# LOUISIANA LAND BANK, ACA 

2012<br>Quarterly Report Second Quarter



For the Quarter Ended June 30, 2012

## 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 his or her knowledge and belief.

R. Ernest Girouard, Jr., Chairman, Board of Directors

August 8, 2012
August 8, 2012


August 8, 2012

## LOUISIANA LAND BANK, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Louisiana Land Bank, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended June 30, 2012. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2011 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:

Effective January 1, 2010, the Association received approval from its regulator, the Farm Credit Administration (FCA), and the Farm Credit Bank of Texas (Bank) to restructure as an Agricultural Credit Association (ACA). This reorganization required the approval of voting stockholders of the Association. Approval from stockholders was granted on November 10, 2009. The approved structure allows the Association the opportunity to provide short- and intermediate-term agricultural lending products to customers in addition to the Association's current product mix.

The Association has a contractual relationship with the Bank from which the Association borrows to fund its loan portfolio. The indebtedness is governed by a general financing agreement (GFA) which contains certain covenants. As of June 30, 2012, the Association was in violation of an earnings covenant included in the GFA. The Bank has issued a limited waiver of the covenant default through September 30, 2012, subject to the Association taking certain actions to correct the deficiency.

Remedies/corrective actions by the Association to the default include meeting certain profitability and credit quality metrics as defined by the Bank in the wavier, as well as additional Bank review over large credit originations. The Association regained GFA compliance during the second quarter of 2011 in relation to the credit quality metrics and anticipates regaining full compliance during 2012.

As of June 30, 2012, the Association had $\$ 43,470,887$ in nonearning assets, including nonaccrual loans, formally restructured loans and other property owned. These nonearning assets are expected to have a negative impact on net interest margins for up to the next three years as legal collections move through the court systems in judicial foreclosures states and the market begins to slowly absorb the properties.

Between 2006 and 2008, the Association entered into $\$ 123.3$ million of loan participations brokered by a third party originator. The Association has suffered significant credit losses associated with that portfolio, with charge-offs totaling over $\$ 40.6$ million since the beginning of 2010 . As of June 30, 2012, total remaining recorded investment of that portfolio is \$27,257,523.

The Association's total allowance for loan loss balance was $\$ 10,210,310$ as of June 30, 2012. Of that balance, $\$ 5,091,053$ or 49.9 percent relates to loans involving the third party originator, with collateral residing primarily in the states of Florida and Georgia.

During the second quarter of 2011, management presented a proposal to the Association’s board of directors (board) for the sale of a portion of the Association's Florida assets. The proposal included 11 loans, with a majority of the volume classified as adverse. The transaction was approved by the Association's board as well as the Bank. The sale was completed and executed on June 29, 2011, and the Association received $\$ 10,628,137$ in exchange for the Florida assets. The Association incurred no additional provision expense for this transaction based off of the terms of the sale, but total charge-offs were $\$ 8,765,425$, which had been reserved against previously. The sale resulted in the removal of $\$ 13,212,910$ of mostly adverse assets from the Association's balance sheet. There is no additional recourse, servicing or other continuing involvement with the loans sold.

As of March 15, 2011, the Association entered into a written agreement (Agreement) with our regulator, the FCA. Per the Agreement, the Association is subject to various operational, financial, compliance and reporting requirements. The conditions which led to this Agreement were unsafe and unsound conditions, including excessive portfolio risk and asset quality weaknesses which stemmed from weaknesses in the credit underwriting function which became apparent with the downturn in the overall economy. The identification of these matters concluded that they result in violations of certain FCA regulations. The weaknesses as asserted by FCA are largely related to purchased loans and participations with the underlying
collateral predominantly located in Florida. The board is committed to addressing these matters and instituted specific actions beginning in January 2010, including replacing certain members of management, strengthening controls over problem loan identification, and generally ensuring that all identified weaknesses are both in the process of remediation (if not already remediated) and otherwise accounted for via the allowance for loan losses. The board is also complying with the requirements of the March 15, 2011 Agreement with the FCA, which reiterated the FCA findings identified and communicated throughout 2010, and created new reporting requirements to the FCA. The board will continue to monitor the remediation of the underlying causes of the conditions which led to the need for the Agreement with the FCA.

Pursuant to that effort, during May 2010, the Association hired a new chief credit officer (CCO), who was promoted to chief executive officer (CEO) on an interim basis as of October 1, 2010, and was named as the Association's permanent CEO on January 19, 2011. A new CCO was hired in April 2011 to fill that vacated position. Additionally, during August 2010, the Association brought in a new chief financial officer (CFO) on an interim basis. A permanent CFO was hired on December 20, 2010. During September 2010, the former CEO retired after 38 years of service, and the former CCO retired after 29 years of service. A new CFO was hired in May 2012 following the resignation of the former CFO.

The board elected to not pay a patronage to stockholders for 2011 due to the significant credit losses experienced by the Association.

## Loan Portfolio:

Total loans outstanding at June 30, 2012, including nonaccrual loans and sales contracts, were $\$ 610,441,837$ compared to $\$ 667,474,642$ at December 31, 2011, reflecting a decrease of 8.5 percent. Nonaccrual loans as a percentage of total loans outstanding were 4.5 percent at June 30, 2012, compared to 5.6 percent at December 31, 2011.

The association recorded \$5,424 in recoveries and \$216,985 in charge-offs for the quarter ended June 30, 2012, and \$165,096 in recoveries and $\$ 10,175,195$ in charge-offs for the same period in 2011. The association's allowance for loan losses was 1.7 percent and 1.6 percent of total loans outstanding as of June 30, 2012, and December 31, 2011, respectively.

The Association's portfolio contains certain repayment concentrations when analyzing the composition of the portfolio by primary repayment sources. The Association has reliance on row crops (19.99 percent), timber (17.56 percent), professional nonfarm (18.87 percent), and retail - nonfarm (16.43 percent) as primary repayment sources for almost 73 percent of the portfolio.

Total out-of-state loans, including purchased participation loans, were 8.47 percent of total loans outstanding at June 30, 2012. Purchased participations and out-of-state loans have significantly contributed to the increase in nonaccrual loans and loan loss reserves since 2008. These out-of-state loans, specifically those in Georgia and Florida, require increased monitoring and servicing due to the economic condition of the states where some of the collateral is located.

## 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 highrisk assets.

|  | June 30, 2012 |  |  | December 31, 2011 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Amount | \% |  | Amount | \% |
| Nonaccrual | \$ | 27,333,055 | 62.9\% | \$ | 37,541,242 | 80.5\% |
| 90 days past due and still accruing interest |  | 41,722 | 0.1\% |  | - | 0.0\% |
| Formally restructured |  | 2,830,682 | 6.5\% |  | 2,451,657 | 5.3\% |
| Other property owned, net |  | 13,265,428 | 30.5\% |  | 6,635,494 | 14.2\% |
| Total | \$ | 43,470,887 | 100.0\% | \$ | 46,628,393 | 100.0\% |

## Results of Operations:

The association had net income of $\$ 2,098,454$ and $\$ 4,629,670$ for the three and six months ended June 30, 2012, as compared to net loss of $\$-6,530,352$ and $\$-4,058,561$ for the same period in 2011, reflecting an increase of 132 percent and 214 percent, respectively. Net interest income was $\$ 4,393,925$ and $\$ 8,864,181$ for the three and six months ended June 30, 2012, compared to $\$ 4,727,570$ and $\$ 9,461,271$ for the same period in 2011. Interest income for the three and six months ended June 30 , 2012, decreased by $\$ 1,528,723$ and $\$ 2,770,003$, or 17.7 and 16.0 percent, respectively, from the same period of 2011, primarily due to declines in yields on earning assets and a decrease in average loan volume. Interest expense for the three and six months ended June 30, 2012, decreased by $\$ 1,195,078$ and $\$ 2,172,913$, or 30.7 and 27.6 percent, respectively, from the same period of 2011 due to a decrease in interest rates offset by an decrease in average debt volume. Average loan volume for the second quarter of 2012 was $\$ 625,766,374$, compared to $\$ 763,084,122$ in the second quarter of 2011 . The average spread on the loan portfolio for the second quarter of 2012 was 2.52 percent, compared to 2.50 percent in the second quarter of 2011.

The association's return on average assets for the six months ended June 30, 2012, was 1.67 percent compared to 1.50 percent for the same period in 2011. The association's return on average equity for the six months ended June 30, 2012, was 9.95 percent, compared to 9.02 percent for the same period in 2011.

## Liquidity and Funding Sources:

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

|  | $\begin{gathered} \text { June 30, } \\ 2012 \\ \hline \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2011 \\ \hline \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| Note payable to the bank | \$ | 517,249,381 | \$ | 575,155,017 |
| Accrued interest on note payable |  | 866,200 |  | 1,115,129 |
| Total | \$ | 518,115,581 | \$ | 576,270,146 |

The Association has a contractual relationship with the Bank from which the Association borrows to fund its loan portfolio. The indebtedness is governed by a GFA which contains certain covenants. Beginning in the third quarter of 2009 and continuing through June 30, 2012, with the exception of the months of July and August 2010, the Association violated the earnings covenant as defined in the Agreement, which requires a rolling one-year average return on assets of 1.00 percent or greater. This default was derived from the substantial provision for loan loss expense incurred during 2009, 2010, and 2011, as well as substantial provision for other property owned during 2011. This expense has resulted in a return on assets below the 1.00 percent threshold. The Bank has issued a limited waiver of the covenant default through September 30, 2012, subject to the Association taking certain actions to correct the deficiencies. Remedies/corrective actions by the Association to these defaults include meeting certain profitability and credit quality metrics as defined by the Bank in the waiver, as well as additional Bank review over large credit originations. The Association regained GFA technical compliance during the second quarter of 2011 in relation to the credit quality metric, adverse assets to risk funds.

## Capital Resources:

The association's capital position increased by $\$ 4,513,700$ at June 30, 2012, compared to December 31, 2011. The association's debt as a percentage of members' equity was $4.51: 1$ as of June 30 , 2012, compared to $5.20: 1$ as of December 31, 2011.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The association's permanent capital ratio at June 30, 2012, was 16.0 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at June 30, 2012, were 15.6 and 15.6 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

## Significant Recent Accounting Pronouncements:

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled "Balance Sheet - Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of offset associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in
accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact financial condition or results of operations, but will result in additional disclosures.

In September 2011, the FASB issued guidance entitled "Compensation - Retirement Benefits - Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012, for nonpublic entities. The amendments should be applied retrospectively for all prior periods presented. The adoption will not impact the association's financial condition or results of operation.

In June and December 2011, the FASB issued guidance entitled "Comprehensive Income - Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The main provisions of the guidance provide that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements. This guidance did not change the items that must be reported in other comprehensive income. With either approach, an entity is required to disclose reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). The December 2011 guidance deferred the effective date for the presentation of reclassification adjustments.

This guidance is applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact financial condition or results of operations, but resulted in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled "Fair Value Measurement - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments clarify certain aspects of the fair value measurement and disclosure requirements. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 31, 2011. The adoption of this guidance did not impact the financial condition or results of operations but resulted in additional disclosures.

In April 2011, the FASB issued its guidance entitled, "A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring is a troubled debt restructuring, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance was not material to the financial condition or results of operations.

## 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 December 31, 2011 Annual Report of Louisiana Land Bank, ACA more fully describe the association's relationship with the bank.

The Texas Farm Credit District's (district) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports also can be requested by e-mail at fcb@farmcreditbank.com. The district makes its annual and quarterly stockholder reports 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 Louisiana Land Bank, ACA, 2413 Tower Drive, Monroe, Louisiana 71201 or calling (318) 387-7535. Copies of the association's quarterly stockholder reports can also be requested by e-mailing debbie.bond@louisianalandbank.com.

## LOUISIANA LAND BANK, ACA

## CONS OLIDATED BALANCE SHEET

|  | $\begin{gathered} \text { June 30, } \\ 2012 \\ \text { (unaudited) } \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2011 \\ \hline \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| ASSETS |  |  |  |  |
| Cash | \$ | 668,030 | \$ | 124,536 |
| Loans |  | 610,441,837 |  | 667,474,642 |
| Less: allowance for loan losses |  | 10,210,310 |  | 10,347,913 |
| Net loans |  | 600,231,527 |  | 657,126,729 |
| Accrued interest receivable |  | 6,552,901 |  | 7,302,839 |
| Investment in and receivable from the Bank: |  |  |  |  |
| Capital stock |  | 12,956,350 |  | 12,956,350 |
| Other |  | 1,153,632 |  | 3,455,325 |
| Deferred taxes, net |  | 16,661 |  | 16,661 |
| Other property owned, net |  | 13,265,428 |  | 6,635,494 |
| Premises and equipment |  | 3,261,682 |  | 3,020,450 |
| Other assets |  | 603,522 |  | 351,364 |
| Total assets | \$ | 638,709,733 | \$ | 690,989,748 |
| LIABILITIES |  |  |  |  |
| Note payable to the Bank | \$ | 517,249,381 | \$ | 575,155,017 |
| Accrued interest payable |  | 866,200 |  | 1,115,129 |
| Drafts outstanding |  | 234,009 |  | 70,417 |
| Dividends payable |  | 32 |  | 32 |
| Other liabilities |  | 4,370,253 |  | 3,172,995 |
| Total liabilities |  | 522,719,875 |  | 579,513,590 |
| MEMBERS' EQUITY |  |  |  |  |
| Capital stock and participation certificates |  | 2,916,920 |  | 3,025,360 |
| Unallocated retained earnings |  | 113,482,362 |  | 108,852,692 |
| Accumulated other comprehensive income (loss) |  | $(409,424)$ |  | $(401,894)$ |
| Total members' equity |  | 115,989,858 |  | 111,476,158 |
| Total liabilities and members' equity | \$ | 638,709,733 | \$ | 690,989,748 |

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

## LOUISIANA LAND BANK, ACA

## STATEMENT OF INCOME

(unaudited)

|  | Quarter Ended June 30, |  |  |  | Six Months Ended June 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2012 |  | 2011 |  | 2012 |  | 2011 |  |
| INTEREST INCOME |  |  |  |  |  |  |  |  |
| Loans | \$ | 7,090,564 | \$ | 8,619,287 | \$ | 14,560,043 | \$ | 17,330,046 |
| Total interest income |  | 7,090,564 |  | 8,619,287 |  | 14,560,043 |  | 17,330,046 |
| INTEREST EXPENSE |  |  |  |  |  |  |  |  |
| Note payable to the bank |  | 2,696,639 |  | 3,891,717 |  | 5,695,862 |  | 7,868,775 |
| Total interest expense |  | 2,696,639 |  | 3,891,717 |  | 5,695,862 |  | 7,868,775 |
| Net interest income |  | 4,393,925 |  | 4,727,570 |  | 8,864,181 |  | 9,461,271 |
| PROVISION FOR LOAN LOSSES |  | 422,450 |  | 4,169,520 |  | 422,450 |  | 4,619,520 |
| Net interest income after provision for loan losses |  | 3,971,475 |  | 558,050 |  | 8,441,731 |  | 4,841,751 |
| NONINTEREST INCOME |  |  |  |  |  |  |  |  |
| Income from the bank: |  |  |  |  |  |  |  |  |
| Patronage income |  | 541,230 |  | 443,467 |  | 1,027,610 |  | 1,026,169 |
| Loan fees |  | 91,612 |  | 78,545 |  | 193,712 |  | 131,503 |
| Financially related services income |  | 1,128 |  | 1,289 |  | 1,871 |  | 2,385 |
| Gain (loss) on other property owned, net |  | - |  | - |  | - |  | - |
| Gain (loss) on sale of premises and equipment, net |  | 58,500 |  | 53,673 |  | 57,092 |  | 84,311 |
| Other noninterest income |  | 782,335 |  | 6,000 |  | 783,336 |  | 81,684 |
| Total noninterest income |  | 1,474,805 |  | 582,974 |  | 2,063,621 |  | 1,326,052 |
| NONINTEREST EXPENSES |  |  |  |  |  |  |  |  |
| Salaries and employee benefits |  | 1,466,616 |  | 1,429,085 |  | 2,884,374 |  | 2,772,608 |
| Directors' expense |  | 70,679 |  | 65,895 |  | 144,703 |  | 150,706 |
| Purchased services |  | 189,378 |  | 221,775 |  | 392,130 |  | 597,772 |
| Travel |  | 159,153 |  | 126,456 |  | 277,246 |  | 240,234 |
| Occupancy and equipment |  | 124,756 |  | 114,915 |  | 244,105 |  | 221,568 |
| Communications |  | 44,093 |  | 38,509 |  | 86,060 |  | 80,567 |
| Advertising |  | 86,626 |  | 61,094 |  | 161,575 |  | 162,485 |
| Public and member relations |  | 74,705 |  | 65,563 |  | 121,245 |  | 100,488 |
| Supervisory and exam expense |  | 105,657 |  | 108,575 |  | 254,782 |  | 125,662 |
| Insurance Fund premiums |  | 69,553 |  | 112,601 |  | 145,293 |  | 225,027 |
| Loss on other property owned, net |  | 24,314 |  | 114,053 |  | 66,781 |  | 230,060 |
| Provision for other property owned |  | 699,351 |  | 5,116,864 |  | 815,943 |  | 5,116,864 |
| Other noninterest expense |  | 232,946 |  | 95,991 |  | 263,204 |  | 202,323 |
| Total noninterest expenses |  | 3,347,827 |  | 7,671,376 |  | 5,857,441 |  | 10,226,364 |
| Income before income taxes |  | 2,098,453 |  | (6,530,352) |  | 4,647,911 |  | $(4,058,561)$ |
| Provision for (benefit from) income taxes |  | - |  | - |  | 18,241 |  | - |
| NET INCOME |  | 2,098,453 |  | (6,530,352) |  | 4,629,670 |  | $(4,058,561)$ |
| COMPREHENSIVE INCOME | \$ | 2,098,453 | \$ | (6,530,352) | \$ | 4,629,670 | \$ | $(4,058,561)$ |

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

## LOUISIANA LAND BANK, ACA

## CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

|  |  | (unaud |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Capital Stock/ Participation Certificates |  | Retained Earnings |  | Accumulated <br> Other <br> Comprehensive <br> Loss |  | Total Members' Equity |  |
| Balance at December 31, 2010 | \$ | 3,111,285 | \$ | 118,084,618 | \$ | $(44,159)$ | \$ | 121,151,744 |
| Net income |  |  |  | $(4,058,561)$ |  | - |  | $(4,058,561)$ |
| Other comprehensive income |  | - |  | - |  | $(21,848)$ |  | $(21,848)$ |
| Capital stock/participation certificates and allocated retained earnings issued |  | 195,045 |  | - |  | - |  | 195,045 |
| Capital stock/participation certificates and allocated retained earnings retired |  | $(220,705)$ |  | - |  | - |  | $(220,705)$ |
| Balance at June 30, 2011 | \$ | 3,085,625 | \$ | 114,026,057 | \$ | $(66,007)$ | \$ | 117,045,675 |
| Balance at December 31, 2011 | \$ | 3,025,360 | \$ | 108,852,692 | \$ | $(401,894)$ | \$ | 111,476,158 |
| Net income |  | - |  | 4,629,670 |  | - |  | 4,629,670 |
| Other comprehensive income |  | - |  | - |  | $(7,530)$ |  | $(7,530)$ |
| Capital stock/participation certificates and allocated retained earnings issued |  | 175,315 |  | - |  | - |  | 175,315 |
| Capital stock/participation certificates and allocated retained earnings retired |  | $(283,755)$ |  | - |  | - |  | $(283,755)$ |
| Balance at June 30, 2012 | \$ | 2,916,920 | \$ | 113,482,362 | \$ | $(409,424)$ | \$ | 115,989,858 |

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

# LOUISIANA LAND BANK, ACA NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS <br> (UNAUDITED) 

## NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Louisiana 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 Acadia, Allen, Ascension, Assumption, Avoyelles, Beauregard, Bienville, Bossier, Caddo, Calcasieu, Caldwell, Cameron, Catahoula, Claiborne, Concordia, DeSoto, East Baton Rouge, East Carroll, East Feliciana, Evangeline, Franklin, Grant, Iberia, Iberville, Jackson, Jefferson, Jefferson Davis, Lafayette, Lafourche, LaSalle, Lincoln, Livingston, Madison, Morehouse, Natchitoches, Orleans, Ouachita, Plaquemines, Pointe Coupee, Rapides, Red River, Richland, Sabine, St. Bernard, St. Charles, St. Helena, St. James, St. John the Baptist, St. Landry, St. Martin, St. Mary, St. Tammany, Tangipahoa, Tensas, Terrebonne, Union, Vermillion, Vernon, Washington, Webster, West Baton Rouge, West Carroll, West Feliciana, and Winn in the state of Louisiana. The association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The significant accounting policies followed and the financial condition and results of operations of the association as of and for the year ended December 31, 2011, are contained in the 2011 Annual Report to Stockholders. These unaudited second quarter 2012 financial statements should be read in conjunction with the 2011 Annual Report to Stockholders.

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled "Balance Sheet - Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of offset associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact financial condition or results of operations, but will result in additional disclosures.

In September 2011, the FASB issued guidance entitled "Compensation - Retirement Benefits - Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012, for nonpublic entities. The amendments should be applied retrospectively for all prior periods presented. The adoption will not impact the association's financial condition or results of operation.

In June and December 2011, the FASB issued guidance entitled "Comprehensive Income - Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The main provisions of the guidance provide that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements. This guidance did not change the items that must be reported in other comprehensive income. With either approach, an entity is required to disclose reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). The December 2011 guidance deferred the effective date for the presentation of reclassification adjustments.

This guidance is applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact financial condition or results of operations, but resulted in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled "Fair Value Measurement - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments clarify certain aspects of the fair value measurement and disclosure requirements. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 31, 2011. The adoption of this guidance did not impact the financial condition or results of operations but resulted in additional disclosures.

In April 2011, the FASB issued its guidance entitled, "A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring is a troubled debt restructuring, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance was not material to the financial condition or results of operations.

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 generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles 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.

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, 2012, are not necessarily indicative of the results to be expected for the year ended December 31, 2012. 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, 2012 | $\begin{gathered} \text { December 31, } \\ 2011 \\ \hline \end{gathered}$ |  |
| :---: | :---: | :---: | :---: |
|  | Amount |  | Amount |
| Production agriculture: |  |  |  |
| Real estate mortgage | \$ 520,030,750 | \$ | 576,435,004 |
| Production and intermediate term | 19,367,600 |  | 17,070,866 |
| Agribusiness: |  |  |  |
| Loans to cooperatives | 1,184,444 |  | 1,458,572 |
| Processing and marketing | 17,369,885 |  | 17,738,907 |
| Farm-related business | 24,741,779 |  | 29,464,286 |
| Communication | 8,231,815 |  | 3,473,526 |
| Energy | 2,846,050 |  | 2,875,372 |
| Rural residential real estate | 12,304,023 |  | 12,360,578 |
| Lease receivables | 4,365,491 |  | 6,597,531 |
| Total | \$ 610,441,837 | \$ | 667,474,642 |

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, 2012:

|  | Other Farm Credit Institutions |  | Non-Farm Credit Institutions |  |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Participations Purchased | Participations Sold | Participations Purchased |  |  | Participations Purchased | Participations Sold |
| Real estate mortgage | \$ 11,530,240 | \$ 22,013,986 | \$ 9,770,800 | \$ | - | \$ 21,301,040 | \$ 22,013,986 |
| Production and intermediate term | 2,480,483 | 15,703,354 | 5,714,286 |  | - | 8,194,769 | 15,703,354 |
| Agribusiness | 9,259,366 | - | 23,965,626 |  | - | 33,224,992 | - |
| Communication | 8,231,815 | - | - |  | - | 8,231,815 | - |
| Energy | 2,846,050 | - | - |  | - | 2,846,050 | - |
| Total | \$ 34,347,954 | \$ 37,717,340 | \$ 39,450,712 | \$ | - | \$ 73,798,666 | \$ 37,717,340 |

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

|  | $\begin{gathered} \text { June 30, } \\ 2012 \\ \hline \end{gathered}$ | $\begin{gathered} \text { December 31, } \\ 2011 \end{gathered}$ |
| :---: | :---: | :---: |
| Nonaccrual loans: |  |  |
| Real estate mortgage | \$11,936,991 | \$ 21,395,866 |
| Agribusiness | 15,104,034 | 15,844,733 |
| Communication | 258,325 | 263,376 |
| Rural residential real estate | 33,705 | 37,267 |
| Total nonaccrual loans | 27,333,055 | 37,541,242 |
| Accruing restructuredloans: |  |  |
| Real estate mortgage | 2,473,075 | 2,153,511 |
| Agribusiness | 357,607 | 298,146 |
| Total accruing restructured loans | 2,830,682 | 2,451,657 |

Accruing loans 90 days or more past due:

| Real estate mortgage | 41,722 |  |
| :---: | :---: | :---: |
| Total accruing loans 90 days or more | 41,722 | - |
| Total nonperforming loans | 30,205,459 | 39,992,899 |
| Other property owned | 13,265,428 | 6,635,494 |
| Total nonperforming assets | \$43,470,887 | \$ 46,628,393 |

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:


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


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 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, 2012, the total recorded investment of troubled debt restructured loans was $\$ 2,830,682$, including $\$ 0$ classified as nonaccrual and $\$ 2,830,682$ classified as accrual, with specific allowance for loan losses of $\$ 82,607$. As of June 30, 2012, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three and six months ended June 30, 2012. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. Loans formally restructured prior to January 1, 2012, were \$2,468,943.


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). Charge-offs recorded at the modification date was \$0 for the quarter ending June 30, 2012.

The predominant form of concession granted for troubled debt restructuring includes rate reduction and term extension. Other types of modifications include principle reductions and delayed payments, among others. 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.

There were no loans that met the accounting criteria as a troubled debt restructuring during the period from July 1, 2011 through June 30, 2012, and for which there was also a payment default during that same period.

Additional impaired loan information is follows:

|  | At June 30, 2012 |  |  | At December 31, 2011 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Recorded <br> Investment | Unpaid <br> Principal <br> Balance ${ }^{\text {a }}$ | Related <br> Allowance | Recorded <br> Investment |  | Unpaid <br> Principal <br> Balance ${ }^{\text {a }}$ | Related <br> Allowance |
| Impaired loans with a related allowance for credit losses: |  |  |  |  |  |  |  |
| Real estate mortgage | \$ 2,538,261 | \$ 3,577,583 | \$ 1,043,326 | \$ 2,622,956 | \$ | 3,673,805 | \$ 859,981 |
| Processing and marketing | - | - | - | 523,508 |  | 523,509 | 150,796 |
| Farm-related business | 14,831,285 | 17,593,927 | 3,551,689 | 8,486,081 |  | 8,702,747 | 4,196,545 |
| Communication | 258,325 | 258,325 | 236,000 | 263,376 |  | 263,376 | 236,000 |
| Total | \$17,627,871 | \$ 21,429,835 | \$4,831,015 | \$ 11,895,921 | \$ | 13,163,437 | \$ 5,443,322 |
| Impaired loans with no related allowance for credit losses: |  |  |  |  |  |  |  |
| Real estate mortgage | \$11,897,551 | \$ 15,846,207 | \$ | \$ 20,926,421 | \$ | 32,084,642 | \$ |
| Processing and marketing | 358,759 | 358,759 | - | 377,216 |  | 445,054 | - |
| Farm-related business | 272,748 | 285,845 | - | 6,756,074 |  | 9,302,049 | - |
| Rural residential real estate | 33,706 | 33,721 | - | 37,267 |  | 37,795 | - |
| Total | \$12,562,764 | \$ 16,524,532 | \$ | \$ 28,096,978 | \$ | 41,869,540 | \$ |
| Total impaired loans: |  |  |  |  |  |  |  |
| Real estate mortgage | \$14,435,812 | \$ 19,423,790 | \$ 1,043,326 | \$ 23,549,377 | \$ | 35,758,447 | \$ 859,981 |
| Processing and marketing | 358,759 | 358,759 | - | 900,724 |  | 968,563 | 150,796 |
| Farm-related business | 15,104,033 | 17,879,772 | 3,551,689 | 15,242,155 |  | 18,004,796 | 4,196,545 |
| Communication | 258,325 | 258,325 | 236,000 | 263,376 |  | 263,376 | 236,000 |
| Rural residential real estate | 33,706 | 33,721 | - | 37,267 |  | 37,795 | - |
|  | \$30,190,635 | \$ 37,954,367 | \$4,831,015 | \$ 39,992,899 |  | 55,032,977 | \$ 5,443,322 |

${ }^{a}$ Unpaid principal balance represents the recorded principal balance of the loan.

For the Three Months Ended

|  | For the Three Months Ended |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | June 30, 2012 |  |  |  | June 30, 2011 |  |  |  |
|  | Average Impaired <br> Loans |  | Interest Income <br> Recognized |  | Average Impaired Loans |  | Interest <br> Income <br> Recognized |  |
| Impaired loans with a related allowance for credit losses: |  |  |  |  |  |  |  |  |
| Real estate mortgage | \$ | 2,538,483 | \$ | 3,762 | \$ | 19,436,294 | \$ | 35,102 |
| Processing and marketing |  | - |  | - |  | 398,488 |  | 306 |
| Farm-related business |  | 14,837,392 |  | - |  | 5,395,556 |  | - |
| Communication |  | 260,206 |  | - |  | 356,592 |  | - |
| Total | \$ | 17,636,081 | \$ | 3,762 | \$ | 25,586,930 | \$ | 35,408 |
| Impaired loans with no related allowance for credit losses: |  |  |  |  |  |  |  |  |
| Real estate mortgage | \$ | 11,842,944 | \$ | 31,649 | \$ | 19,856,764 | \$ | 34,411 |
| Processing and marketing |  | 299,951 |  | 2,413 |  | 386,817 |  | 1,842 |
| Farm-related business |  | 272,748 |  | - |  | 15,635,417 |  | - |
| Rural residential real estate |  | 34,720 |  | - |  | 40,631 |  | - |
| Total | \$ | 12,450,363 | \$ | 34,062 | \$ | 35,919,629 | \$ | 36,253 |
| Total impaired loans: |  |  |  |  |  |  |  |  |
| Real estate mortgage | \$ | 14,381,427 | \$ | 35,411 | \$ | 39,293,058 | \$ | 69,513 |
| Processing and marketing |  | 299,951 |  | 2,413 |  | 785,305 |  | 2,148 |
| Farm-related business |  | 15,110,140 |  | - |  | 21,030,973 |  | - |
| Communication |  | 260,206 |  | - |  | 356,592 |  | - |
| Rural residential real estate |  | 34,720 |  | - |  | 40,631 |  | - |
|  | \$ | 30,086,444 | \$ | 37,824 | \$ | 61,506,559 | \$ | 71,661 |


|  | For the Six Months Ended |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | June 30, 2012 |  |  |  | June 30, 2011 |  |  |  |
|  | Average Impaired Loans |  | Interest <br> Income <br> Recognized |  | Average Impaired Loans |  | Interest <br> Income <br> Recognized |  |
| Impaired loans with a related allowance for credit losses: |  |  |  |  |  |  |  |  |
| Real estate mortgage | \$ | 2,541,116 | \$ | 7,588 | \$ | 19,468,835 | \$ | 70,687 |
| Processing and marketing |  | - |  | - |  | 398,488 |  | 306 |
| Farm-related business |  | 14,870,067 |  | - |  | 5,395,556 |  | - |
| Communication |  | 261,457 |  | - |  | 358,090 |  | - |
| Total | \$ | 17,672,640 | \$ | 7,588 | \$ | 25,620,969 | \$ | 70,993 |
| Impaired loans with no related allowance for credit losses: |  |  |  |  |  |  |  |  |
| Real estate mortgage | \$ | 11,752,771 | \$ | 52,518 | \$ | 18,049,897 | \$ | 109,782 |
| Processing and marketing |  | 299,647 |  | 4,642 |  | 382,463 |  | 2,490 |
| Farm-related business |  | 279,008 |  | - |  | 16,012,545 |  | - |
| Rural residential real estate |  | 35,335 |  | - |  | 40,833 |  | - |
| Total | \$ | 12,366,761 | \$ | 57,160 | \$ | 34,485,738 | \$ | 112,272 |
| Total impaired loans: |  |  |  |  |  |  |  |  |
| Real estate mortgage | \$ | 14,293,887 | \$ | 60,106 | \$ | 37,518,732 | \$ | 180,469 |
| Processing and marketing |  | 299,647 |  | 4,642 |  | 780,951 |  | 2,796 |
| Farm-related business |  | 15,149,075 |  | - |  | 21,408,101 |  | - |
| Communication |  | 261,457 |  | - |  | 358,090 |  | - |
| Rural residential real estate |  | 35,335 |  | - |  | 40,833 |  | - |
|  | \$ | 30,039,401 | \$ | 64,748 | \$ | 60,106,707 | \$ | 183,265 |

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


## 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.

## NOTE 4 - INCOME TAXES:

Louisiana Land Bank, ACA and its subsidiary are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During the six months ended June 30, 2012, the association did not participate in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that 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, 2012, and 2011, net income for tax purposes was $\$ 4,629,670$ and $\$-4,058,561$.

The subsidiary, Louisiana FLBA, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

## 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 13 to the 2011 Annual Report to Stockholders for a more complete description.

There were no assets and liabilities measured at fair value on a recurring basis at June 30, 2012 or December 31, 2011.
Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

| June 30, 2012 | Fair Value Measurement Using |  |  | Total Fair Value | Total Gains (Losses) |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Level 1 | Level 2 | Level 3 |  |  |
| Assets: |  |  |  |  |  |
| Loans* | \$ | \$ | \$24,582,224 | \$ 24,582,224 | \$ |
| Other property owned | - | - | 13,265,428 | 13,265,428 | - |
| December 31, 2011 | Fair Value Measurement Using |  |  | Total Fair | Total Gains |
|  | Level 1 | Level 2 | Level 3 | Value | (Losses) |
| Assets: |  |  |  |  |  |
| Loans* | \$ | \$ | \$ 38,066,882 | \$ 38,066,882 | \$ |
| Other property owned | - | - | 6,635,494 | 6,635,494 |  |

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

## Valuation Techniques

As more fully discussed in Note 2 to the 2011 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 2011 Annual Report to Stockholders.

## Loans

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were 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, these fair value measurements fall within Level 3 of the 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.

## Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value, which is generally determined using appraisals or other indications based on comparable sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

## 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:
Service cost
Interest cost
Amortization of prior service (credits) costs
Amortizations of net actuarial (gain) loss
Net periodic benefit cost

| Other Benefits |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | $\mathbf{2 0 1 2}$ |  | 2011 |  |
|  | $\mathbf{3 2 , 8 1 1}$ |  | $\$$ | 30,178 |
|  | $\mathbf{5 9 , 5 2 3}$ |  | 54,699 |  |
|  | $\mathbf{( 2 8 , 8 8 7 )}$ |  | $(33,187)$ |  |
|  | $\mathbf{2 1 , 3 5 7}$ |  | 11,339 |  |
|  | $\mathbf{8 4 , 8 0 4}$ |  | $\$$ | 63,029 |

The association's liability for the plan's unfunded accumulated obligation at June 30, 2012, was $\$ 2,420,775$ and is included in "Other Liabilities" in the balance sheet.

The structure of the district's defined benefit 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. As of June 30, 2012, \$252,621 of contributions have been made. The association presently anticipates contributing an additional $\$ 252,621$ to fund the defined benefit pension plan in 2012 for a total of \$505,242.

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive income (loss) for the six months ended June 30:

|  | 2012 | 2011 |
| :---: | :---: | :---: |
| Accumulated other comprehensive loss at January 1 | \$ $\mathbf{4 0 1 , 8 9 4 )}$ | \$ $(44,159)$ |
| Amortization of prior service costs included in net periodic postretirement benefit cost | $(28,887)$ | $(33,187)$ |
| Amortization of actuarial gain included in net periodic postretirement benefit cost | 21,357 | 11,339 |
| Other comprehensive loss, net of tax | $(7,530)$ | $(21,848)$ |
| Accumulated other comprehensive loss at June 30 | \$ (409,424) | \$ $(66,007)$ |

## NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES:

The association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to have a material effect on the Association's business operations or financial condition.

During the course of a routine participation foreclosure action the borrower has filed a counterclaim alleging a breach of the loan agreement by the lead lender and has requested monetary damages in an unspecified amount. Louisiana Land Bank, ACA owns a $20 \%$ interest in said loan. Based on correspondence with the lead lender, Association management believes the counterclaims are without merit and intends to vigorously defend the action.

## NOTE 8 - REGULATORY MATTERS:

As of June 30, 2012, the Association entered into a written agreement (Agreement) with the regulator, the FCA. Per the Agreement, the Association is subject to various operational, financial, compliance, and reporting requirements. The conditions which led to this Agreement were unsafe and unsound conditions including excessive portfolio risk and asset quality weaknesses which stemmed from weaknesses in the credit underwriting function which became more apparent with
the downturn in the overall economy. The identification of these matters concluded that they result in violations of certain FCA regulations. The weaknesses as asserted by FCA are largely related to purchased loans and participations with the underlying collateral predominantly located in Florida. The board is committed to addressing these matters and instituted specific actions throughout 2010, 2011, and 2012, including replacing certain members of management, strengthening controls over problem loan identification, and generally ensuring that all identified weaknesses are both in the process of remediation (if not already remediated) and otherwise accounted for via the allowance for loan losses.

The board assertively directed management to identify the full extent of the problems and to conduct immediate remedial actions over the course of 2010, 2011, and 2012. The actions taken to date by the board include:

- Strengthening the competencies of Association management and engaging external expertise where necessary;
- Attending relevant board training sessions;
- Increasing the allowance for loan losses to address the incurred credit losses;
- Overseeing the implementation of stronger controls related to credit decisions and administration;
- Monitoring the status and progress of management's corrective action plans, which cover the range of requirements identified above;
- Ensuring that the remedial actions taken to date consider all recommendations made by the FCA;
- Implementing procedures to comply with FCA requests, including communications and data requirements by the agreements with the FCA; and
- Choosing not to declare a patronage refund for 2010 or 2011 to preserve capital in respect of the identified potential portfolio credit weaknesses.

Although the Association's management and board initiated and monitored corrective actions, the excessive portfolio risk and material weaknesses in the Association's financial condition and performance were exacerbated by the stresses caused by the general weakening of the U.S. economy throughout 2010. The resulting impact of the economic environment has created a pronounced significant devaluation in real estate values in certain segments of the Association's portfolio, which includes real estate valuations for lands held in transitions in Florida and Georgia. The Association has adequately provided for the inherent and probable losses associated with these exposures as June 30, 2012.

## NOTE 9 - SUBSEQUENT EVENTS:

The association has evaluated subsequent events through August 8, 2012 which is the date the financial statements were issued.

