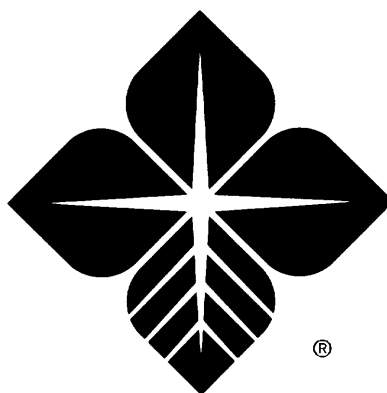


# **LOUISIANA LAND BANK, ACA**

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## **FINANCIAL REPORT**

**For the Quarter and Nine Months Ended  
September 30, 2020**

**REPORT OF MANAGEMENT**

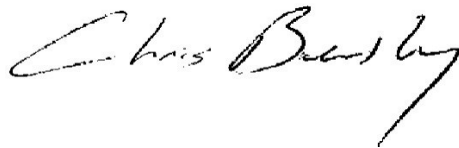
The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.



F. Stephen Austin, Chief Executive Officer  
*November 4, 2020*



James Mark Morgan, Chairman, Board of Directors  
*November 4, 2020*



Christopher E. Bentley, Chief Financial Officer  
*November 4, 2020*

# *Third Quarter 2020 Financial Report*

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## **LOUISIANA LAND BANK, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

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

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries, Louisiana Production Credit Association, PCA and Louisiana Federal Land Bank Association, FLCA. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

### ***Significant Events:***

The Association has been operating under a declared emergency since mid-March 2020 due to the Coronavirus Disease (COVID19). The Association continues full operations during this declared emergency with our branches open for business and following strict safety protocols. Funds transfers, loan closings, credit decisions, loan operations, operational support activities and customer support functions have operated as designed during this pandemic situation. Operationally, we are still meeting the demands and needs of our agricultural and rural communities by providing access to funds.

Operations have been moving forward better than expected. Our Pandemic Plan and technology upgrades had our staff prepared to work remotely yet still service the needs of our stockholders. We remain open for business despite operating in a pandemic situation. Management is closely monitoring guidance given by the Governor and state officials and following best practices as prescribed. Our internal controls over financial reporting continue to operate effectively in this environment. There have been no material changes to our controls during this time. Management does not currently expect any material changes, and none are being contemplated at this time. As we move forward in this COVID19 environment, we continue to assess our control environment to ensure the risks tied to our financial reporting are addressed and covered.

The Association is working with stockholders that have been impacted by COVID19. To facilitate relief for stockholders, the Association offered loan extensions, loan payment deferrals, and other restructurings as appropriate to the stockholder's needs. Payment deferrals up to 90 days were available. The Association modeled the deferrals much like other GSE's where interest is not compounding on the deferred amount. We believe this approach strengthens our cooperative relationship with our stockholders impacted by COVID19 while providing immediate assistance where needed. This program ended in the early stages of the 3<sup>rd</sup> quarter.

At this time, it is still too early to speculate on the impact of COVID19 on the Association. Future events are uncertain and the level of impact that COVID19 places on our stockholders is not yet determinable. It is likely that we will have a much clearer picture on what impact to our financial operations COVID19 during 2021.

Through September 30, 2020 and the date of this report, there have been no material credit metrics impacting the credit quality of the loan portfolio related to COVID19. The Association is closely monitoring its loan portfolio and is focused on sectors that may be impacted by COVID19, including both farm and non-farm sectors. Capital levels are adequate to combat adversity or support continuing loan demand. Allowance for loan losses will be evaluated on an ongoing basis to ensure that the Association has the proper level of reserves during this situation.

The USDA announced on September 18, 2020, that it will provide additional direct assistance of up to \$14 billion to farmers and ranchers who continue to face market disruptions and associated costs due to COVID19. Eligible farmer, including row crop, livestock and specialty crop producers can sign up for aid at USDA Farm Service Agency offices through mid-December 2020.

During the first quarter of 2020, the Association's board of directors (Board) paid a patronage of \$7,769,421 to eligible stockholders from 2019 earnings. The patronage is in the form of a qualified patronage distribution. The patronage distribution increased by just over 6.1 percent when compared to the distribution paid in 2019. This marks the eighth consecutive year that the Association has paid and increased the cash patronage to eligible borrowers.

In March 2020, the Farm Credit System Insurance Corporation (FCSIC) Board approved the refund of \$62.7 million in excess insurance fund balances to Farm Credit System banks. The FCSIC was created by Congress in 1987 to enhance the financial integrity of the Farm Credit System by ensuring timely payment of System debt and interest. The Association's allocated portion of the refund was \$155,621 and was recognized as other income.

### *Loan Portfolio*

Total loans outstanding at September 30, 2020, including nonaccrual loans and sales contracts, were \$912,400,183 compared to \$844,732,450 at December 31, 2019, reflecting an increase of 8.0%. Nonaccrual loans as a percentage of total loans outstanding were 0.4% at September 30, 2020, compared to 0.4% at December 31, 2019.

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Total Loans		
Acceptable	<b>98.2</b>	98.1
Other Assets Especially Mentioned	<b>1.2</b>	1.2
Substandard/Doubtful	<b>0.6</b>	0.7
	<u><b>100.0 %</b></u>	<u>100.0 %</u>

The Association recorded \$30,831 in recoveries and \$20,676 in charge-offs for the quarter ended September 30, 2020, and \$23,745 in recoveries and (\$157) in charge-offs for the same period in 2019. The Association's allowance for loan losses was 0.6% and 0.6% of total loans outstanding as of September 30, 2020, and December 31, 2019, respectively.

### *Risk Exposure*

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

	<u>September 30, 2020</u>		<u>December 31, 2019</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	<b>\$ 3,199,885</b>	<b>52.5%</b>	\$ 3,634,202	46.4%
Formally restructured	<b>2,893,422</b>	<b>47.5%</b>	4,147,903	53.6%
Total	<u><b>\$ 6,093,307</b></u>	<u><b>100.0%</b></u>	<u>\$ 7,782,105</u>	<u>100.0%</u>

### *Results of Operations*

The Association had net income of \$4,686,736 and \$12,526,167 for the three and nine months ended September 30, 2020, as compared to net income of \$3,373,559 and \$10,382,901 for the same period in 2019, reflecting an increase of 38.9% and 20.6%. Net interest income was \$6,230,973 and \$18,021,790 for the three and nine months ended September 30, 2020, compared to \$5,751,638 and \$16,983,907 for the same period in 2019.

In March of this year, the Federal Reserve lowered rates by 150 basis points (1.50%). This was on the heels of a rate reduction in the second half of 2019. Those rate changes prompted significant loan demand year to date in 2020. The results of those changes in interest rates can be evaluated on the following table:

	Nine Months Ended			
	September 30, 2020		September 30, 2019	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 874,078,392	\$ 31,955,307	\$ 799,475,627	\$ 31,805,700
Total interest-earning assets	874,078,392	31,955,307	799,475,627	31,805,700
Interest-bearing liabilities	725,709,421	13,933,518	656,945,626	14,821,793
Impact of capital	<u>\$ 148,368,971</u>		<u>\$ 142,530,001</u>	
Net interest income		<u>\$ 18,021,789</u>		<u>\$ 16,983,907</u>
	2020		2019	
	Average Yield		Average Yield	
Yield on loans	4.88%		5.32%	
Total yield on interest-earning assets	4.88%		5.32%	
Cost of interest-bearing liabilities	2.56%		3.02%	
Interest rate spread	2.32%		2.30%	
Net interest income as a percentage of average earning assets	2.75%		2.84%	

	Nine months ended: September 30, 2020 vs. September 30, 2019		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 2,970,670	\$(2,821,063)	\$ 149,607
Total interest income	2,970,670	(2,821,063)	149,607
Interest expense	1,552,861	(2,441,136)	(888,275)
Net interest income	<u>\$ 1,417,809</u>	<u>\$ (379,927)</u>	<u>\$ 1,037,882</u>

Interest Income for the three months ended September 30, 2020, decreased by \$343,098 or 3.2% when compared to the same period of 2019 due to declining rates. Interest income for the nine months ended September 30, 2020, increased by \$149,607, or 0.5% when compared to the same period of 2019. The increase for the nine months ended September 30, 2020 is due to an increase in the average loan volume. Average loan volume for the third quarter of 2020 was \$907,627,869, compared to \$820,547,002 in the third quarter of 2019. Interest expense for the three and nine months ended September 30, 2020 decreased by \$822,433 and \$888,275, or 16.0% and 6.0%, respectively from the same period of 2019. The average net interest rate spread on the loan portfolio for the third quarter of 2020 was 2.36%, compared to 2.26% in the third quarter of 2019.

The Association manages cash on a daily basis and may carry different balances at times to accommodate anticipated expense. Normally, the Association tries to manage the balance as close to a zero balance as possible.

Accrued Interest Receivable is a cyclical item with the balance sheet and historically reduces at year end. The Association's patronage payable transitioned to outstanding checks in the first quarter which is the cause for the variance in the patronage payable and other liability lines within the balance sheet and prior period balance sheet.

Loan fees have increased significantly in 2020 due to loan demand and rate repricing efforts. Management does not expect this level of fee income to be sustainable going forward.

The Association currently does not have any acquired property on the books. This could change as adverse credits are worked out by the Association's Special Assets team. It is not expected that any new acquired property volume would be material to the portfolio.

The Association has experienced some lower expenses during this COVID19 period. Specifically training, travel, continuing education and customer relationship related events expense have been lower in 2020. Management believes that once the pandemic is under control these expenses will return to normal levels. The Association continues to face increasing audit and insurance related expense. Management closely monitors these expenses and reports the items to the Board of Directors on a regular basis.

The Association's return on average assets for the nine months ended September 30, 2020, was 1.86% compared to 1.69% for the same period in 2019. The Association's return on average equity for the nine months ended September 30, 2020, was 10.27%, compared to 8.88% for the same period in 2019.

In late 2017, FCBT announced a change to the direct note pricing methodology which alters the direct note patronage income for the Association. Since the change was implemented, the Association's portfolio has migrated to the new pricing at a rapid pace. To keep up with this change, the Association has increased the direct note patronage accrual to better reflect the new pricing related to the direct note. This change results in a variance to the patronage from FCBT section of the income statement.

### ***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 System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Note payable to the bank	<b>\$ 762,790,254</b>	\$ 696,921,619
Accrued interest on note payable	<b>1,368,300</b>	1,721,265
Total	<b>\$ 764,158,554</b>	\$ 698,642,884

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$762,790,254 as of September 30, 2020, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.17 percent at September 30, 2020. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank since December 31, 2019, is due to an increase in accrual loan volume. A new GFA was executed between the Bank and the Association on October 1, 2020 with a new commitment of \$920,000,000 and an expiration date of September 30, 2023.

The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$148,945,252 at September 30, 2020. The maximum amount the Association may borrow from the Bank as of September 30, 2020, was \$845,000,000 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2020. As borrower payments are received, they are applied to the Association's note payable with the Bank.

### ***Capital Resources***

The Association's capital position has increased by \$12,674,436 at September 30, 2020, compared to December 31, 2019 primarily due to net income during 2020. The Association's debt as a percentage of members' equity was 4.54:1 as of September 30, 2020, compared to 4.54:1 as of December 31, 2019.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2020, the Association exceeded all regulatory capital requirements.

***Significant Recent Accounting Pronouncements*** - Refer to Note 1 – "Organization and Significant Accounting Policies" in this quarterly report for disclosures of recent accounting pronouncements which may impact the Associations consolidated financial position and results of operations and for critical accounting policies.

### ***Relationship With the Farm Credit Bank of Texas***

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2019 Annual Report of Louisiana 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](http://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, La 71201 or calling 318-387-7535. The annual and quarterly stockholder reports for the Association are also available on its website at [www.louisianalandbank.com](http://www.louisianalandbank.com). Copies of the Association's quarterly stockholder reports can also be requested by e-mailing [debbie.bond@louisianalandbank.com](mailto:debbie.bond@louisianalandbank.com).



**LOUISIANA LAND BANK, ACA**

**CONSOLIDATED BALANCE SHEET**

	<b>September 30, 2020 (unaudited)</b>	<b>December 31, 2019</b>
<b><u>ASSETS</u></b>		
Cash	\$ 42,300	\$ 35,760
Loans	912,400,183	844,732,450
Less: allowance for loan losses	5,775,972	5,350,446
Net loans	<u>906,624,211</u>	<u>839,382,004</u>
Accrued interest receivable	11,897,760	9,806,394
Investment in and receivable from the Farm		
Credit Bank of Texas:		
Capital stock	13,192,815	13,192,815
Other	3,248,432	1,730,488
Premises and equipment, net	4,483,111	4,681,765
Other assets	754,143	622,025
Total assets	<u><u>\$ 940,242,772</u></u>	<u><u>\$ 869,451,251</u></u>
<b><u>LIABILITIES</u></b>		
Note payable to the Farm Credit Bank of Texas	\$ 762,790,254	\$ 696,921,619
Accrued interest payable	1,368,300	1,721,265
Drafts outstanding	110,700	98,072
Patronage distributions payable	132	7,800,039
Other liabilities	6,351,047	5,962,353
Total liabilities	<u>770,620,433</u>	<u>712,503,348</u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	2,862,840	2,778,990
Unallocated retained earnings	167,598,513	155,041,749
Accumulated other comprehensive income (loss)	(839,014)	(872,836)
Total members' equity	<u>169,622,339</u>	<u>156,947,903</u>
Total liabilities and members' equity	<u><u>\$ 940,242,772</u></u>	<u><u>\$ 869,451,251</u></u>

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

LOUISIANA LAND BANK, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 10,544,842	\$ 10,887,940	\$ 31,955,307	\$ 31,805,700
Total interest income	10,544,842	10,887,940	31,955,307	31,805,700
<b><u>INTEREST EXPENSE</u></b>				
Note payable to the Farm Credit Bank of Texas	4,313,869	5,136,302	13,933,518	14,821,793
Total interest expense	4,313,869	5,136,302	13,933,518	14,821,793
Net interest income	6,230,973	5,751,638	18,021,789	16,983,907
<b><u>PROVISION FOR LOAN LOSSES</u></b>				
	138,223	92,732	435,857	(21,611)
Net interest income after provision for loan losses	6,092,750	5,658,906	17,585,932	17,005,518
<b><u>NONINTEREST INCOME</u></b>				
Income from the Farm Credit Bank of Texas:				
Patronage income	1,261,325	693,207	2,724,268	2,043,098
Loan fees	467,280	115,247	1,137,152	383,800
Financially related services income	540	524	1,366	1,620
Gain (loss) on sale of premises and equipment, net	69,629	112,513	68,108	217,164
Other noninterest income	7,405	4,800	264,678	204,048
Total noninterest income	1,806,179	926,291	4,195,572	2,849,730
<b><u>NONINTEREST EXPENSES</u></b>				
Salaries and employee benefits	2,100,954	2,056,633	6,048,161	6,019,666
Directors' expense	74,202	93,907	223,657	263,392
Purchased services	157,793	89,254	383,433	296,344
Travel	98,371	174,744	297,553	472,882
Occupancy and equipment	172,970	160,276	486,744	430,067
Communications	57,463	74,279	173,460	186,457
Advertising	81,787	78,844	266,999	275,213
Public and member relations	37,998	71,222	183,764	298,246
Supervisory and exam expense	109,393	134,300	351,287	423,643
Insurance Fund premiums	228,059	168,729	557,544	493,241
Other components of net periodic postretirement benefit cost	43,654	39,051	130,962	117,152
Other noninterest expense	50,081	71,423	151,308	191,997
Total noninterest expenses	3,212,725	3,212,662	9,254,872	9,468,300
Income before income taxes	4,686,204	3,372,535	12,526,632	10,386,948
Provision for (benefit from) income taxes	(532)	(1,024)	465	4,047
<b>NET INCOME</b>	<b>4,686,736</b>	<b>3,373,559</b>	<b>12,526,167</b>	<b>10,382,901</b>
Other comprehensive income:				
Change in postretirement benefit plans	11,274	1,083	33,822	3,249
Other comprehensive income, net of tax	11,274	1,083	33,822	3,249
<b>COMPREHENSIVE INCOME</b>	<b>\$ 4,698,010</b>	<b>\$ 3,374,642</b>	<b>\$ 12,559,989</b>	<b>\$ 10,386,150</b>

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

LOUISIANA LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY  
(unaudited)

	Capital Stock/		Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
	Participation Certificates	Preferred Stock		Allocated	Unallocated		
Balance at December 31, 2018	\$ 2,684,080		\$ -	\$ -	\$ 148,782,413	\$ (455,516)	\$ 151,010,977
Net income					10,382,901		10,382,901
Other comprehensive income						3,249	3,249
Comprehensive income					10,382,901	3,249	10,386,150
Preferred Stock Issued							
Capital stock/participation certificates and allocated retained earnings issued	262,330						262,330
Capital stock/participation certificates and allocated retained earnings retired	(195,265)						(195,265)
Patronage refunds:							
Cash					8,512		8,512
Balance at September 30, 2019	<u>\$ 2,751,145</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 159,173,826</u>	<u>\$ (452,267)</u>	<u>\$ 161,472,704</u>
Balance at December 31, 2019	\$ 2,778,990	\$ -	\$ -	\$ -	\$ 155,041,749	\$ (872,836)	\$ 156,947,903
Net income					12,526,167		12,526,167
Other comprehensive income						33,822	33,822
Capital stock/participation certificates issued	353,225						353,225
Capital stock/participation certificates retired	(269,375)						(269,375)
Patronage dividends:							
Change in patronage declared and paid					30,597		30,597
<b>Balance at September 30, 2020</b>	<u><b>\$ 2,862,840</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 167,598,513</b></u>	<u><b>\$ (839,014)</b></u>	<u><b>\$ 169,622,339</b></u>

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

**LOUISIANA LAND BANK, ACA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*Unaudited*

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

Louisiana Land Bank, ACA including its wholly owned subsidiaries, Louisiana Production Credit, PCA and Louisiana Federal Land Bank Association, FLCA (Association), is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes in all 64 parishes in the State of Louisiana. The Association serves the parishes of 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 accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019, as contained in the 2019 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019, as contained in the 2019 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2020. Descriptions of the significant accounting policies are included in the 2019 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled “Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The institution is evaluating the impact of adoption on the institution’s financial condition and its results of operations.

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

In August 2018, FASB issued guidance entitled “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost.” The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element

of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

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

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

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2020, are not necessarily indicative of the results to be expected for the year ended December 31, 2019. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

## NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	September 30, 2020 Amount	December 31, 2019 Amount
Production agriculture:		
Real estate mortgage	\$ 743,135,958	\$ 684,945,535
Production and intermediate term	77,363,237	68,869,826
Agribusiness:		
Loans to cooperatives	16,066,456	15,943,476
Processing and marketing	34,569,165	35,807,651
Farm-related business	24,376,689	22,518,263
Communication	7,475,462	7,511,673
Energy	880,627	1,132,453
Water and waste water	1,165,750	-
Rural residential real estate	7,366,839	8,003,573
Total	<b>\$ 912,400,183</b>	<b>\$ 844,732,450</b>

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 11,353,925	\$ 23,587,905	\$ -	\$ -	\$ 11,353,925	\$ 23,587,905
Production and intermediate term	4,933,473	-	-	-	4,933,473	-
Agribusiness	35,885,749	47,012,649	-	-	35,885,749	47,012,649
Communication	7,475,462	-	-	-	7,475,462	-
Energy	880,627	-	-	-	880,627	-
Water and waste water	1,165,750	-	-	-	1,165,750	-
Total	<u>\$ 61,694,986</u>	<u>\$ 70,600,554</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,694,986</u>	<u>\$ 70,600,554</u>

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 2,872,125	\$ 3,374,540
Production and intermediate term	310,837	259,662
Rural residential real estate	16,923	-
Total nonaccrual loans	<u>3,199,885</u>	<u>3,634,202</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	2,751,492	3,663,232
Production and intermediate term	-	337,149
Rural residential real estate	141,930	147,522
Total accruing restructured loans	<u>2,893,422</u>	<u>4,147,903</u>
<b>Accruing loans 90 days or more past due:</b>		
Total accruing loans 90 days or more past due	<u>-</u>	<u>-</u>
Total nonperforming loans	<u>6,093,307</u>	<u>7,782,105</u>
Total nonperforming assets	<u>\$ 6,093,307</u>	<u>\$ 7,782,105</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:

	<b>September 30, 2020</b>	December 31, 2019
Real estate mortgage		
Acceptable	<b>98.2</b> %	98.3 %
OAEM	<b>1.2</b>	1.0
Substandard/doubtful	<b>0.6</b>	0.7
	<b>100.0</b>	100.0
Production and intermediate term		
Acceptable	<b>99.6</b>	98.0
OAEM	-	1.6
Substandard/doubtful	<b>0.4</b>	0.4
	<b>100.0</b>	100.0
Agribusiness		
Acceptable	<b>97.2</b>	97.0
OAEM	<b>1.7</b>	3.0
Substandard/doubtful	<b>1.1</b>	-
	<b>100.0</b>	100.0
Energy and water/waste water		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Communication		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Rural residential real estate		
Acceptable	<b>96.5</b>	98.2
OAEM	<b>1.6</b>	0.3
Substandard/doubtful	<b>1.9</b>	1.5
	<b>100.0</b>	100.0
Total loans		
Acceptable	<b>98.2</b>	98.1
OAEM	<b>1.2</b>	1.2
Substandard/doubtful	<b>0.6</b>	0.7
	<b>100.0</b> %	100.0 %

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

September 30, 2020	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 2,679,650	\$ 791,045	\$ 3,470,695	\$ 750,006,907	\$753,477,602	\$ -
Production and intermediate term	73,322	-	73,322	78,435,626	78,508,948	-
Loans to cooperatives	-	-	-	16,310,178	16,310,178	-
Processing and marketing	-	-	-	34,638,879	34,638,879	-
Farm-related business	-	-	-	24,444,470	24,444,470	-
Communication	-	-	-	7,476,140	7,476,140	-
Energy	-	-	-	881,966	881,966	-
Water and waste water	-	-	-	1,165,819	1,165,819	-
Rural residential real estate	-	-	-	7,394,071	7,394,071	-
<b>Total</b>	<b>\$ 2,752,972</b>	<b>\$ 791,045</b>	<b>\$ 3,544,017</b>	<b>\$ 920,754,056</b>	<b>\$924,298,073</b>	<b>\$ -</b>

December 31, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 3,275,779	\$ 1,277,405	\$ 4,553,184	\$ 688,352,999	\$692,906,182	\$ -
Production and intermediate term	267,151	-	267,151	70,008,164	70,275,315	-
Loans to cooperatives	-	-	-	16,162,883	16,162,883	-
Processing and marketing	-	-	-	35,940,329	35,940,329	-
Farm-related business	-	-	-	22,571,239	22,571,239	-
Communication	-	-	-	7,512,451	7,512,451	-
Energy	-	-	-	1,133,875	1,133,875	-
Rural residential real estate	20,814	-	20,814	8,015,755	8,036,569	-
<b>Total</b>	<b>\$ 3,563,744</b>	<b>\$ 1,277,405</b>	<b>\$ 4,841,149</b>	<b>\$ 849,697,695</b>	<b>\$854,538,843</b>	<b>\$ -</b>

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.

Troubled debt restructurings (TDRs) 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. 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.

As of September 30, 2020, the total recorded investment of troubled debt restructured loans was \$3,591,583 including \$698,161 classified as nonaccrual and \$2,893,422 classified as accrual, with specific allowance for loan losses of \$173,289. As of September 30, 2020, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were \$0 at period end and \$0 at December 31, 2019.

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 months and nine months ended September 30, 2020. 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.



For the Three Months Ended September 30, 2020	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ -	\$ -
Total	\$ -	\$ -
For the Three Months Ended September 30, 2019	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ -	\$ -
Total	\$ -	\$ -
For the Nine Months Ended September 30, 2020	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ -	\$ -
Total	\$ -	\$ -
For the Nine Months Ended September 30, 2019	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ -	\$ -
Total	\$ -	\$ -

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 were \$0 for the quarter ending September 30, 2020.

The predominant form of concession granted for troubled debt restructuring includes rate reduction and term extension. 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 and that occurred within the previous 12 months and for which there was a subsequent payment default during the period.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table at:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Real estate mortgage	\$ 3,449,653	\$ 5,042,865	\$ 698,161	\$ 1,462,437
Production and intermediate term	-	337,149	-	-
Rural residential real estate	141,930	230,326	-	-
Total	\$ 3,591,583	\$ 5,610,340	\$ 698,161	\$ 1,462,437

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

Additional impaired loan information is as follows:

	September 30, 2020			December 31, 2019		
	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ 435,338	\$ 435,338	\$ 185,212	\$ 987,710	\$ 987,710	\$ 51,153
Total	\$ 435,338	\$ 435,338	\$ 185,212	\$ 987,710	\$ 987,710	\$ 51,153
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$5,268,934	\$5,300,643	\$ -	\$ 6,060,143	\$6,212,454	\$ -
Production and intermediate term	310,837	313,358	-	591,671	592,891	-
Rural residential real estate	158,132	158,133	-	146,698	146,698	-
Total	\$5,737,903	\$5,772,134	\$ -	\$ 6,798,512	\$6,952,043	\$ -
Total impaired loans:						
Real estate mortgage	\$5,704,272	\$5,735,981	\$ 185,212	\$ 7,047,853	\$7,200,164	\$ 51,153
Production and intermediate term	310,837	313,358	-	591,671	592,891	-
Rural residential real estate	158,132	158,133	-	146,698	146,698	-
Total	\$6,173,241	\$6,207,472	\$ 185,212	\$ 7,786,222	\$7,939,753	\$ 51,153

<sup>a</sup> Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2020		September 30, 2019		September 30, 2020		September 30, 2019	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	\$ 334,299	\$ -	\$ 562,157	\$ -	\$ 331,413	\$ -	\$ 587,269	\$ -
Total	\$ 334,299	\$ -	\$ 562,157	\$ -	\$ 331,413	\$ -	\$ 587,269	\$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	\$5,242,204	\$ 49,647	\$5,883,478	\$ 98,138	\$ 300,173	\$ 210,052	\$5,781,233	\$ 282,096
Production and intermediate term	329,680	-	341,663	4,313	4,968,201	-	375,536	14,099
Rural residential real estate	160,871	5,077	209,821	23,143	152,291	17,319	218,438	-
Total	\$5,732,755	\$ 54,724	\$6,434,962	\$ 125,594	\$5,420,665	\$ 227,371	\$6,375,207	\$ 320,017
Total impaired loans:								
Real estate mortgage	\$5,576,503	\$ 49,647	\$6,445,635	\$ 98,138	\$ 631,586	\$ 210,052	\$6,368,502	\$ 282,096
Production and intermediate term	329,680	-	341,663	4,313	4,968,201	-	375,536	14,099
Rural residential real estate	160,871	5,077	209,821	23,143	152,291	17,319	218,438	-
Total	\$6,067,054	\$ 54,724	\$6,997,119	\$ 125,594	\$5,752,078	\$ 227,371	\$6,962,476	\$ 320,017

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
<b>Allowance for Credit Losses:</b>							
Balance at June 30, 2020	\$ 4,611,573	\$ 419,188	\$ 514,914	\$ 24,163	\$ 11,188	\$ 46,767	\$ 5,627,793
Charge-offs	(20,676)	-	-	-	-	-	(20,676)
Recoveries	30,831	-	-	-	-	-	30,831
Provision for loan losses	110,218	12,501	13,285	1,081	156	981	138,222
Adjustment due to merger	-	-	-	-	-	-	-
Other	155	265	(630)	(2)	14	-	(198)
Balance at September 30, 2020	<u>\$ 4,732,101</u>	<u>\$ 431,954</u>	<u>\$ 527,569</u>	<u>\$ 25,242</u>	<u>\$ 11,358</u>	<u>\$ 47,748</u>	<u>\$ 5,775,972</u>
Balance at December 31, 2019	\$ 4,376,226	\$ 405,171	\$ 492,898	\$ 21,637	\$ 10,233	\$ 44,281	\$ 5,350,446
Charge-offs	(23,760)	(2,521)	-	-	-	-	(26,281)
Recoveries	30,831	-	-	-	-	-	30,831
Provision for loan losses	349,251	37,041	41,205	3,768	1,125	3,467	435,857
Adjustment due to merger	-	-	-	-	-	-	-
Other	(447)	(7,737)	(6,534)	(163)	-	-	(14,881)
Balance at September 30, 2020	<u>\$ 4,732,101</u>	<u>\$ 431,954</u>	<u>\$ 527,569</u>	<u>\$ 25,242</u>	<u>\$ 11,358</u>	<u>\$ 47,748</u>	<u>\$ 5,775,972</u>
Ending Balance:							
Individually evaluated for impairment	\$ 185,212	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 185,212
Collectively evaluated for impairment	4,546,889	431,954	527,569	25,242	11,358	47,748	5,590,760
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Balance at September 30, 2020	<u>\$ 4,732,101</u>	<u>\$ 431,954</u>	<u>\$ 527,569</u>	<u>\$ 25,242</u>	<u>\$ 11,358</u>	<u>\$ 47,748</u>	<u>\$ 5,775,972</u>
Balance at June 30, 2019	\$ 3,965,013	\$ 486,040	\$ 458,929	\$ 218,762	\$ 2,107	\$ 96,797	\$ 5,227,648
Charge-offs	157	-	-	-	-	-	157
Recoveries	-	-	20,261	-	-	3,484	23,745
Provision for loan losses	28,897	102,781	(76,413)	29,860	(1,369)	8,977	92,733
Adjustment due to merger	-	-	-	-	-	-	-
Other	470	2,253	3,296	(649)	18	-	5,388
Balance at September 30, 2019	<u>\$ 3,994,537</u>	<u>\$ 591,074</u>	<u>\$ 406,073</u>	<u>\$ 247,973</u>	<u>\$ 756</u>	<u>\$ 109,258</u>	<u>\$ 5,349,671</u>
Balance at December 31, 2018	\$ 4,048,807	\$ 574,458	\$ 291,206	\$ 218,031	\$ 2,306	\$ 98,381	\$ 5,233,189
Charge-offs	(2,085)	-	-	-	-	-	(2,085)
Recoveries	-	-	114,286	-	-	3,484	117,770
Provision for loan losses	(53,970)	6,678	(9,512)	29,574	(1,771)	7,391	(21,610)
Adjustment due to merger	-	-	-	-	-	-	-
Other	1,787	9,938	10,093	368	221	-	22,407
Balance at September 30, 2019	<u>\$ 3,994,539</u>	<u>\$ 591,074</u>	<u>\$ 406,073</u>	<u>\$ 247,973</u>	<u>\$ 756</u>	<u>\$ 109,256</u>	<u>\$ 5,349,671</u>
Ending Balance:							
Individually evaluated for impairment	\$ 47,609	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,609
Collectively evaluated for impairment	3,946,929	591,074	406,073	247,973	756	109,257	5,302,062
Balance at September 30, 2019	<u>\$ 3,994,538</u>	<u>\$ 591,074</u>	<u>\$ 406,073</u>	<u>\$ 247,973</u>	<u>\$ 756</u>	<u>\$ 109,257</u>	<u>\$ 5,349,671</u>

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
<b>Recorded Investments</b>							
<b>in Loans Outstanding:</b>							
Ending Balance at							
September 30, 2020	\$753,477,602	\$ 78,508,948	\$75,393,527	\$ 7,476,140	\$ 2,047,785	\$7,394,071	\$ 924,298,073
Individually evaluated for impairment	\$ 5,721,846	\$ 310,837	\$ -	\$ -	\$ -	\$ 158,853	\$ 6,191,536
Collectively evaluated for impairment	\$747,755,756	\$ 78,198,111	\$75,393,527	\$ 7,476,140	\$ 2,047,785	\$7,235,218	\$ 918,106,537
Ending Balance at							
December 31, 2019	\$692,906,182	\$ 70,275,315	\$74,674,451	\$ 7,512,451	\$ 1,133,875	\$8,036,569	\$ 854,538,843
Individually evaluated for impairment	\$ 7,103,939	\$ 596,811	\$ -	\$ -	\$ -	\$ 147,522	\$ 7,848,272
Collectively evaluated for impairment	\$685,802,243	\$ 69,678,504	\$74,674,451	\$ 7,512,451	\$ 1,133,875	\$7,889,047	\$ 846,690,571

As allowed for under the recently implemented CARES Act, the Association has elected to temporarily suspend the GAAP requirements for loan modifications related to the COVID-19 pandemic that would normally be classified as troubled debt restructurings. This election is only for loans that were 30 days or less past due as of December 31, 2019 and applies for the time frame beginning March 1, 2020 and terminating at the earlier of the fiscal year end 2020 or 60 days after the national emergency declared on March 13, 2020 is terminated. Management expects the Association's deferral process for COVID-19 to end on July 30, 2020.

### 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 Conservation			As of September 30, 2020
	Minimums	Buffer*	Total	
Common equity tier 1 ratio	4.50%	2.50%	7.00%	16.02%
Tier 1 capital ratio	6.00%	2.50%	8.50%	16.02%
Total capital ratio	8.00%	2.50%	10.50%	16.63%
Permanent capital ratio	7.00%	0.00%	7.00%	16.12%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	16.72%
UREE leverage ratio	1.50%	0.00%	1.50%	17.85%

**Risk-adjusted Capital Ratios:**

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	163,901,485	163,901,485	163,901,485	163,901,485
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,845,317	2,845,317	2,845,317	2,845,317
Allowance for loan losses and reserve for credit losses subject to certain limitations			5,848,642	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(13,192,815)	(13,192,815)	(13,192,815)	(13,192,815)
	153,553,987	153,553,987	159,402,629	153,553,987
Denominator:				
Risk-adjusted assets excluding allowance	971,699,925	971,699,925	971,699,925	971,699,925
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(13,192,815)	(13,192,815)	(13,192,815)	(13,192,815)
Allowance for loan losses				(5,653,691)
	958,507,110	958,507,110	958,507,110	952,853,419

**Non-risk-adjusted Capital Ratios:**

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	163,901,485	163,901,485
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	2,845,317	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(13,192,815)	-
	153,553,987	163,901,485
Denominator:		
Total Assets	933,249,337	933,249,337
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(14,802,813)	(14,802,813)
	918,446,524	918,446,524

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes, is as follows:

<b>Accum Other Comp Income (Loss)</b>			
<b>September 30, 2020</b>			
	<b>Before Tax</b>	<b>Deferred Tax</b>	<b>Net of Tax</b>
<b>Nonpension postretirement benefits</b>	<b>\$ 3,889,808</b>	<b>\$ -</b>	<b>\$ 3,889,808</b>
<b>Total</b>	<b>\$ 3,889,808</b>	<b>\$ -</b>	<b>\$ 3,889,808</b>
	<b>Before Tax</b>	<b>Deferred Tax</b>	<b>Net of Tax</b>
September 30, 2019			
Nonpension postretirement benefits	\$ 3,342,789	\$ -	\$ 3,342,789
Total	\$ 3,342,789	\$ -	\$ 3,342,789

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 six months ended September 30:

	<b>2020</b>	<b>2019</b>
Accumulated other comprehensive income (loss) at January 1	\$ (872,836)	\$(455,516)
Amortization of prior service (credit) costs included in salaries and employee benefits	(22,629)	(22,633)
Amortization of actuarial (gain) loss included in salaries and employee benefits	56,451	25,882
Other comprehensive income (loss), net of tax	33,822	3,249
Accumulated other comprehensive income (loss) at September 30	<b>\$ (839,014)</b>	<b>\$(452,267)</b>

#### NOTE 4 — INCOME TAXES:

Louisiana Land Bank, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Louisiana Land Bank ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Louisiana Land Bank ACA 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.

#### 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 2019 Annual Report to Stockholders for a more complete description.

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

<u>September 30, 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	\$ 13,629	-	-	\$ 13,629
Total assets	\$ 13,629	-	-	\$ 13,629

<u>December 31, 2019</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	\$ 12,673	-	-	\$ 12,673
Total assets	\$ 12,673	-	-	\$ 12,673

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

<u>September 30, 2020</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans*	\$ -	\$ -	\$250,126	\$ 250,126	\$ -

<u>December 31, 2019</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans*	\$ -	\$ -	\$847,800	\$ 847,800	\$ -

\*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.

#### Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

## **Valuation Techniques**

As more fully discussed in Note 13 to the 2019 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2019 Annual Report to Stockholders.

### *Assets Held in Nonqualified Benefits Trusts*

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

### *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.

### *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.

### *Loans*

Fair value is estimated by discounting the expected future cash flows using the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

### 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 three and nine months ended September 30:

Three months ended September 30 :

	Other Benefits	
	2020	2019
Service cost	\$ 18,355	\$ 14,498
Interest cost	32,381	37,967
Amortization of prior service (credits) costs	(7,544)	(7,544)
Amortization of net actuarial (gain) loss	18,817	8,627
Net periodic benefit cost	<u>\$ 62,009</u>	<u>\$ 53,548</u>

Nine months ended September 30 :

	Other Benefits	
	2020	2019
Service cost	\$ 55,064	\$ 43,494
Interest cost	97,144	113,900
Amortization of prior service (credits) costs	(22,631)	(22,631)
Amortization of net actuarial (gain) loss	56,449	25,882
Net periodic benefit cost	<u>\$ 186,026</u>	<u>\$ 160,645</u>

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2020, was \$3,889,808 and is included in other liabilities on the balance sheet.

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

The structure of the district's defined benefit pension plan 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 Association contributed \$372,504 to the district's defined benefit pension plan in 2019 and expects to contribute \$245,561 during 2020. As of September 30, 2020, \$184,171 of contributions have been made. The Association presently anticipates contributing an additional \$61,390 to fund the defined benefit pension plan in 2020.

### 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. At September 30, 2020, \$105,032,992 of commitments and \$2,456,358 of commercial letters of credit were outstanding.

### NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 4, 2020, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 4, 2020.