

**MISSISSIPPI LAND BANK, ACA**

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**2017  
Quarterly Report  
Third Quarter**



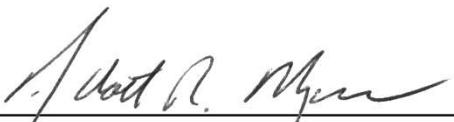
**For the Quarter Ended September 30, 2017**

## REPORT OF MANAGEMENT

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



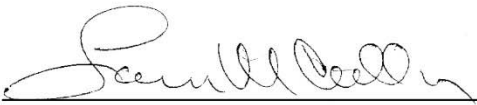
Craig B. Shideler  
President and CEO  
November 9, 2017



Abbott R. Myers  
Chairman, Board of Directors  
November 9, 2017



Claire B. Pegrar  
Chief Financial Officer  
November 9, 2017



Lawson McClellan  
Chairman, Audit Committee  
November 9, 2017

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

The following commentary reviews the financial performance of the Mississippi Land Bank, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended September 30, 2017. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2016 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 (Act), and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

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

**Loan Portfolio:**

Total loans outstanding at September 30, 2017, including nonaccrual loans and sales contracts, were \$623,583,160 compared to \$603,093,591 at December 31, 2016, reflecting an increase of 3.4 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at September 30, 2017, compared to 0.1 percent at December 31, 2016.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ended September 30, 2017, and \$0 in recoveries and \$4,581 in charge-offs for the same period in 2016. The Association's allowance for loan losses was 0.1 percent and 0.1 percent of total loans outstanding as of September 30, 2017, and December 31, 2016, respectively.

*Agribusiness Loan Program*

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

The Association guarantees payment of the borrower's ABE loan to the Mississippi Development Authority (MDA) and, therefore, the amount of ABE loans outstanding and due to MDA is included in "Loans" on the consolidated balance sheet with an offsetting liability at "Guaranteed obligations to government entities." ABE loans totaled \$6,832,940 and \$6,445,893 as of September 30, 2017 and December 31, 2016, respectively.

**Risk Exposure:**

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

	September 30, 2017		December 31, 2016	
	Amount	%	Amount	%
Nonaccrual	\$ 1,042,919	61.3%	\$ 713,834	96.2%
90 days past due and still accruing interest	497,099	29.2%	28,283	3.8%
Formally restructured	162,218	9.5%	-	0.0%
Total	\$ 1,702,236	100.0%	\$ 742,117	100.0%

**Results of Operations:**

The Association had net income of \$2,502,594 and \$6,852,734 for the three and nine months ended September 30, 2017, as compared to net income of \$2,306,856 and \$6,588,437 for the same periods in 2016, reflecting an increase of 8.5 and 4.0 percent. Net interest income was \$4,121,747 and \$12,163,353 for the three and nine months ended September 30, 2017, compared to \$4,079,274 and \$12,132,089 for the same periods in 2016.

	Nine months ended:			
	September 30, 2017		September 30, 2016	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 599,538,718	\$ 20,341,729	\$ 598,941,164	\$ 19,731,015
Interest-bearing liabilities	502,752,233	8,178,376	508,144,897	7,598,926
Impact of capital	<u>\$ 96,786,485</u>		<u>\$ 90,796,267</u>	
Net interest income		<u>\$ 12,163,353</u>		<u>\$ 12,132,089</u>

	2017	2016
	Average Yield	Average Yield
Yield on loans	4.54%	4.40%
Cost of interest-bearing liabilities	2.17%	2.00%
Interest rate spread	2.36%	2.40%
Net interest income as a percentage of average earning assets	2.71%	2.71%

	Nine months ended:		
	September 30, 2017 vs. September 30, 2016		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 19,667	\$ 591,047	\$ 610,714
Interest expense	(80,568)	660,018	579,450
Net interest income	<u>\$ 100,235</u>	<u>\$ (68,971)</u>	<u>\$ 31,264</u>

Interest income for the three and nine months ended September 30, 2017, increased by \$319,640 and \$610,714, or 4.8 and 3.1 percent, respectively, from the same period of 2016, primarily due to increases in yields on earning assets coupled with a slight increase in average loan volume. Interest expense for the three and nine months ended September 30, 2017, increased by \$277,167 and \$579,435, or 10.6 and 7.6 percent, from the same period of 2016 due to an increase in interest rates offset by a decrease in average debt volume. Average loan volume for the third quarter of 2017 was \$610,562,556, compared to \$606,344,586 in the third quarter of 2016. The average net interest rate spread on the loan portfolio for the third quarter of 2017 was 2.32 percent, compared to 2.37 percent in the third quarter of 2016.

The Association's return on average assets for the nine months ended September 30, 2017, was 1.46 percent compared to 1.40 percent for the same period in 2016. The Association's return on average equity for the nine months ended September 30, 2017, was 8.01 percent, compared to 8.17 percent for the same period in 2016.

#### Liquidity and Funding Sources:

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

	September 30, 2017	December 31, 2016
Note payable to the Bank	\$ 519,632,142	\$ 499,018,312
Accrued interest on note payable	959,804	886,002
Total	<u>\$ 520,591,946</u>	<u>\$ 499,904,314</u>

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$519,632,142 as of September 30, 2017, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.24 percent at September 30, 2017. The indebtedness is collateralized by a pledge of substantially all of the

Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2016, is due to the Association's increase in outstanding loan volume coupled with an increase in the weighted average interest rate. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$95,105,357 at September 30, 2017. The maximum amount the Association may borrow from the Bank as of September 30, 2017, was \$620,000,000 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 2017. As borrower payments are received, they are applied to the Association's note payable to the Bank.

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

### **Capital Resources:**

The Association's capital position increased by \$6,909,440 at September 30, 2017, compared to December 31, 2016. The Association's debt as a ratio of members' equity was 4.50:1 as of September 30, 2017, compared to 4.65:1 as of December 31, 2016. 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.

### **Significant Recent Accounting Pronouncements:**

In March 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition but could change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled “Recognition and Measurement of Financial Assets and Liabilities.” This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association’s financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled “Presentation of Financial Statements — Going Concern.” The guidance governs management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management was required to make its initial assessment as of December 31, 2016. The Association is currently evaluating a potential disclosure for this recent accounting pronouncement.

In May 2014, the FASB issued guidance entitled, “Revenue from Contracts with Customers.” The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

### **Regulatory Matters:**

On March 10, 2016, the Farm Credit Administration approved a final rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that the institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To ensure that the System’s capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System,
- To make System regulatory capital requirements more transparent and
- To meet the requirements of section 939A of the Dodd-Frank Act.

The final rule is effective on January 1, 2017. The Association is in compliance with the required minimum capital standards as of September 30, 2017.

### **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 2016 Annual Report of Mississippi 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, as well as those of the Bank, 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 [fcf@farmcreditbank.com](mailto:fcf@farmcreditbank.com). The annual and quarterly stockholder reports for the Bank and the District 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 Mississippi Land Bank, ACA, P.O. Box 667, Senatobia, Mississippi 38668-0667, or by calling (662) 562-9671. Copies of the Association’s quarterly stockholder reports can also be found on the Association’s website, [www.mslandbank.com](http://www.mslandbank.com), or can be requested by e-mailing [Jessica.Stanford@farmcreditbank.com](mailto:Jessica.Stanford@farmcreditbank.com).

**MISSISSIPPI LAND BANK, ACA**

**CONSOLIDATED BALANCE SHEET**

	<b>September 30, 2017 (unaudited)</b>	<b>December 31, 2016</b>
	<hr/>	<hr/>
<b><u>ASSETS</u></b>		
Cash	\$ 4,265	\$ 15,381
Loans	623,583,160	603,093,591
Less: allowance for loan losses	752,205	723,955
Net loans	<hr/> 622,830,955	<hr/> 602,369,636
Accrued interest receivable	11,091,742	9,032,522
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	10,179,025	10,179,025
Other	271,318	2,255,501
Premises and equipment, net	3,434,775	3,657,542
Other assets	1,959,512	263,352
Total assets	<hr/> <b>\$ 649,771,592</b> <hr/>	<hr/> <b>\$ 627,772,959</b> <hr/>
<b><u>LIABILITIES</u></b>		
Note payable to the Farm Credit Bank of Texas	\$ 519,632,142	\$ 499,018,312
Guaranteed obligations to government entities	6,832,940	6,445,893
Accrued interest payable	959,821	886,002
Drafts outstanding	753,595	2,860,240
Patronage distributions payable	2	2,900,215
Other liabilities	3,523,971	4,502,616
Total liabilities	<hr/> <b>531,702,471</b> <hr/>	<hr/> <b>516,613,278</b> <hr/>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	3,157,685	3,085,100
Unallocated retained earnings	115,042,523	108,189,789
Accumulated other comprehensive income (loss)	<hr/> (131,087)	<hr/> (115,208)
Total members' equity	<hr/> <b>118,069,121</b> <hr/>	<hr/> <b>111,159,681</b> <hr/>
Total liabilities and members' equity	<hr/> <b>\$ 649,771,592</b> <hr/>	<hr/> <b>\$ 627,772,959</b> <hr/>

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

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 7,013,274	\$ 6,693,634	\$ 20,341,729	\$ 19,731,015
<b><u>INTEREST EXPENSE</u></b>				
Note payable to the Farm Credit Bank of Texas	2,891,527	2,614,360	8,178,361	7,598,926
Advance conditional payments	-	-	15	-
Total interest expense	2,891,527	2,614,360	8,178,376	7,598,926
Net interest income	4,121,747	4,079,274	12,163,353	12,132,089
<b><u>PROVISION FOR LOAN LOSSES</u></b>				
Net interest income after provision for loan losses	-	4,581	23,312	23,541
	4,121,747	4,074,693	12,140,041	12,108,548
<b><u>NONINTEREST INCOME</u></b>				
Income from the Farm Credit Bank of Texas:				
Patronage income	447,685	432,081	1,336,222	1,295,854
Loan fees	25,501	28,866	77,099	81,416
Financially related services income	295	520	1,264	1,586
Gain (loss) on other property owned, net	-	(59,710)	-	(59,710)
Gain (loss) on sale of premises and equipment, net	390	-	88,115	93,095
Other noninterest income	9	1	42,220	37,135
Total noninterest income	473,880	401,758	1,544,920	1,449,376
<b><u>NONINTEREST EXPENSES</u></b>				
Salaries and employee benefits	1,371,080	1,539,360	4,422,161	4,704,372
Insurance Fund premiums	175,360	215,078	519,799	589,124
Travel	115,647	85,823	319,971	248,671
Advertising	84,618	61,061	290,175	245,974
Occupancy and equipment	68,205	68,710	194,599	215,757
Supervisory and exam expense	51,157	51,116	175,893	153,348
Directors' expense	47,300	24,422	217,440	171,265
Purchased services	45,689	48,156	233,946	141,263
Public and member relations	35,517	15,938	140,189	145,448
Training	23,593	11,500	37,553	43,741
Communications	20,598	20,384	63,678	61,642
Other insurance expense	4,425	1,437	84,721	81,457
Other noninterest expense	43,200	26,449	119,177	162,009
Total noninterest expenses	2,086,389	2,169,434	6,819,302	6,964,071
Income before income taxes	2,509,238	2,307,017	6,865,659	6,593,853
Provision for (benefit from) income taxes	6,644	161	12,925	5,416
<b>NET INCOME</b>	<b>2,502,594</b>	<b>2,306,856</b>	<b>6,852,734</b>	<b>6,588,437</b>
Other comprehensive income:				
Change in postretirement benefit plans	(5,293)	(4,882)	(15,879)	(14,646)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 2,497,301</b>	<b>\$ 2,301,974</b>	<b>\$ 6,836,855</b>	<b>\$ 6,573,791</b>

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



MISSISSIPPI LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2015	\$ 3,061,800	\$ 101,662,509	\$ (108,902)	\$ 104,615,407
Comprehensive income	-	6,588,437	(14,646)	6,573,791
Capital stock/participation certificates issued	358,060	-	-	358,060
Capital stock/participation certificates retired	(313,715)	-	-	(313,715)
Prior year patronage distributions paid:				
Cash	-	(3,205)	-	(3,205)
Balance at September 30, 2016	<u>\$ 3,106,145</u>	<u>\$ 108,247,741</u>	<u>\$ (123,548)</u>	<u>\$ 111,230,338</u>
Balance at December 31, 2016	\$ 3,085,100	\$ 108,189,789	\$ (115,208)	\$ 111,159,681
Comprehensive income	-	6,852,734	(15,879)	6,836,855
Preferred Stock Issued				
Capital stock/participation certificates issued	388,175	-	-	388,175
Capital stock/participation certificates retired	(315,590)	-	-	(315,590)
<b>Balance at September 30, 2017</b>	<b><u>\$ 3,157,685</u></b>	<b><u>\$ 115,042,523</u></b>	<b><u>\$ (131,087)</u></b>	<b><u>\$ 118,069,121</u></b>

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

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

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

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

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2016, as contained in the 2016 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with GAAP, except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2016, as contained in the 2016 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, 2017. Descriptions of the significant accounting policies are included in the 2016 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In August 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled “Targeted Improvements to Accounting for Hedging Activities.” The guidance better aligns an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance becomes effective for interim and annual periods beginning after December 15, 2018. The Association is evaluating the impact of adoption on the Association’s financial condition and its results of operations.

In March 2017, the FASB issued guidance entitled “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost.” The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Bank’s financial condition but could change the classification of certain items in the results of operations.

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Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled “Recognition and Measurement of Financial Assets and Liabilities.” This guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association’s financial condition or its results of operations.

In May 2014, the FASB issued guidance entitled, “Revenue from Contracts with Customers.” The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or 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, 2017, are not necessarily indicative of the results to be expected for the year ended December 31, 2017. 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, 2017 Amount	December 31, 2016 Amount
Production agriculture:		
Real estate mortgage	\$ 528,008,663	\$ 513,752,691
Production and intermediate term	69,004,544	59,704,160
Agribusiness:		
Processing and marketing	13,792,077	16,208,096
Farm-related business	3,645,482	4,325,970
Loans to cooperatives	1,405,289	1,577,708
Rural residential real estate	4,463,907	4,191,566
Communication	3,263,198	3,195,285
Energy	-	138,115
Total	<b>\$ 623,583,160</b>	<b>\$ 603,093,591</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, 2017:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	\$ 16,858,514	\$ -	\$ -	\$ -	\$ 16,858,514	\$ -
Real estate mortgage	4,224,296	6,657,431	5,100,000	-	9,324,296	6,657,431
Communication	3,263,198	-	-	-	3,263,198	-
Production and intermediate term	120,229	-	-	-	120,229	-
<b>Total</b>	<b>\$ 24,466,236</b>	<b>\$ 6,657,431</b>	<b>\$ 5,100,000</b>	<b>\$ -</b>	<b>\$ 29,566,236</b>	<b>\$ 6,657,431</b>

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. The Association had no ACPs at September 30, 2017, and December 31, 2016, respectively.

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

	<b>September 30, 2017</b>	December 31, 2016
<b>Nonaccrual loans:</b>		
Real estate mortgage	<b>\$ 1,042,919</b>	\$ 713,834
Total nonaccrual loans	<b>1,042,919</b>	713,834
<b>Accruing restructured loans:</b>		
Real estate mortgage	<b>162,218</b>	-
Total accruing restructured loans	<b>162,218</b>	-
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	<b>497,099</b>	28,283
Total accruing loans 90 days or more past due	<b>497,099</b>	28,283
Total nonperforming loans	<b>1,702,236</b>	742,117
Total nonperforming assets	<b>\$ 1,702,236</b>	\$ 742,117

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, 2017</b>	December 31, 2016
Real estate mortgage		
Acceptable	<b>99.2</b> %	99.1 %
OAEM	<b>0.2</b>	0.4
Substandard/doubtful	<b>0.6</b>	0.5
	<b>100.0</b>	100.0
Production and intermediate term		
Acceptable	<b>100.0</b>	99.9
OAEM	-	-
Substandard/doubtful	-	0.1
	<b>100.0</b>	100.0
Agribusiness		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<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>89.4</b>	88.4
OAEM	<b>0.7</b>	1.9
Substandard/doubtful	<b>9.9</b>	9.7
	<b>100.0</b>	100.0
Total loans		
Acceptable	<b>99.3</b>	99.2
OAEM	<b>0.1</b>	0.3
Substandard/doubtful	<b>0.6</b>	0.5
	<b>100.0</b> %	100.0 %

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

September 30, 2017	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	\$ 1,205,787	\$ 1,076,836	\$ 2,282,623	\$ 535,532,153	\$ 537,814,776	\$ 497,099
Production and intermediate term	-	-	-	70,192,338	70,192,338	-
Processing and marketing	-	-	-	13,806,592	13,806,592	-
Rural residential real estate	-	-	-	4,483,108	4,483,108	-
Farm-related business	-	-	-	3,708,425	3,708,425	-
Communication	-	-	-	3,263,900	3,263,900	-
Loans to cooperatives	-	-	-	1,405,630	1,405,630	-
Energy	-	-	-	133	133	-
<b>Total</b>	<b>\$ 1,205,787</b>	<b>\$ 1,076,836</b>	<b>\$ 2,282,623</b>	<b>\$ 632,392,279</b>	<b>\$ 634,674,902</b>	<b>\$ 497,099</b>
December 31, 2016	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	\$ 753,458	\$ 38,988	\$ 792,446	\$ 520,920,274	\$ 521,712,720	\$ 28,283
Production and intermediate term	73,514	-	73,514	60,587,497	60,661,011	-
Processing and marketing	-	-	-	16,230,764	16,230,764	-
Farm-related business	-	-	-	4,399,308	4,399,308	-
Rural residential real estate	-	-	-	4,209,723	4,209,723	-
Communication	-	-	-	3,195,888	3,195,888	-
Loans to cooperatives	-	-	-	1,578,007	1,578,007	-
Energy	-	-	-	138,692	138,692	-
<b>Total</b>	<b>\$ 826,972</b>	<b>\$ 38,988</b>	<b>\$ 865,960</b>	<b>\$ 611,260,153</b>	<b>\$ 612,126,113</b>	<b>\$ 28,283</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.

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

As of September 30, 2017, the Association held two TDR loans, both of which were classified as real estate mortgage. One of the loans was classified as accrual and had a recorded investment of \$162,218 while the other was classified as nonaccrual and had a recorded investment of \$50,224. There was no specific allowance for loan losses related to the loans based upon current net realizable value analyses. The Association had no loan meet the requirements for a troubled debt restructuring designation during the period October 1, 2016 through September 30, 2017. As of September 30, 2017, there were no commitments to lend additional funds to the borrowers whose loan terms have been modified in a TDR.

The predominant form of concession granted for troubled debt restructuring is interest rate reductions, although other forms of concession could include principal or interest reductions. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the Association assess all of the modified terms to determine if the overall modification qualifies as a TDR.

As of December 31, 2016, the Association held two TDR loans, classified as real estate mortgage, with a total recorded investment of \$227,251, which was classified as nonaccrual. There was no specific allowance for loan losses related to the loans based upon current net realizable value analyses, and there were no commitments to lend additional funds to the borrowers.

The Association had no loans that met the accounting criteria as a TDR occurring during the periods of October 1, 2016, through September 30, 2017, and of October 1, 2015, through September 30, 2016, and for which there was a payment default during these same periods. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Additional impaired loan information is as follows:

	September 30, 2017			December 31, 2016		
	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:						
Rural residential real estate	\$ 45,788	\$ 46,220	\$ 22,000	\$ -	\$ -	\$ -
Total	\$ 45,788	\$ 46,220	\$ 22,000	\$ -	\$ -	\$ -
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$1,699,557	\$ 1,712,436	\$ -	\$ 741,840	\$ 759,246	\$ -
Total	\$1,699,557	\$ 1,712,436	\$ -	\$ 741,840	\$ 759,246	\$ -
Total impaired loans:						
Real estate mortgage	\$1,699,557	\$ 1,712,436	\$ -	\$ 741,840	\$ 759,246	\$ -
Rural residential real estate	45,788	46,220	22,000	-	-	-
Total	\$1,745,345	\$ 1,758,656	\$ 22,000	\$ 741,840	\$ 759,246	\$ -

<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, 2017		September 30, 2016		September 30, 2017		September 30, 2016	
	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 82,127	\$ -
Rural residential real estate	46,210	582	-	-	47,190	2,366	-	-
Total	\$ 46,210	\$ 582	\$ -	\$ -	\$ 47,190	\$ 2,366	\$ 82,127	\$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	\$1,670,507	\$ 11,590	\$ 746,621	\$ -	\$1,098,642	\$ 24,542	\$ 724,585	\$ 705
Production and intermediate term	-	-	-	-	520,596	443	11,417	597
Rural residential real estate	-	-	7,497	-	-	-	6,086	-
Total	\$1,670,507	\$ 11,590	\$ 754,118	\$ -	\$1,619,238	\$ 24,985	\$ 742,088	\$ 1,302
Total impaired loans:								
Real estate mortgage	\$1,670,507	\$ 11,590	\$ 746,621	\$ -	\$1,098,642	\$ 24,542	\$ 806,712	\$ 705
Production and intermediate term	-	-	-	-	520,596	443	11,417	597
Rural residential real estate	46,210	582	7,497	-	47,190	2,366	6,086	-
Total	\$1,716,717	\$ 12,172	\$ 754,118	\$ -	\$1,666,428	\$ 27,351	\$ 824,215	\$ 1,302

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, 2017	\$ 588,603	\$ 98,896	\$ 28,676	\$ 5,607	\$ -	\$ 30,423	\$ 752,205
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	-	-	-	-	-	-	-
Adjustment due to merger	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Balance at							
September 30, 2017	\$ 588,603	\$ 98,896	\$ 28,676	\$ 5,607	\$ -	\$ 30,423	\$ 752,205
Balance at							
December 31, 2016	\$ 587,998	\$ 96,617	\$ 25,352	\$ 5,529	\$ 36	\$ 8,423	\$ 723,955
Charge-offs	(1,312)	-	-	-	-	-	(1,312)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	1,312	-	-	-	-	22,000	23,312
Adjustment due to merger	-	-	-	-	-	-	-
Other	605	2,279	3,324	78	(36)	-	6,250
Balance at							
September 30, 2017	\$ 588,603	\$ 98,896	\$ 28,676	\$ 5,607	\$ -	\$ 30,423	\$ 752,205
Ending Balance:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,000	\$ 22,000
Collectively evaluated for impairment	-	-	-	-	-	-	-
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Balance at							
September 30, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,000	\$ 22,000
Balance at							
June 30, 2016	\$ 558,851	\$ 96,617	\$ 48,447	\$ 5,529	\$ 8,597	\$ 5,914	\$ 723,955
Charge-offs	(4,581)	-	-	-	-	-	(4,581)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	4,581	-	-	-	-	-	4,581
Adjustment due to merger	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Balance at							
September 30, 2016	\$ 558,851	\$ 96,617	\$ 48,447	\$ 5,529	\$ 8,597	\$ 5,914	\$ 723,955
Balance at							
December 31, 2015	\$ 573,240	\$ 87,429	\$ 29,249	\$ 726	\$ 7,876	\$ 6,811	\$ 705,331
Charge-offs	(4,581)	-	-	-	-	-	(4,581)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(10,177)	8,685	19,731	5,159	1,006	(863)	23,541
Adjustment due to merger	-	-	-	-	-	-	-
Other	369	503	(533)	(356)	(285)	(34)	(336)
Balance at							
September 30, 2016	\$ 558,851	\$ 96,617	\$ 48,447	\$ 5,529	\$ 8,597	\$ 5,914	\$ 723,955
Ending Balance:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	558,851	96,617	48,447	5,529	8,597	5,914	723,955
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Balance at							
September 30, 2016	\$ 558,851	\$ 96,617	\$ 48,447	\$ 5,529	\$ 8,597	\$ 5,914	\$ 723,955



	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, 2017	\$537,814,775	\$ 70,192,338	\$18,920,648	\$ 3,263,900	\$ 133	\$4,483,108	\$ 634,674,902
Individually evaluated for impairment	\$ 1,702,236	\$ -	\$ -	\$ -	\$ -	\$ 46,282	\$ 1,748,518
Collectively evaluated for impairment	\$536,112,539	\$ 70,192,338	\$18,920,648	\$ 3,263,900	\$ 133	\$4,436,826	\$ 632,926,384
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Balance at							
December 31, 2016	\$521,712,720	\$ 60,661,011	\$22,208,079	\$ 3,195,888	\$ 138,692	\$4,209,723	\$ 612,126,113
Individually evaluated for impairment	\$ 742,117	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 742,117
Collectively evaluated for impairment	\$520,970,603	\$ 60,661,011	\$22,208,079	\$ 3,195,888	\$ 138,692	\$4,209,723	\$ 611,383,996
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

### NOTE 3 — CAPITAL:

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

#### *Regulatory Capitalization Requirements*

Effective January 1, 2017, the regulatory capital requirements for System banks and associations were modified. The new regulations replaced existing 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 a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect.

The Association's ratios were as follows:

Risk-adjusted:	Regulatory	Conservation	Total	As of
	Minimums	Buffer		September 30, 2017
Common equity tier 1 ratio	4.50%	2.50%	7.00%	16.28%
Tier 1 capital ratio	6.00%	2.50%	8.50%	16.28%
Total capital ratio	8.00%	2.50%	10.50%	16.40%
Permanent capital ratio	7.00%	0.00%	7.00%	16.30%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	16.78%
UREE leverage ratio	1.50%	0.00%	1.50%	17.90%

\*The 2.5% capital conservation buffer for the risk-adjusted ratios will be phased in over a three year period ending on December 31, 2019.

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

### Risk-adjusted Capital Ratios

The components of the Association's risk-adjusted capital, based on 90 day average balances, were as follows at September 30, 2017:

(dollars in thousands)	A Common equity tier 1 ratio	B Tier 1 capital ratio	C Regulatory capital ratio	D Permanent capital ratio
Numerator:				
Unallocated retained earnings	112,818,778	112,818,778	112,818,778	112,818,778
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	3,131,490	3,131,490	3,131,490	3,131,490
Allowance for loan losses and reserve for credit losses subject to certain limitations			774,405	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(10,179,025)	(10,179,025)	(10,179,025)	(10,179,025)
Other regulatory required deductions	-	-	-	-
	<u>105,771,243</u>	<u>105,771,243</u>	<u>106,545,648</u>	<u>105,771,243</u>
Denominator:				
Risk-adjusted assets excluding allowance	659,842,653	659,842,653	659,842,653	659,842,653
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(10,179,025)	(10,179,025)	(10,179,025)	(10,179,025)
Allowance for loan losses				(752,176)
	<u>649,663,628</u>	<u>649,663,628</u>	<u>649,663,628</u>	<u>648,911,452</u>

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.

## Non-risk-adjusted Capital Ratios

The components of the Association's non-risk-adjusted capital, based on 90 day average balances, were as follows at September 30, 2017:

(dollars in thousands)	E Tier 1 leverage ratio	F UREE leverage ratio
Numerator:		
Unallocated retained earnings	112,818,778	112,818,778
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	3,131,490	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(10,179,025)	-
Other regulatory required deductions	-	-
	<u>105,771,243</u>	<u>112,818,778</u>
Denominator:		
Total Assets	640,556,098	640,556,098
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(10,179,025)	(10,179,025)
	<u>630,377,073</u>	<u>630,377,073</u>

E. Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.

F. UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary bonus payments to senior offices are restricted or prohibited without prior FCA approval.

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

	<u>2017</u>	<u>2016</u>
Accumulated other comprehensive income (loss) at January 1	\$ (115,208)	\$(108,902)
Amortization of prior service (credit) costs included		
in salaries and employee benefits	(15,879)	(15,880)
Amortization of actuarial (gain) loss included		
in salaries and employee benefits	-	1,234
Other comprehensive income (loss), net of tax	<u>(15,879)</u>	<u>(14,646)</u>
Accumulated other comprehensive income at September 30	<u>\$ (131,087)</u>	<u>\$(123,548)</u>

## NOTE 4 — INCOME TAXES:

Mississippi Land Bank, ACA and its subsidiary, Mississippi, PCA, are subject to federal and certain other income taxes. The Association operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage 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 three months ended September 30, 2017, 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 nine months ended September 30, 2017 and 2016, the Association carried a deferred tax asset of \$444,699 and \$322,738, respectively, with a full valuation allowance recorded against the net asset.

The subsidiary, Mississippi Land Bank, 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 2 to the 2016 Annual Report to Stockholders for a more complete description.

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

<u>September 30, 2017</u>	<u>Fair Value Measurement Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
Loans*	\$ -	\$ -	\$1,066,707
Other property owned	-	-	-
<u>December 31, 2016</u>	<u>Fair Value Measurement Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
Loans*	\$ -	\$ -	\$ 713,834
Other property owned	-	-	-

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

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. At September 30, 2017, the Association had \$363,316 in outstanding standby letters of credit, issued primarily in conjunction with participation loans.

**Valuation Techniques**

As more fully discussed in Note 2 to the 2016 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 2016 Annual Report to Stockholders.

*Loans Evaluated for Impairment*

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

### *Other Property Owned*

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

### *Cash*

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

### *Standby Letters of Credit*

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

## **NOTE 6 — EMPLOYEE BENEFIT PLANS:**

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

	Other Benefits	
	2017	2016
Service cost	\$ 13,801	\$ 12,738
Interest cost	54,293	54,307
Amortization of prior service (credits) costs	(15,879)	(15,879)
Amortization of net actuarial (gain) loss	-	1,235
Net periodic benefit cost	<u>\$ 52,215</u>	<u>\$ 52,401</u>

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2017, was \$1,669,093 and is included in "Other Liabilities" in the balance sheet.

### *Contributions to District Defined Benefit Pension Plan*

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 previously disclosed in its financial statements for the year ended December 31, 2016, that it expected to contribute \$69,621 to the District's defined benefit pension plan in 2017. As of September 30, 2017, \$52,215 of contributions have been made. The Association presently does not anticipate additional contributions to fund the defined benefit pension plan in 2017.

## **NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:**

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

## **NOTE 8 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through November 9, 2017, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 9, 2017.