

**MISSISSIPPI LAND BANK, ACA**

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**2018  
Quarterly Report  
First Quarter**



**For the Quarter Ended March 31, 2018**

**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.



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Craig B. Shideler  
President and CEO  
May 9, 2018




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Abbott R. Myers  
Chairman, Board of Directors  
May 9, 2018



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Claire B. Pegram  
Chief Financial Officer  
May 9, 2018



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Lawson McClellan  
Chairman, Audit Committee  
May 9, 2018

**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 March 31, 2018. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2017 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.

**Significant Events:**

In March 2018, the Association received a refund of \$380,904 from the Farm Credit Services Insurance Corporation (FCSIC or Insurance Fund) for its share of excess insurance fund balances in the allocated insurance reserve accounts.

**Loan Portfolio:**

Total loans outstanding at March 31, 2018, including nonaccrual loans and sales contracts, were \$632,513,579 compared to \$629,858,902 at December 31, 2017, reflecting an increase of 0.4 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at March 31, 2018, compared to 0.2 percent at December 31, 2017.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ended March 31, 2018, and \$0 in recoveries and \$0 in charge-offs for the same period in 2017. The Association's allowance for loan losses was 0.1 percent and 0.1 percent of total loans outstanding as of March 31, 2018, and December 31, 2017, 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 \$7,085,750 and \$7,177,507 as of March 31, 2018 and December 31, 2017, 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.

	March 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Nonaccrual	\$ 970,350	85.7%	\$ 1,025,013	86.3%
Formally restructured	162,209	14.3%	162,440	13.7%
Total	\$ 1,132,559	100.0%	\$ 1,187,453	100.0%

**Results of Operations:**

The Association had net income of \$2,674,641 for the three months ended March 31, 2018, as compared to net income of \$2,020,663 for the same period in 2017, reflecting an increase of 32.4 percent and primarily resulting from a refund of \$380,904 from the FCSIC for excess insurance fund balances. Net interest income was \$4,168,654 for the three months ended March 31, 2018, compared to \$4,014,329 for the same period in 2017.

	Three months ended:			
	March 31, 2018		March 31, 2017	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 616,236,589	\$ 7,206,441	\$ 591,266,921	\$ 6,596,045
Interest-bearing liabilities	514,295,902	3,037,787	495,178,952	2,581,716
Impact of capital	<u>\$ 101,940,687</u>		<u>\$ 96,087,969</u>	
Net interest income		<u>\$ 4,168,654</u>		<u>\$ 4,014,329</u>

	2018	2017
	Average Yield	Average Yield
Yield on loans	4.74%	4.52%
Cost of interest-bearing liabilities	2.40%	2.11%
Interest rate spread	2.35%	2.41%
Net interest income as a percentage of average earning assets	2.74%	2.72%

	Three months ended:		
	March 31, 2018 vs. March 31, 2017		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 204,401	\$ 405,995	\$ 610,396
Interest expense	99,668	356,403	456,071
Net interest income	<u>\$ 104,733</u>	<u>\$ 49,592</u>	<u>\$ 154,325</u>

Interest income for the three months ended March 31, 2018, increased by \$610,396, or 9.3 percent, from the same period of 2017, primarily due to an increase in average loan volume coupled with increases in yields on earning assets. Interest expense for the three months ended March 31, 2018, increased by \$456,071, or 17.67 percent, from the same period of 2017 due to a sharp increase in cost of interest-bearing liabilities coupled with an increase in average debt volume. Average loan volume for the first quarter of 2018 was \$616,236,589, compared to \$591,266,921 in the first quarter of 2017. The average net interest rate spread on the loan portfolio for the first quarter of 2018 was 2.35 percent, compared to 2.41 percent in the first quarter of 2017.

The Association's return on average assets for the three months ended March 31, 2018, was 1.68 percent compared to 1.32 percent for the same period in 2017. The Association's return on average equity for the three months ended March 31, 2018, was 9.15 percent, compared to 7.31 percent for the same period in 2017.

#### 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.

	March 31, 2018	December 31, 2017
	Note payable to the Bank	\$ 522,363,345
Accrued interest on note payable	1,070,701	1,025,562
Total	<u>\$ 523,434,046</u>	<u>\$ 521,625,701</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 \$522,363,345 as of March 31, 2018, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.43 percent at March 31, 2018. 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, 2017, is due to the Association's increase in outstanding loan volume coupled with an increase in weighted average interest rate. The Association's own funds, which represent the amount of the Association's loan portfolio funded

by the Association's equity, were \$101,121,421 at March 31, 2018. The maximum amount the Association may borrow from the Bank as of March 31, 2018, 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 2018. 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 \$2,678,177 at March 31, 2018, compared to December 31, 2017. The Association's debt as a ratio of members' equity was 4.46:1 as of March 31, 2018, compared to 4.59:1 as of December 31, 2017.

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 March 31, 2018, the Association exceeded all regulatory capital requirements.

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

In February 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Income Statement — Reporting Comprehensive Income — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA) that lowered the federal corporate tax rate from 35% to 21%. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In August 2017, the 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 did not impact the Association's financial condition but did 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 did not impact the Association's financial condition or its results of operations but did 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 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.” The 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 did not impact the Association’s financial condition or its results of operations but did impact the Association’s fair value disclosures.

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 has determined that the effect of the adoption is not material to its financial condition or results of operations and will not change its current recognition practices.

#### **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 2017 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 [fcdb@farmcreditbank.com](mailto:fcdb@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>March 31, 2018 (unaudited)</b>	December 31, 2017
	<hr/>	<hr/>
<b><u>ASSETS</u></b>		
Cash	\$ 4,919	\$ 5,551
Loans	632,513,579	629,858,902
Less: allowance for loan losses	752,205	752,205
Net loans	<hr/> 631,761,374	<hr/> 629,106,697
Accrued interest receivable	8,105,929	10,454,938
Investment in and receivable from the Farm		
Credit Bank of Texas:		
Capital stock	10,114,430	10,114,430
Other	-	1,598,161
Premises and equipment, net	3,579,445	3,736,020
Other assets	1,401,413	275,665
Total assets	<hr/> <b>\$ 654,967,510</b> <hr/>	<hr/> <b>\$ 655,291,462</b> <hr/>
<b><u>LIABILITIES</u></b>		
Note payable to the Farm Credit Bank of Texas	\$ 522,363,345	\$ 520,600,139
Guaranteed obligations to government entities	7,085,750	7,177,507
Accrued interest payable	1,070,701	1,025,562
Drafts outstanding	1,603,006	1,379,139
Patronage distributions payable	57	3,510,002
Other liabilities	2,897,087	4,329,726
Total liabilities	<hr/> <b>535,019,946</b> <hr/>	<hr/> <b>538,022,075</b> <hr/>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	3,184,380	3,176,875
Unallocated retained earnings	116,897,903	114,223,262
Accumulated other comprehensive income (loss)	<hr/> (134,719)	<hr/> (130,750)
Total members' equity	<hr/> <b>119,947,564</b> <hr/>	<hr/> <b>117,269,387</b> <hr/>
Total liabilities and members' equity	<hr/> <b>\$ 654,967,510</b> <hr/>	<hr/> <b>\$ 655,291,462</b> <hr/>

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

**MISSISSIPPI LAND BANK, ACA**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited)

	<b>Quarter Ended</b>	
	<b>March 31,</b>	
	<u>2018</u>	<u>2017</u>
<b><u>INTEREST INCOME</u></b>		
Loans	\$ 7,206,441	\$ 6,596,045
Total interest income	<u>7,206,441</u>	<u>6,596,045</u>
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the Farm Credit Bank of Texas	3,037,787	2,581,701
Advance conditional payments	-	15
Total interest expense	<u>3,037,787</u>	<u>2,581,716</u>
Net interest income	<u>4,168,654</u>	<u>4,014,329</u>
<b><u>PROVISION FOR LOAN LOSSES</u></b>		
Net interest income after provision for loan losses	<u>-</u>	<u>22,000</u>
	<u>4,168,654</u>	<u>3,992,329</u>
<b><u>NONINTEREST INCOME</u></b>		
Income from the Farm Credit Bank of Texas:		
Patronage income	565,250	442,739
Loan fees	24,089	20,410
Financially related services income	316	373
Gain (loss) on sale of premises and equipment, net	80,530	87,725
Other noninterest income	<u>385,937</u>	<u>5,099</u>
Total noninterest income	<u>1,056,122</u>	<u>556,346</u>
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	1,725,723	1,681,787
Travel	108,834	90,380
Advertising	108,721	118,235
Insurance Fund premiums	106,636	172,854
Other insurance expense	79,732	66,704
Occupancy and equipment	68,981	66,554
Public and member relations	64,511	62,562
Purchased services	64,186	56,304
Supervisory and exam expense	64,153	62,368
Directors' expense	48,794	76,888
Training	28,221	8,026
Communications	22,207	21,988
Other components of net periodic postretirement benefit cost	12,339	12,805
Other noninterest expense	<u>51,229</u>	<u>38,964</u>
Total noninterest expenses	<u>2,554,267</u>	<u>2,536,419</u>
Income before income taxes	<u>2,670,509</u>	<u>2,012,256</u>
Provision for (benefit from) income taxes	<u>(4,132)</u>	<u>(8,407)</u>
<b>NET INCOME</b>	<u>2,674,641</u>	<u>2,020,663</u>
Other comprehensive income:		
Change in postretirement benefit plans	<u>(3,969)</u>	<u>(5,293)</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 2,670,672</u>	<u>\$ 2,015,370</u>

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



**MISSISSIPPI LAND BANK, ACA**

**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2016	\$ 3,085,100	\$ 108,189,789	\$ (115,208)	\$ 111,159,681
Comprehensive income	-	2,020,663	(5,293)	2,015,370
Capital stock/participation certificates issued	124,685			124,685
Capital stock/participation certificates retired	(127,060)			(127,060)
Balance at March 31, 2017	<u>\$ 3,082,725</u>	<u>\$ 110,210,452</u>	<u>\$ (120,501)</u>	<u>\$ 113,172,676</u>
Balance at December 31, 2017	\$ 3,176,875	\$ 114,223,262	\$ (130,750)	\$ 117,269,387
Comprehensive income	-	2,674,641	(3,969)	2,670,673
Capital stock/participation certificates issued	131,045			131,045
Capital stock/participation certificates retired	(123,540)			(123,540)
<b>Balance at March 31, 2018</b>	<b><u>\$ 3,184,380</u></b>	<b><u>\$ 116,897,903</u></b>	<b><u>\$ (134,719)</u></b>	<b><u>\$ 119,947,565</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, 2017, as contained in the 2017 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, 2017, as contained in the 2017 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 2017 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 February 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled “Income Statement — Reporting Comprehensive Income — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA) that lowered the federal corporate tax rate from 35% to 21%. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Association is evaluating the impact of adoption on the Association’s financial condition and its results of operations.

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 did not impact the Association’s financial condition but did 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 did not impact the Association's financial condition or its results of operations but did change the classification of certain items in the statement of cash flows.

In June 2016, 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 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 did not impact the Association's financial condition or its results of operations but did impact the Association's fair value disclosures.

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. The guidance sets forth the requirement for new and enhanced disclosures. The Association has determined that the effect of the adoption is not material to its financial condition or results of operations and will not change its current recognition practices.

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 March 31, 2018, 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	March 31,	December 31,
	2018	2017
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 539,144,226	\$534,367,052
Production and intermediate term	62,210,630	65,651,022
Agribusiness:		
Processing and marketing	15,107,392	14,632,996
Farm-related business	4,393,564	4,107,619
Loans to cooperatives	1,557,389	1,673,345
Rural residential real estate	6,876,070	6,183,100
Communication	3,224,308	3,243,768
Total	<u>\$ 632,513,579</u>	<u>\$629,858,902</u>

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2018:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations	Participations	Participations	Participations	Participations	Participations
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Agribusiness	\$ 19,414,641	\$ -	\$ -	\$ -	\$ 19,414,641	\$ -
Real estate mortgage	4,132,444	6,588,904	11,010,701	-	15,143,145	6,588,904
Communication	3,224,308	-	-	-	3,224,308	-
Production and intermediate term	173,215	-	-	-	173,215	-
Total	<u>\$ 26,944,608</u>	<u>\$ 6,588,904</u>	<u>\$ 11,010,701</u>	<u>\$ -</u>	<u>\$ 37,955,309</u>	<u>\$ 6,588,904</u>

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were \$11,854,109 and \$9,249,113 at March 31, 2018, and December 31, 2017, respectively.

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

	March 31,	December 31,
	2018	2017
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 970,350	\$1,025,013
Total nonaccrual loans	970,350	1,025,013
<b>Accruing restructured loans:</b>		
Real estate mortgage	162,209	162,440
Total accruing restructured loans	162,209	162,440
Total nonperforming loans	1,132,559	1,187,453
Other property owned	-	-
Total nonperforming assets	<u>\$ 1,132,559</u>	<u>\$1,187,453</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>March 31, 2018</b>		December 31, 2017
Real estate mortgage			
Acceptable	<b>99.2</b>	%	99.2 %
OAEM	<b>0.1</b>		0.2
Substandard/doubtful	<b>0.7</b>		0.6
	<b>100.0</b>		100.0
Production and intermediate term			
Acceptable	<b>100.0</b>		100.0
OAEM	-		-
Substandard/doubtful	-		-
	<b>100.0</b>		100.0
Agribusiness			
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>93.3</b>		92.4
OAEM	<b>0.4</b>		0.5
Substandard/doubtful	<b>6.3</b>		7.1
	<b>100.0</b>		100.0
Total loans			
Acceptable	<b>99.2</b>		99.3
OAEM	<b>0.1</b>		0.1
Substandard/doubtful	<b>0.7</b>		0.6
	<b>100.0</b>	%	<b>100.0</b> %

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

<u>March 31, 2018</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Not Past Due or Less Than 30 Days Past Due</u>	<u>Total Loans</u>	<u>Recorded Investment &gt;90 Days and Accruing</u>
Real estate mortgage	\$2,412,120	\$ 96,672	\$2,508,792	\$ 543,807,874	\$546,316,666	\$ -
Production and intermediate term	-	-	-	63,061,400	63,061,400	-
Processing and marketing	-	-	-	15,119,919	15,119,919	-
Rural residential real estate	-	-	-	6,921,878	6,921,878	-
Farm-related business	-	-	-	4,415,978	4,415,978	-
Communication	-	-	-	3,225,352	3,225,352	-
Loans to cooperatives	-	-	-	1,558,315	1,558,315	-
<b>Total</b>	<b>\$2,412,120</b>	<b>\$ 96,672</b>	<b>\$2,508,792</b>	<b>\$ 638,110,716</b>	<b>\$640,619,508</b>	<b>\$ -</b>

<u>December 31, 2017</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Not Past Due or Less Than 30 Days Past Due</u>	<u>Total Loans</u>	<u>Recorded Investment &gt;90 Days and Accruing</u>
Real estate mortgage	\$ 620,585	\$ 582,345	\$1,202,930	\$ 542,433,202	\$543,636,132	\$ -
Production and intermediate term	-	-	-	66,722,631	66,722,631	-
Processing and marketing	-	-	-	14,644,362	14,644,362	-
Rural residential real estate	46,324	-	46,324	6,164,085	6,210,409	-
Farm-related business	-	-	-	4,181,419	4,181,419	-
Communication	-	-	-	3,244,905	3,244,905	-
Loans to cooperatives	-	-	-	1,673,982	1,673,982	-
<b>Total</b>	<b>\$ 666,909</b>	<b>\$ 582,345</b>	<b>\$1,249,254</b>	<b>\$ 639,064,586</b>	<b>\$640,313,840</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.

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 March 31, 2018, the Association held three TDR loans, classified as real estate mortgage, with a total recorded investment of \$658,023, of which \$495,814 was classified as nonaccrual and \$162,209 was classified as accrual. There was no specific allowance for loan losses related to the loans based upon current net realizable value analyses. The Association had one loan meet the requirements for a troubled debt restructuring designation during the period April 1, 2017 through March 31, 2018. The premodification outstanding recorded investment was \$483,331 and represents the recorded investment of the loan as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment of \$485,767 represents the recorded investment of the loan as of the quarter end the restructuring occurred. As of March 31, 2018, there were no commitments to lend additional funds to the borrowers.

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 assesses all of the modified terms to determine if the overall modification qualifies as a TDR. The loan mentioned above meeting the requirements for a TDR designation was granted an interest rate that is considered lower than the current market rate for new debt with similar risk. No principal or interest was forgiven as part of the concession.

As of December 31, 2017, the Association held three TDR loans, classified as real estate mortgage, with a total recorded investment of \$722,014, of which \$559,574 was classified as nonaccrual and \$162,440 was classified as accrual. 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 April 1, 2017, through March 31, 2018, and of April 1, 2016, through March 31, 2017 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:

	March 31, 2018			December 31, 2017		
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance<sup>a</sup></u>	<u>Related Allowance</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance<sup>a</sup></u>	<u>Related Allowance</u>
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	<u>\$1,132,055</u>	<u>\$1,144,935</u>	<u>\$ -</u>	<u>\$1,186,718</u>	<u>\$1,199,598</u>	<u>\$ -</u>
Total	<u>\$1,132,055</u>	<u>\$1,144,935</u>	<u>\$ -</u>	<u>\$1,186,718</u>	<u>\$1,199,598</u>	<u>\$ -</u>
Total impaired loans:						
Real estate mortgage	<u>\$1,132,055</u>	<u>\$1,144,935</u>	<u>\$ -</u>	<u>\$1,186,718</u>	<u>\$1,199,598</u>	<u>\$ -</u>
Total	<u>\$1,132,055</u>	<u>\$1,144,935</u>	<u>\$ -</u>	<u>\$1,186,718</u>	<u>\$1,199,598</u>	<u>\$ -</u>

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

	For the Three Months Ended			
	March 31, 2018		March 31, 2017	
	<u>Average Impaired Loans</u>	<u>Interest Income Recognized</u>	<u>Average Impaired Loans</u>	<u>Interest Income Recognized</u>
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	<u>\$1,143,106</u>	<u>\$ 4,317</u>	<u>\$861,160</u>	<u>\$ 2,225</u>
Production and intermediate term	<u>-</u>	<u>-</u>	<u>22,310</u>	<u>443</u>
Total	<u>\$1,143,106</u>	<u>\$ 4,317</u>	<u>\$883,470</u>	<u>\$ 2,668</u>
Total impaired loans:				
Real estate mortgage	<u>\$1,143,106</u>	<u>\$ 4,317</u>	<u>\$861,160</u>	<u>\$ 2,225</u>
Production and intermediate term	<u>-</u>	<u>-</u>	<u>22,310</u>	<u>443</u>
Total	<u>\$1,143,106</u>	<u>\$ 4,317</u>	<u>\$883,470</u>	<u>\$ 2,668</u>

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
<b>Allowance for Credit Losses:</b>							
Balance at December 31, 2017	\$ 588,603	\$ 98,896	\$ 28,676	\$ 5,607	\$ -	\$ 30,423	\$ 752,205
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	12,344	(20,709)	1,126	(742)	-	7,981	-
Adjustment due to merger	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Balance at March 31, 2018	<u>\$ 600,947</u>	<u>\$ 78,187</u>	<u>\$ 29,802</u>	<u>\$ 4,865</u>	<u>\$ -</u>	<u>\$ 38,404</u>	<u>\$ 752,205</u>
Ending Balance:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,000	\$ 22,000
Collectively evaluated for impairment	600,947	78,187	29,802	4,865	-	16,404	730,205
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Balance at March 31, 2018	<u>\$ 600,947</u>	<u>\$ 78,187</u>	<u>\$ 29,802</u>	<u>\$ 4,865</u>	<u>\$ -</u>	<u>\$ 38,404</u>	<u>\$ 752,205</u>
Balance at							
December 31, 2016	\$ 587,998	\$ 96,617	\$ 25,352	\$ 5,529	\$ 36	\$ 8,423	\$ 723,955
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	-	-	-	-	-	22,000	22,000
Adjustment due to merger	-	-	-	-	-	-	-
Other	605	2,279	3,324	78	(36)	-	6,250
Balance at March 31, 2017	<u>\$ 588,603</u>	<u>\$ 98,896</u>	<u>\$ 28,676</u>	<u>\$ 5,607</u>	<u>\$ -</u>	<u>\$ 30,423</u>	<u>\$ 752,205</u>
Ending Balance:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,000	\$ 22,000
Collectively evaluated for impairment	588,603	98,896	28,676	5,607	-	8,423	730,205
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Balance at March 31, 2017	<u>\$ 588,603</u>	<u>\$ 98,896</u>	<u>\$ 28,676</u>	<u>\$ 5,607</u>	<u>\$ -</u>	<u>\$ 30,423</u>	<u>\$ 752,205</u>



	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
<b>Recorded Investments in Loans Outstanding:</b>							
Ending Balance at							
March 31, 2018	\$546,316,666	\$ 63,061,400	\$21,094,212	\$ 3,225,352	\$ -	\$6,921,878	\$640,619,508
Individually evaluated for impairment	\$ 3,933,005	\$ -	\$ -	\$ -	\$ -	\$ 474,482	\$ 4,407,487
Collectively evaluated for impairment	\$542,383,661	\$ 63,061,400	\$21,094,212	\$ 3,225,352	\$ -	\$6,447,396	\$636,212,021
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Balance at							
March 31, 2017	\$519,656,922	\$ 55,764,225	\$22,794,434	\$ 3,292,408	\$ 60,316	\$4,048,090	\$605,616,395
Individually evaluated for impairment	\$ 912,294	\$ 60,846	\$ -	\$ -	\$ -	\$ 47,877	\$ 1,021,017
Collectively evaluated for impairment	\$518,744,628	\$ 55,703,379	\$22,794,434	\$ 3,292,408	\$ 60,316	\$4,000,213	\$604,595,378
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

### NOTE 3 — CAPITAL:

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

#### Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Conservation			As of	As of
	Minimums	Buffer	Total	March 31, 2018	December 31, 2017
Common equity tier 1 ratio	4.50%	2.50%	7.00%	16.74%	16.41%
Tier 1 capital ratio	6.00%	2.50%	8.50%	16.74%	16.41%
Total capital ratio	8.00%	2.50%	10.50%	16.86%	16.53%
Permanent capital ratio	7.00%	0.00%	7.00%	16.76%	16.43%
Non-risk-adjusted:					
Tier 1 leverage ratio	4.00%	1.00%	5.00%	17.19%	16.89%
UREE leverage ratio	1.50%	0.00%	1.50%	18.28%	17.98%



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

	<u>at March 31, 2018</u>	
	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	116,318,417	116,318,417
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	3,178,905	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(10,115,865)	-
Other regulatory required deductions	-	-
	<u>109,381,457</u>	<u>116,318,417</u>
Denominator:		
Total Assets	649,286,793	649,286,793
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(13,050,004)	(13,050,004)
	<u>636,236,789</u>	<u>636,236,789</u>

	<u>at December 31, 2017</u>	
	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	\$ 114,832,047	\$ 114,832,047
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	3,167,938	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(10,178,307)	-
Other regulatory required deductions	-	-
	<u>\$ 107,821,678</u>	<u>\$ 114,832,047</u>
Denominator:		
Total Assets	\$ 652,937,065	\$ 652,937,065
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(14,397,370)	(14,397,370)
	<u>\$ 638,539,695</u>	<u>\$ 638,539,695</u>

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes. The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Net periodic postretirement benefit cost" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the three months ended March 31:

	<u>2018</u>	<u>2017</u>
Accumulated other comprehensive income (loss) at January 1	\$(130,750)	\$(115,208)
Amortization of prior service (credit) costs included		
in salaries and employee benefits	(3,969)	(5,293)
Other comprehensive income (loss), net of tax	(3,969)	(5,293)
Accumulated other comprehensive income at March 31	<u>\$(134,719)</u>	<u>\$(120,501)</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 March 31, 2018, 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 three months ended March 31, 2018 and 2017, the Association carried a deferred tax asset of \$338,981 and \$357,970, 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 2017 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>Fair Value Measurement Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b><u>March 31, 2018</u></b>			
Assets:			
Loans*	\$ -	\$ -	\$ -
Other property owned	-	-	-
<u>December 31, 2017</u>			
	<u>Fair Value Measurement Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
Loans*	\$ -	\$ -	\$ -
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 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 March 31, 2018, the Association had \$123,534 in outstanding standby letters of credit and \$3,989 in outstanding commercial letters of credit, all issued primarily in conjunction with participation loans.

#### Valuation Techniques

As more fully discussed in Note 2 to the 2017 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 2017 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 three months ended March 31:

	Other Benefits	
	2018	2017
Service cost	\$ 4,719	\$ 4,600
Interest cost	16,308	18,098
Amortization of prior service (credits) costs	(3,969)	(5,293)
Net periodic benefit cost	<u>\$ 17,058</u>	<u>\$ 17,405</u>

The Association’s liability for the unfunded accumulated obligation for these benefits at March 31, 2018, was \$1,670,913 and is included in “Other Liabilities” in the balance sheet.

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

The structure of the District’s defined benefit (DB) pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The annual contribution is paid in January with the expense amortized monthly to the “Salaries and employee benefits” line item on the consolidated statement of comprehensive income. The remaining unamortized amount is included in “Other assets” on the consolidated balance sheet. The following table represents DB contributions made, amounts amortized into expense and the remaining unamortized contribution amounts as of March 31:

	2018	2017
DB contribution	\$ 825,904	\$ 857,730
YTD amortization	(206,476)	(214,433)
Net periodic benefit cost	<u>\$ 619,428</u>	<u>\$ 643,297</u>

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

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

**NOTE 8 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through May 9, 2018, which is the date the financial statements were issued. On May 1, 2018, three loans to a single borrower with a total recorded investment plus accrued interest of \$665,654 were downgraded to nonaccrual. As of May 9, 2018, there are no other subsequent events to report.