

MISSISSIPPI LAND BANK, ACA

**2021
Quarterly Report
Second Quarter**



PART OF THE FARM CREDIT SYSTEM



For the Quarter Ended June 30, 2021

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
August 9, 2021



Abbott R. Myers
Chairman, Board of Directors
August 9, 2021



Claire B. Pegram
Chief Financial Officer
August 9, 2021



W. Morgan Gullledge, Jr.
Chairman, Audit Committee
August 9, 2021

Second Quarter 2021 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 June 30, 2021. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2020 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.

Significant Events

The Association downgraded one participation loan with a recorded investment of \$1,248,898 to nonaccrual during the second quarter. The most recent net realizable value analysis showed that a specific allowance for loan losses in the amount of \$268,750 was required and thus recorded during the second quarter.

Conditions in North Mississippi

The United States continues to operate 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. Net loan volume outstanding at June 30, 2021, has increased 5.8 percent from December 31, 2020, indicating that demand for loan volume remains strong despite uncertain conditions. Additionally, many borrowers have taken advantage of the low interest rate environment. The credit quality of the Association continues to remain strong at 99.5 percent total acceptable credit quality at June 30, 2021.

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.

The U.S. economy continued to gather momentum during the second quarter of 2021. New monthly COVID-19 cases decreased as vaccination rates improved. The recent rounds of fiscal stimulus coupled with the low interest rate environment are leading to strong economic performance. The U.S. Bureau of Economic Analysis estimates that real gross domestic product (GDP) increased at an annual rate of 6.4 percent in the first quarter of 2021, up from 4.3 percent during the fourth quarter of 2020. Additionally, as of June 2, 2021, the Federal Reserve Bank of Atlanta estimates that real GDP growth for the second quarter of 2021 was about 7.8 percent. According to the International Monetary Fund's April 2021 World Economic Outlook, U.S. real GDP growth is expected to be 6.4 percent during 2021. The most recent data available from the U.S. Bureau of Labor Statistics indicates that the unemployment rate in Mississippi is 6.2 percent. Inflationary pressure is rising as annual inflation was about 5.0 percent in May 2021, and the index for all items, less food and energy, rose about 3.8 percent over the last 12 months.

West Texas Intermediate (WTI) crude oil prices continued to increase during the second quarter of 2021, averaging about \$66 per barrel, up from \$58 per barrel in the previous quarter. Similarly, WTI crude oil prices increased by about 136.0 percent year-over-year from an average of about \$28 per barrel during the second quarter of 2020. In its June Short-Term Energy Outlook, the U.S. Energy Information Administration estimated that WTI prices would average nearly \$62 per barrel during 2021.

On June 30, 2021, the U.S. Department of Agriculture (USDA) released its June Acreage report. Corn planted area was estimated at 92.7 million acres, up from the previous estimate of 91.1 million acres published in March 2021 and 2.1 percent, or 1.9 million acres, higher than 2020. Soybean planted acreage was unchanged from the previous quarter estimate at 87.6 million acres, up about 5.4 percent from the previous season. Estimated planted area for corn and soybeans was below market expectations, contributing to higher prices for both crops. Cotton planted area was estimated at 11.7 million acres, down from 12.0 million acres estimated in March and 3.1 percent lower than the level observed in 2020. Robust demand for key commodities, persistent drought in many regions, and increasing input costs are all supportive of higher field crop prices.

According to USDA's June 2021 World Agricultural Supply and Demand Estimates report, crop prices for corn, soybeans and cotton will experience double-digit growth during the 2021/22 marketing year. Steer prices are estimated to have averaged higher during the second quarter of 2021 compared to the same period last year. Additionally, average steer prices are projected to increase year-over-year in 2021 and continue rising in 2022. Lumber prices significantly increased year-over-year, reaching a peak in May 2021 of about \$1,700 per 1,000 board feet before declining to below \$800 per 1,000 board feet.

For the remainder of 2021, agricultural producers may be negatively affected by several factors, including volatile commodity prices, export market disruptions, economic uncertainty, and weather-related challenges. However, 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. Additionally, the Association’s loan portfolio is well-supported by industry diversification, and a large number of the Association’s borrowers rely on non-farm sources of income to repay their loans. 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 June 30, 2021, including nonaccrual loans and sales contracts, were \$875,558,371 compared to \$827,620,014 at December 31, 2020, reflecting an increase of 5.8 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at June 30, 2021, compared to 0.1 percent at December 31, 2020.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ended June 30, 2021, and \$0 in recoveries and \$1,331 in charge-offs for the same period in 2020. The Association’s allowance for loan losses was 0.1 percent and 0.1 percent of total loans outstanding as of June 30, 2021, and December 31, 2020, respectively.

The Association downgraded one participation loan with a recorded investment of \$1,248,898 to nonaccrual during the second quarter.

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 \$7,367,443 and \$7,952,188 as of June 30, 2021 and December 31, 2020, 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.

	June 30, 2021		December 31, 2020	
	Amount	%	Amount	%
Nonaccrual	\$ 1,814,319	91.8%	\$ 609,278	79.0%
Formally restructured	162,345	8.2%	162,205	21.0%
Total	\$ 1,976,664	100.0%	\$ 771,483	100.0%

Results of Operations

The Association had net income of \$3,592,479 and \$7,016,199 for the three and six months ended June 30, 2021, as compared to net income of \$3,437,008 and \$6,496,574 for the same period in 2020, reflecting an increase of 4.5 percent and 8.0 percent. Net interest income was \$5,131,593 and \$10,157,523 for the three and six months ended June 30, 2021, compared to \$4,578,572 and \$9,183,528 for the same period in 2020.

	Six Months Ended			
	June 30,		June 30,	
	2021		2020	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 839,561,401	\$ 16,967,554	\$ 729,597,034	\$ 17,219,548
Interest-bearing liabilities	715,129,356	6,810,031	614,378,472	8,036,020
Impact of capital	<u>\$ 124,432,045</u>		<u>\$ 115,218,562</u>	
Net interest income		<u>\$ 10,157,523</u>		<u>\$ 9,183,528</u>

	2021	2020
	Average Yield	Average Yield
Yield on loans	4.08%	4.75%
Cost of interest-bearing liabilities	1.92%	2.63%
Interest rate spread	2.16%	2.12%
Net interest income as a percentage of average	2.44%	2.53%

	Six months ended:		
	June 30, 2021 vs. June 30, 2020		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 2,588,116	\$ (2,840,110)	\$ (251,994)
Interest expense	1,314,185	(2,540,174)	(1,225,989)
Net interest income	<u>\$ 1,273,931</u>	<u>\$ (299,936)</u>	<u>\$ 973,995</u>

Interest income for the three and six months ended June 30, 2021, increased by \$241,632 and decreased by \$251,994, or 2.9 percent and 1.5 percent respectively, from the same period of 2020, primarily due to declines in yields on earning assets offset by an increase in average loan volume. Interest expense for the three and six months ended June 30, 2021, decreased by \$311,389 and \$1,225,985, or 8.3 percent and 15.3 percent, respectively, from the same period of 2020 due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the second quarter of 2021 was \$854,522,908, compared to \$734,972,816 in the second quarter of 2020. The average net interest rate spread on the loan portfolio for the second quarter of 2021 was 2.13 percent, compared to 2.12 percent in the second quarter of 2020.

The Association's return on average assets for the six months ended June 30, 2021, was 1.62 percent compared to 1.71 percent for the same period in 2020. The Association's return on average equity for the six months ended June 30, 2021, was 9.86 percent, compared to 9.71 percent for the same period in 2020.

Liquidity and Funding Sources

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

	June 30,	December 31,
	2021	2020
Note payable to the Bank	\$ 742,342,854	\$ 696,761,495
Accrued interest on note payable	1,146,825	1,324,048
Total	<u>\$ 743,489,679</u>	<u>\$ 698,085,543</u>

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 \$742,342,854 as of June 30, 2021, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.86 percent at June 30, 2021. 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 is a direct correlation to the increased loan volume reported at June 30, 2021. The decrease in related accrued interest payable since December 31, 2020, however, is due to a decrease in the Association's weighted average interest rate on the note payable to the Bank. The Association's

own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$123,472,808 at June 30, 2021. The maximum amount the Association may borrow from the Bank as of June 30, 2021, was \$876,281,985 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 2021. 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 \$7,155,041 at June 30, 2021, compared to December 31, 2020. The Association's debt as a ratio of members' equity was 5.14:1 as of June 30, 2021, compared to 5.14:1 as of December 31, 2020.

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 June 30, 2021, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

Refer to Note 1 – "Organization and Significant Accounting Policies" 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 2020 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. 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

	June 30, 2021 (unaudited)	December 31, 2020
<u>ASSETS</u>		
Cash	\$ 5,327	\$ 2,726
Loans	875,558,371	827,620,014
Less: allowance for loan losses	<u>1,311,830</u>	<u>1,152,554</u>
Net loans	874,246,541	826,467,460
Accrued interest receivable	9,169,279	12,504,423
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	12,675,385	12,675,385
Other	269,382	2,189,759
Premises and equipment, net	3,703,364	3,687,021
Other assets	<u>3,161,111</u>	<u>712,106</u>
Total assets	<u><u>\$ 903,230,389</u></u>	<u><u>\$ 858,238,880</u></u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 742,342,854	\$ 696,761,495
Guaranteed obligations to government entities	7,367,443	7,952,188
Accrued interest payable	1,146,825	1,324,048
Drafts outstanding	988,894	1,538,151
Patronage distributions payable	13	5,400,052
Other liabilities	<u>4,377,462</u>	<u>5,411,089</u>
Total liabilities	<u><u>756,223,491</u></u>	<u><u>718,387,023</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	3,697,305	3,554,195
Unallocated retained earnings	143,463,063	136,446,864
Accumulated other comprehensive income (loss)	<u>(153,470)</u>	<u>(149,202)</u>
Total members' equity	<u>147,006,898</u>	<u>139,851,857</u>
Total liabilities and members' equity	<u><u>\$ 903,230,389</u></u>	<u><u>\$ 858,238,880</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		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
<u>INTEREST INCOME</u>				
Loans	\$ 8,583,848	\$ 8,342,216	\$ 16,967,554	\$ 17,219,548
Total interest income	8,583,848	8,342,216	16,967,554	17,219,548
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	3,452,255	3,763,644	6,810,031	8,036,016
Advance conditional payments	-	-	-	4
Total interest expense	3,452,255	3,763,644	6,810,031	8,036,020
Net interest income	5,131,593	4,578,572	10,157,523	9,183,528
<u>PROVISION FOR LOAN LOSSES</u>				
Net interest income after provision for loan losses	102,686	50,000	152,686	50,000
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	1,101,354	821,093	2,203,082	1,653,101
Loan fees	133,415	182,990	249,659	290,059
Financially related services income	385	463	508	651
Gain (loss) on other property owned, net	-	1,486	-	(2,798)
Gain (loss) on sale of premises and equipment, net	31,117	23,217	84,932	85,383
Other noninterest income	32,998	58,677	36,784	205,056
Total noninterest income	1,299,269	1,087,926	2,574,965	2,231,452
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,766,632	1,547,294	3,736,697	3,381,262
Insurance Fund premiums	267,939	113,561	526,766	227,113
Travel	126,911	103,849	188,385	191,790
Advertising	125,136	116,290	145,361	184,199
Occupancy and equipment	101,602	73,837	203,353	133,356
Supervisory and exam expense	75,111	70,216	150,222	140,432
Purchased services	69,338	34,199	129,840	123,166
Public and member relations	50,018	36,025	94,155	104,415
Directors' expense	46,975	17,492	84,064	105,015
Communications	32,845	31,903	58,794	57,862
Training	18,684	(11,604)	19,624	13,797
Other components of net periodic postretirement benefit cost	9,762	11,021	19,523	22,042
Other insurance expense	100	(1,254)	120,786	101,214
Other noninterest expense	44,036	49,119	82,168	93,622
Total noninterest expenses	2,735,089	2,191,948	5,559,738	4,879,285
Income before income taxes	3,593,087	3,424,550	7,020,064	6,485,695
Provision for (benefit from) income taxes	608	(12,458)	3,865	(10,879)
NET INCOME	3,592,479	3,437,008	7,016,199	6,496,574
Other comprehensive income:				
Change in postretirement benefit plans	(2,134)	(3,073)	(4,268)	(6,146)
Other comprehensive income, net of tax	(2,134)	(3,073)	(4,268)	(6,146)
COMPREHENSIVE INCOME	\$ 3,590,345	\$ 3,433,935	\$ 7,011,931	\$ 6,490,428

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, 2019	\$ 3,354,715	\$ 128,001,884	\$ (104,295)	\$ 131,252,304
Comprehensive income	-	6,496,574	(6,146)	6,490,428
Capital stock/participation certificates issued	406,025	-	-	406,025
Capital stock/participation certificates retired	(332,040)	-	-	(332,040)
Balance at June 30, 2020	<u>\$ 3,428,700</u>	<u>\$ 134,498,458</u>	<u>\$ (110,441)</u>	<u>\$ 137,816,717</u>
Balance at December 31, 2020	\$ 3,554,195	\$ 136,446,864	\$ (149,202)	\$ 139,851,857
Comprehensive income	-	7,016,199	(4,268)	7,011,931
Capital stock/participation certificates issued	461,360	-	-	461,360
Capital stock/participation certificates retired	(318,250)	-	-	(318,250)
Balance at June 30, 2021	<u>\$ 3,697,305</u>	<u>\$ 143,463,063</u>	<u>\$ (153,470)</u>	<u>\$ 147,006,898</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, 2020, as contained in the 2020 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, 2020, as contained in the 2020 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, 2021. Descriptions of the significant accounting policies are included in the 2020 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 January 2021, the FASB issued an update whereby certain derivative instruments may be modified to change the rate used for margining, discounting, or contract price alignment. An entity may elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments do not apply to contract modifications made or new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022. The guidance has no effect on the institution's financial condition and its results of operations.

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. New contracts entered into before December 31, 2021, will either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate. These actions are necessary to facilitate an orderly transition. The Association adopted the practical expedients provided for by this guidance in the first quarter of 2020.

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, with planned adoption for interim and reporting periods beginning after December 15, 2022.

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 June 30, 2021, are not necessarily indicative of the results to be expected for the year ended December 31, 2021. 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	June 30,	December 31,
	2021	2020
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 719,672,937	\$ 682,837,477
Production and intermediate term	95,949,674	93,812,069
Agribusiness:		
Processing and marketing	26,637,411	20,206,199
Farm-related business	8,776,361	8,993,963
Loans to cooperatives	466,191	1,667,945
Rural residential real estate	14,752,754	11,781,508
Communication	6,941,938	6,970,056
Energy	1,248,898	308,803
Water and waste water	824,976	1,041,994
International	287,231	-
Total	<u>\$ 875,558,371</u>	<u>\$ 827,620,014</u>

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 June 30, 2021:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations	Participations	Participations	Participations	Participations	Participations
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Agribusiness	\$ 22,301,709	\$ 2,320,787	\$ -	\$ -	\$ 22,301,709	\$ 2,320,787
Real estate mortgage	226,586	-	15,704,139	-	15,930,724	-
Communication	6,941,938	-	-	-	6,941,938	-
Energy	1,248,898	-	-	-	1,248,898	-
Water and waste water	824,975	-	-	-	824,975	-
International	287,231	-	-	-	287,231	-
Production and intermediate term	-	1,501,848	-	-	-	1,501,848
Total	<u>\$ 31,831,337</u>	<u>\$ 3,822,635</u>	<u>\$ 15,704,139</u>	<u>\$ -</u>	<u>\$ 47,535,476</u>	<u>\$ 3,822,635</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 \$13,581,608 and \$9,970,378 at June 30, 2021, and December 31, 2020, respectively.

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

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Nonaccrual loans:		
Real estate mortgage	\$ 565,421	\$ 609,278
Energy	<u>1,248,898</u>	<u>-</u>
Total nonaccrual loans	<u>1,814,319</u>	609,278
Accruing restructured loans:		
Real estate mortgage	<u>162,345</u>	<u>162,205</u>
Total accruing restructured loans	<u>162,345</u>	162,205
Total nonperforming loans	<u>1,976,664</u>	<u>771,483</u>
Total nonperforming assets	<u>\$ 1,976,664</u>	<u>\$ 771,483</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:

	June 30, 2021	December 31, 2020
Real estate mortgage		
Acceptable	99.4 %	99.4 %
OAEM	0.2	0.2
Substandard/doubtful	0.4	0.4
	100.0	100.0
Production and intermediate term		
Acceptable	99.9	100.0
OAEM	0.1	-
Substandard/doubtful	-	-
	100.0	100.0
Agribusiness		
Acceptable	95.2	94.7
OAEM	4.8	5.3
Substandard/doubtful	-	-
	100.0	100.0
Energy and water/waste water		
Acceptable	39.8	100.0
OAEM	-	-
Substandard/doubtful	60.2	-
	100.0	100.0
Communication		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Rural residential real estate		
Acceptable	99.7	99.4
OAEM	-	0.2
Substandard/doubtful	0.3	0.4
	100.0	100.0
International		
Acceptable	100.0	-
OAEM	-	-
Substandard/doubtful	-	-
	100.0	-
Total loans		
Acceptable	99.1	99.3
OAEM	0.4	0.4
Substandard/doubtful	0.5	0.3
	100.0 %	100.0 %

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

June 30, 2021	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	\$ 2,769,618	\$ 458,301	\$ 3,227,919	\$ 724,315,569	\$ 727,543,488	\$ -
Production and intermediate term	244,555	-	244,555	96,866,650	97,111,205	-
Processing and marketing	-	-	-	26,660,995	26,660,995	-
Rural residential real estate	-	-	-	14,798,503	14,798,503	-
Farm-related business	-	-	-	8,842,722	8,842,722	-
Communication	-	-	-	6,942,455	6,942,455	-
Energy	-	1,198,940	1,198,940	49,958	1,248,898	-
Water and waste water	-	-	-	825,116	825,116	-
Loans to cooperatives	-	-	-	467,026	467,026	-
International	-	-	-	287,242	287,242	-
Total	\$ 3,014,173	\$ 1,657,241	\$ 4,671,414	\$ 880,056,236	\$ 884,727,650	\$ -
December 31, 2020	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 768,550	\$ -	\$ 768,550	\$ 692,768,385	\$ 693,536,935	\$ -
Production and intermediate term	-	-	-	95,457,973	95,457,973	-
Processing and marketing	-	-	-	20,231,262	20,231,262	-
Rural residential real estate	-	-	-	11,821,189	11,821,189	-
Farm-related business	-	-	-	9,085,792	9,085,792	-
Communication	-	-	-	6,970,458	6,970,458	-
Loans to cooperatives	-	-	-	1,669,051	1,669,051	-
Water and waste water	-	-	-	1,042,056	1,042,056	-
Energy	-	-	-	309,721	309,721	-
Total	\$ 768,550	\$ -	\$ 768,550	\$ 839,355,887	\$ 840,124,437	\$ -

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 June 30, 2021, the total recorded investment of troubled debt restructured loans was \$169,804, including \$7,459 classified as nonaccrual and \$162,345 classified as accrual. There was no specific allowance for loan losses related to the loans based upon current net realizable value analyses. As of June 30, 2021, and as of December 31, 2020, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

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 June 30, 2021.

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.

The Association has no 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.

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*	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
Real estate mortgage	\$ 162,345	\$ 162,205	\$ 7,459	\$ 45,410
Total	\$ 162,345	\$ 162,205	\$ 7,459	\$ 45,410

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

Additional impaired loan information is as follows:

	June 30, 2021			December 31, 2020		
	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:						
Energy and water/waste water	\$ 1,248,898	\$ 1,249,937	\$ 268,750	\$ -	\$ -	\$ -
Total	\$ 1,248,898	\$ 1,249,937	\$ 268,750	\$ -	\$ -	\$ -
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 727,126	\$ 727,126	\$ -	\$ 770,983	\$ 770,983	\$ -
Total	\$ 727,126	\$ 727,126	\$ -	\$ 770,983	\$ 770,983	\$ -
Total impaired loans:						
Real estate mortgage	\$ 727,126	\$ 727,126	\$ -	\$ 770,983	\$ 770,983	\$ -
Energy and water/waste water	1,248,898	1,249,937	268,750	-	-	-
Total	\$ 1,976,024	\$ 1,977,063	\$ 268,750	\$ 770,983	\$ 770,983	\$ -

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

	For the Three Months Ended			
	June 30, 2021		June 30, 2020	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Energy and water/waste water	\$ 658,760	\$ 1,006	\$ -	\$ -
Total	\$ 658,760	\$ 1,006	\$ -	\$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 728,053	\$ 4,972	\$ 762,537	\$ 7,078
Total	\$ 728,053	\$ 4,972	\$ 762,537	\$ 7,078
Total impaired loans:				
Real estate mortgage	\$ 728,053	\$ 4,972	\$ 762,537	\$ 7,078
Energy and water/waste water	658,760	1,006	-	-
Total	\$ 1,386,813	\$ 5,978	\$ 762,537	\$ 7,078

	For the Six Months Ended			
	June 30, 2021		June 30, 2021	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Energy and water/waste water	\$ 337,607	\$ 1,984	\$ -	\$ -
Total	\$ 337,607	\$ 1,984	\$ -	\$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 743,133	\$ 10,033	\$ 843,962	\$ 12,903
Total	\$ 743,133	\$ 10,033	\$ 843,962	\$ 12,903
Total impaired loans:				
Real estate mortgage	\$ 743,133	\$ 10,033	\$ 843,962	\$ 12,903
Energy and water/waste water	337,607	1,984	-	-
Total	\$1,080,740	\$ 12,017	\$ 843,962	\$ 12,903

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	International	Total
Allowance for Credit Losses:								
Balance at March 31, 2021	\$ 885,751	\$ 49,331	\$ 53,917	\$ 3,215	\$ 188,838	\$ 23,980	\$ -	\$ 1,205,032
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	4,228	14,771	(943)	(641)	80,995	3,750	527	102,687
Adjustment due to merger	-	-	-	-	-	-	-	-
Other	-	(554)	5,170	-	-	(85)	(420)	4,111
Balance at June 30, 2021	<u>\$ 889,979</u>	<u>\$ 63,548</u>	<u>\$ 58,144</u>	<u>\$ 2,574</u>	<u>\$ 269,833</u>	<u>\$ 27,645</u>	<u>\$ 107</u>	<u>\$ 1,311,830</u>
Balance at December 31, 2020	\$ 999,361	\$ 72,863	\$ 51,271	\$ 3,313	\$ 1,440	\$ 24,306	\$ -	\$ 1,152,554
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(109,400)	(275)	(10,408)	(739)	269,558	3,424	527	152,686
Adjustment due to merger	-	-	-	-	-	-	-	-
Other	18	(9,040)	17,282	-	(1,165)	(85)	(420)	6,590
Balance at June 30, 2021	<u>\$ 889,979</u>	<u>\$ 63,548</u>	<u>\$ 58,144</u>	<u>\$ 2,574</u>	<u>\$ 269,833</u>	<u>\$ 27,645</u>	<u>\$ 107</u>	<u>\$ 1,311,830</u>
Ending Balance:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 268,750	\$ -	\$ -	\$ 268,750
Collectively evaluated for impairment	889,979	63,548	58,144	2,574	1,083	27,645	107	1,043,080
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Balance at June 30, 2021	<u>\$ 889,979</u>	<u>\$ 63,548</u>	<u>\$ 58,144</u>	<u>\$ 2,574</u>	<u>\$ 269,833</u>	<u>\$ 27,645</u>	<u>\$ 107</u>	<u>\$ 1,311,830</u>
Balance at March 31, 2020	\$ 859,264	\$ 56,457	\$ 48,079	\$ 2,846	\$ -	\$ 28,890	\$ -	\$ 995,536
Charge-offs	(1,331)	-	-	-	-	-	-	(1,331)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(92,781)	3,206	139,862	(9)	1,633	(1,911)	-	50,000
Other	1,084	(1,906)	(26,138)	-	-	-	-	(26,960)
Balance at June 30, 2020	<u>\$ 766,236</u>	<u>\$ 57,757</u>	<u>\$ 161,803</u>	<u>\$ 2,837</u>	<u>\$ 1,633</u>	<u>\$ 26,979</u>	<u>\$ -</u>	<u>\$ 1,017,245</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	(74,853)	(17,378)	137,139	(77)	1,633	3,536	-	50,000
Other	1,084	(1,906)	(26,138)	-	-	-	-	(26,960)
Balance at June 30, 2020	<u>\$ 766,236</u>	<u>\$ 57,757</u>	<u>\$ 161,803</u>	<u>\$ 2,837</u>	<u>\$ 1,633</u>	<u>\$ 26,979</u>	<u>\$ -</u>	<u>\$ 1,017,245</u>
Ending Balance:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,500	\$ -	\$ 3,500
Collectively evaluated for impairment	766,236	57,757	161,803	2,837	1,633	23,479	-	1,013,745
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Balance at June 30, 2020	<u>\$ 766,236</u>	<u>\$ 57,757</u>	<u>\$ 161,803</u>	<u>\$ 2,837</u>	<u>\$ 1,633</u>	<u>\$ 26,979</u>	<u>\$ -</u>	<u>\$ 1,017,245</u>

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Recorded Investments								
in Loans Outstanding:								
Ending Balance at								
June 30, 2021	\$ 727,543,488	\$ 97,111,205	\$ 35,970,743	\$ 6,942,455	\$ 2,074,014	\$ 14,798,503	\$ 287,242	\$ 884,727,650
Individually evaluated for impairment	\$ 3,157,028	\$ -	\$ -	\$ -	\$ 1,248,898	\$ 46,670	\$ -	\$ 4,452,597
Collectively evaluated for impairment	\$ 724,386,460	\$ 97,111,205	\$ 35,970,743	\$ 6,942,455	\$ 825,116	\$ 14,751,833	\$ 287,242	\$ 880,275,053
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Balance at								
December 31, 2020	\$ 693,536,935	\$ 95,457,973	\$ 30,986,105	\$ 6,970,458	\$ 1,351,777	\$ 11,821,189	\$ -	\$ 840,124,437
Individually evaluated for impairment	\$ 2,871,246	\$ -	\$ -	\$ -	\$ -	\$ 50,855	\$ -	\$ 2,922,101
Collectively evaluated for impairment	\$ 690,665,689	\$ 95,457,973	\$ 30,986,105	\$ 6,970,458	\$ 1,351,777	\$ 11,770,334	\$ -	\$ 837,202,336
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 Requirements Including Capital Conservation Buffers	As of June 30, 2021	As of December 31, 2020
Common equity tier 1 ratio	7.00%	14.63%	15.30%
Tier 1 capital ratio	8.50%	14.63%	15.30%
Total capital ratio	10.50%	14.77%	15.43%
Permanent capital ratio	7.00%	14.65%	15.32%
Non-risk-adjusted:			
Tier 1 leverage ratio	5.00%	15.02%	15.74%
UREE leverage ratio	1.50%	16.05%	16.75%

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

at June 30, 2021

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	\$ 140,221,964	\$ 140,221,964	\$ 140,221,964	\$ 140,221,964
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	3,658,406	3,658,406	3,658,406	3,658,406
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	1,247,577	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(12,675,385)	(12,675,385)	(12,675,385)	(12,675,385)
Other regulatory required deductions	-	-	-	-
	<u>\$ 131,204,985</u>	<u>\$ 131,204,985</u>	<u>\$ 132,452,562</u>	<u>\$ 131,204,985</u>
Denominator:				
Risk-adjusted assets excluding allowance	\$ 909,234,028	\$ 909,234,028	\$ 909,234,028	\$ 909,234,028
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(12,675,385)	(12,675,385)	(12,675,385)	(12,675,385)
Allowance for loan losses	-	-	-	(1,204,470)
	<u>\$ 896,558,643</u>	<u>\$ 896,558,643</u>	<u>\$ 896,558,643</u>	<u>\$ 895,354,173</u>

at December 31, 2020

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	\$ 137,525,751	\$ 137,525,751	\$ 137,525,751	\$ 137,525,751
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	3,514,634	3,514,634	3,514,634	3,514,634
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	1,099,214	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(11,818,201)	(11,818,201)	(11,818,201)	(11,818,201)
Other regulatory required deductions	-	-	-	-
	<u>\$ 129,222,184</u>	<u>\$ 129,222,184</u>	<u>\$ 130,321,398</u>	<u>\$ 129,222,184</u>
Denominator:				
Risk-adjusted assets excluding allowance	\$ 856,507,031	\$ 856,507,031	\$ 856,507,031	\$ 856,507,031
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(11,818,201)	(11,818,201)	(11,818,201)	(11,818,201)
Allowance for loan losses	-	-	-	(1,020,207)
	<u>\$ 844,688,830</u>	<u>\$ 844,688,830</u>	<u>\$ 844,688,830</u>	<u>\$ 843,668,623</u>

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

	at June 30, 2021	
	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	\$ 140,221,964	\$ 140,221,964
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	3,658,406	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(12,675,385)	-
Other regulatory required deductions	-	-
	<u>\$ 131,204,985</u>	<u>\$ 140,221,964</u>
Denominator:		
Total Assets	\$ 891,399,268	\$ 891,399,268
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(17,716,991)	(17,716,991)
	<u>\$ 873,682,277</u>	<u>\$ 873,682,277</u>
	at December 31, 2020	
	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	\$ 137,525,751	\$ 137,525,751
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	3,514,634	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(11,818,201)	-
Other regulatory required deductions	-	-
	<u>\$ 129,222,184</u>	<u>\$ 137,525,751</u>
Denominator:		
Total Assets	\$ 840,960,461	\$ 840,960,461
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(20,040,279)	(20,040,279)
	<u>\$ 820,920,182</u>	<u>\$ 820,920,182</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 three and six months ended June 30:

	2021	2020
Accumulated other comprehensive income (loss) at January 1	\$ (149,202)	\$ (104,295)
Actuarial gains/(losses)	1,878	-
Amortization of prior service (credit) costs included in salaries and employee benefits	(6,146)	(6,146)
Other comprehensive income (loss), net of tax	(4,268)	(6,146)
Accumulated other comprehensive income (loss) at June 30	<u>\$ (153,470)</u>	<u>\$ (110,441)</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 six months ended June 30, 2021 and 2020, the Association carried a deferred tax asset of \$123,379 and \$97,519, 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 2020 Annual Report to Stockholders for a more complete description.

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

<u>June 30, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	\$ 137,442	\$ -	\$ -	\$ 137,442
Total assets	\$ 137,442	\$ -	\$ -	\$ 137,442
<u>December 31, 2020</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	\$ 121,393	\$ -	\$ -	\$ 121,393
Total assets	\$ 121,393	\$ -	\$ -	\$ 121,393

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

<u>June 30, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$1,248,898	\$1,248,898
Other property owned	-	-	-	-
<u>December 31, 2020</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 15,013	\$ 15,013
Other property owned	-	-	-	-

*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 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 June 30, 2021, the Association had \$108,497 in outstanding standby letters of credit and \$383 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 2020 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 2020 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.

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.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	2021	2020
Service cost	\$ 10,632	\$ 9,674
Interest cost	23,791	28,188
Amortization of prior service (credits) costs	(4,268)	(6,146)
Net periodic benefit cost	<u>\$ 30,155</u>	<u>\$ 31,716</u>

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2021, was \$1,757,869 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 (DB) pension 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 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 June 30:

	2021	2020
DB contribution	\$ 762,268	\$ 419,439
YTD amortization	(381,134)	(209,720)
Remaining contribution	<u>\$ 381,134</u>	<u>\$ 209,719</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 August 9, 2021, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 9, 2021.