> |

| | 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, 2020 | \$ 652,567,111 | \$ 100,762,129 | \$ 27,675,006 | \$ 5,672,823 | \$ 1,474,521 | \$ 10,472,262 | \$ 798,623,852 |
| Individually evaluated for impairment | \$ 2,915,950 | \$ - | \$ 1,849,782 | \$ - | \$ - | \$ 52,919 | \$ 4,818,651 |
| Collectively evaluated for impairment | \$ 649,651,161 | \$ 100,762,129 | \$ 25,825,224 | \$ 5,672,823 | \$ 1,474,521 | \$ 10,419,343 | \$ 793,805,201 |
| Loans acquired with deteriorated credit quality | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Ending Balance at | | | | | | | |
| December 31, 2019 | \$ 610,035,381 | \$ 100,169,733 | \$ 26,635,129 | \$ 5,708,955 | \$ - | \$ 10,363,711 | \$ 752,912,909 |
| Individually evaluated for impairment | \$ 3,329,125 | \$ 70,093 | \$ - | \$ - | \$ - | \$ 81,854 | \$ 3,481,072 |
| Collectively evaluated for impairment | \$ 606,706,266 | \$ 100,099,640 | \$ 26,635,129 | \$ 5,708,955 | \$ - | \$ 10,281,856 | \$ 749,431,846 |
| 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, 2020 | As of December 31, 2019 |
|----------------------------|------------------------|-------------------------|--------|-----------------------------|----------------------------|
| Common equity tier 1 ratio | 4.50% | 2.50% | 7.00% | 15.46% | 15.80% |
| Tier 1 capital ratio | 6.00% | 2.50% | 8.50% | 15.46% | 15.80% |
| Total capital ratio | 8.00% | 2.50% | 10.50% | 15.60% | 15.93% |
| Permanent capital ratio | 7.00% | 0.00% | 7.00% | 15.48% | 15.82% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | 4.00% | 1.00% | 5.00% | 15.98% | 16.13% |
| UREE leverage ratio | 1.50% | 0.00% | 1.50% | 17.04% | 17.14% |

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

| | <u>at September 30, 2020</u> | |
|--------------------------------------------------------------|------------------------------|-----------------------|
| | <u>Tier 1</u> | <u>UREE</u> |
| | <u>leverage ratio</u> | <u>leverage ratio</u> |
| Numerator: | | |
| Unallocated retained earnings | 134,486,259 | 134,486,259 |
| Common Cooperative Equities: | | |
| Statutory minimum purchased borrower stock | 3,450,398 | - |
| Regulatory Adjustments and Deductions: | | |
| Amount of allocated investments in other System institutions | (11,808,570) | - |
| | <u>126,128,087</u> | <u>134,486,259</u> |
| Denominator: | | |
| Total Assets | 810,477,080 | 810,477,080 |
| Regulatory Adjustments and Deductions: | | |
| Regulatory deductions included in tier 1 capital | (21,103,712) | (21,103,712) |
| | <u>789,373,368</u> | <u>789,373,368</u> |
| | <u>at December 31, 2019</u> | |
| | <u>Tier 1</u> | <u>UREE</u> |
| | <u>leverage ratio</u> | <u>leverage ratio</u> |
| Numerator: | | |
| Unallocated retained earnings | \$ 129,082,961 | \$ 129,082,961 |
| Common Cooperative Equities: | | |
| Statutory minimum purchased borrower stock | 3,364,896 | - |
| Regulatory Adjustments and Deductions: | | |
| Amount of allocated investments in other System institutions | (10,967,352) | - |
| | <u>\$ 121,480,505</u> | <u>\$ 129,082,961</u> |
| Denominator: | | |
| Total Assets | \$ 767,389,037 | \$ 767,389,037 |
| Regulatory Adjustments and Deductions: | | |
| Regulatory deductions included in tier 1 capital | (14,314,157) | (14,314,157) |
| | <u>\$ 753,074,880</u> | <u>\$ 753,074,880</u> |

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 Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the nine months ended September 30:

| | <u>2020</u> | <u>2019</u> |
|---------------------------------------------------------------|---------------------|------------------|
| Accumulated other comprehensive income (loss) at January 1 | \$(104,295) | \$ 46,174 |
| Amortization of prior service (credit) costs included | | |
| in salaries and employee benefits | (9,219) | (9,219) |
| Other comprehensive income (loss), net of tax | (9,219) | (9,219) |
| Accumulated other comprehensive income (loss) at September 30 | <u>\$ (113,514)</u> | <u>\$ 36,955</u> |

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 dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends.

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 it 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, 2020 and 2019, the Association carried a deferred tax asset of \$90,051 and \$46,447, respectively, with a full valuation allowance recorded against the net 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 2019 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

| | <u>Fair Value Measurement Using</u> | | |
|--------------------------------------------|-------------------------------------|----------------|----------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| September 30, 2020 | | | |
| Assets: | | | |
| Assets held in nonqualified benefit trusts | \$115,480 | \$ - | \$ - |
| Total assets | \$115,480 | \$ - | \$ - |

| | <u>Fair Value Measurement Using</u> | | |
|--------------------------------------------|-------------------------------------|----------------|----------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| December 31, 2019 | | | |
| Assets: | | | |
| Assets held in nonqualified benefit trusts | \$ 108,288 | \$ - | \$ - |
| Total assets | \$ 108,288 | \$ - | \$ - |

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

| | <u>Fair Value Measurement Using</u> | | |
|---------------------------|-------------------------------------|----------------|----------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| September 30, 2020 | | | |
| Assets: | | | |
| Loans* | \$ - | \$ - | \$ - |
| Other property owned | - | - | - |

| | <u>Fair Value Measurement Using</u> | | |
|--------------------------|-------------------------------------|----------------|----------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| December 31, 2019 | | | |
| Assets: | | | |
| Loans* | \$ - | \$ - | \$ 20,332 |
| Other property owned | - | - | 195,606 |

*Represents the fair value of certain loans that were evaluated for impairment under the 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 letters of credits to satisfy the financing needs of its borrowers. These letters of credits are irrevocable agreements to guarantee payments of specified financing obligations. At September 30, 2020, the Association had \$140,942 in outstanding standby letters of credit and \$69,379 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 2019 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 2019 Annual Report to Stockholders.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. The Association had one active employee participate and contribute in the nonqualified supplemental 401(k) plan (NQ Plan) during 2019. However, there are currently no active employees contributing to the NQ Plan.

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 | |
|-----------------------------------------------|------------------|------------------|
| | 2020 | 2019 |
| Service cost | \$ 14,511 | \$ 11,927 |
| Interest cost | 42,282 | 51,757 |
| Amortization of prior service (credits) costs | (9,219) | (9,219) |
| Net periodic benefit cost | <u>\$ 47,574</u> | <u>\$ 54,465</u> |

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2020, was \$1,717,466 and is included in "Other liabilities" on 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) 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 statement of comprehensive income. The remaining unamortized amount is included in "Other assets" on the consolidated balance sheet. The following table represents DB contributions made, amounts amortized into expense and the remaining unamortized contribution amounts as of September 30, 2020.

| | <u>2020</u> | <u>2019</u> |
|------------------------|-------------------|-------------------|
| DB contribution | \$ 419,439 | \$ 443,500 |
| YTD amortization | <u>(314,579)</u> | <u>(332,625)</u> |
| Remaining contribution | <u>\$ 104,860</u> | <u>\$ 110,875</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 6, 2020, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 6, 2020.