Delta Agricultural Credit Association

Quarterly Report
September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Delta Agricultural Credit Association and its subsidiaries Delta Agricultural Credit Association, FLCA and Delta Agricultural Credit Association, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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NOTICE OF SIGNIFICANT OR MATERIAL EVENTS

On October 8, 2019, we notified AgriBank of certain lending limit violations under the Farm Credit Administration (FCA) Regulation 614.4360 and our General Financing Agreement (GFA). AgriBank found us to be in default of our GFA as of October 11, 2019, due to these lending limit violations and failure to create sufficient controls to prevent such violations. The default was cured as of October 28, 2019, as a result of actions taken by us as prescribed in the notice of default.

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2018 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

Our territory is located in rural southeast Arkansas. Crop, timber, and poultry production are the primary agricultural enterprises that influence our association's portfolio. Local field crop commodity markets are being negatively affected by the current U.S. tariffs while other economic areas of our portfolio are in balance.

The current Farm Bill provides some cushion to the decline of local field crop commodity prices. For the second year in a row the Market Facilitation Program (MFP) payment has been paid to offset the stress created from global tariff issues. The crop land rents have declined slightly and are basically tied to the equivalence of the predominant share crop rent values. Although there is economic pressure in crop production, crop rents are still attractive to land owners and investors who represent the majority of the farmland buyers. Poultry production continues to show profitable margins but new grower contracts and new poultry facility construction has declined significantly from the peak five years ago. Beef cattle prices have slumped in the last quarter and are marginal for profitability. Pine timber prices have returned to its weak position after temporarily increasing due to an extended wet season. The stress in the crop sector has been cushioned by the MFP payment funded from the tariffs.

The overall field crops, livestock, poultry, and timber economies are sustainable. The borrowers' capital erosion has been limited to the stressed field crop sector. The crop commodity price stress has been offset by the government MFP payment. Farmers have received the first half of the payment for 2019. The poultry and timberland real estate values remain stable. Our Farm Credit Association is experiencing an acceptable economic environment.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $51.3 million at September 30, 2019, an increase of $2.3 million from December 31, 2018. The increase was primarily due to seasonal credit needs of borrowers with production and intermediate-term loans, which was partially offset by annual repayments on real estate loans.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2018. Adversely classified loans were 2.6% of the portfolio at September 30, 2019, and December 31, 2018. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At September 30, 2019, $25.2 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**September 30 2019**	December 31 2018
Loans:		
Nonaccrual	**$ --**	$ --
Accruing restructured	**315**	353
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**315**	353
Other property owned	**--**	--
Total risk assets	**$ 315**	$ 353
Total risk loans as a percentage of total loans	**0.6%**	0.7%
Nonaccrual loans as a percentage of total loans	**--**	--
Current nonaccrual loans as a percentage of total nonaccrual loans	**--**	--
Total delinquencies as a percentage of total loans	**0.4%**	--

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2018, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	**September 30 2019**	December 31 2018
Allowance as a percentage of:		
Loans	**0.2%**	0.2%
Total risk loans	**33.0%**	29.5%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2019.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30	**2019**	2018
Net income	**$ 336**	$ 429
Return on average assets	**0.9%**	1.0%
Return on average members' equity	**4.6%**	5.5%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the nine months ended September 30	2019	2018	(Decrease) Increase in net income
Net interest income	**$ 1,219**	$ 1,375	**$ (156)**
Patronage income	**161**	117	**44**
Other income, net	**21**	32	**(11)**
Operating expenses	**1,063**	1,095	**32**
Provision for income taxes	**2**	--	**(2)**
Net income	**$ 336**	$ 429	**$ (93)**

Changes in Net Interest Income

(in thousands) For the nine months ended September 30	2019 vs 2018
Changes in volume	**$ (76)**
Changes in interest rates	**(80)**
Net change	**$ (156)**

Patronage Income

(in thousands) For the nine months ended September 30	2019	2018
Wholesale patronage:		
Cash	**$ 64**	$ 117
Stock	**97**	--
Total patronage income	**$ 161**	$ 117

The increase in patronage income was primarily due to an increase in wholesale patronage. Total wholesale patronage increased primarily as a result of a higher patronage rate for the nine months ended September 30, 2019, compared to the same period of 2018. Wholesale patronage may be paid in cash or AgriBank stock.

The change in other income, net was primarily due to our share of the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) of $7 thousand in 2019, compared to $19 thousand in 2018. The AIRA was established by FCSIC when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. Refer to the 2018 Annual Report for additional information about the FCSIC.

The change in operating expenses was primarily related to a decrease in salaries and employee benefits expense due to the deferral of salaries on new loan originations. In addition, director expense decreased due to less meetings in the nine months ended September 30, 2019, compared to the same period of 2018. These decreases were partially offset by an increase in purchased services and consulting services.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matured on March 31, 2019, and was renewed for $60.0 million with a maturity date of March 31, 2020. The note payable will be renegotiated no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were subject to a 3 basis point risk premium in 2018. The risk premium was triggered by a decline in our risk score. Effective January 1, 2019, we were no longer subject to a risk premium.

AgriBank found us to be in default of our GFA as of October 11, 2019. The default was cured as of October, 28, 2019. Additional discussion is included in Note 5 to the accompanying Consolidated Financial Statements.

Total members' equity increased $335 thousand from December 31, 2018, due to net income for the period.

FCA Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 6 in our 2018 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**September 30 2019**	December 31 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**22.7%**	21.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**22.7%**	21.2%	6.0%	2.5%*	8.5%
Total capital ratio	**23.0%**	21.5%	8.0%	2.5%*	10.5%
Permanent capital ratio	**23.4%**	21.4%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**15.8%**	15.1%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**15.5%**	14.8%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums is being phased in over three years under the FCA capital requirements. The phase in period ends on December 31, 2019.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

CERTIFICATION

The undersigned have reviewed the September 30, 2019, Quarterly Report of Delta Agricultural Credit Association, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Mike Norris
Chairperson of the Board
Delta Agricultural Credit Association

Mark W. Kaufman
Chief Executive Officer
Delta Agricultural Credit Association

Mary Ann Johnson
Chief Financial Officer
Delta Agricultural Credit Association

November 8, 2019

CONSOLIDATED STATEMENTS OF CONDITION

Delta Agricultural Credit Association
(in thousands)
(Unaudited)

As of:		**September 30 2019**		December 31 2018
ASSETS				
Loans	**$**	**51,297**	$	48,988
Allowance for loan losses		**104**		104
Net loans		**51,193**		48,884
Investment in AgriBank, FCB		**1,293**		1,196
Accrued interest receivable		**829**		924
Other assets		**485**		543
Total assets	**$**	**53,800**	$	51,547
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**43,450**	$	41,390
Accrued interest payable		**314**		329
Patronage distribution payable		**--**		170
Other liabilities		**130**		87
Total liabilities		**43,894**		41,976
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Protected members' equity		**7**		7
Capital stock and participation certificates		**157**		158
Unallocated surplus		**9,742**		9,406
Total members' equity		**9,906**		9,571
Total liabilities and members' equity	**$**	**53,800**	$	51,547

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Delta Agricultural Credit Association
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
For the period ended September 30	**2019**	2018	**2019**	2018
Interest income	**$ 757**	$ 846	**$ 2,084**	$ 2,219
Interest expense	**314**	334	**865**	844
Net interest income	**443**	512	**1,219**	1,375
Provision for loan losses	**--**	--	**--**	--
Net interest income after provision for loan losses	**443**	512	**1,219**	1,375
Other income				
Patronage income	**59**	44	**161**	117
Financially related services income	**--**	--	**2**	2
Fee income	**6**	5	**9**	9
Allocated Insurance Reserve Accounts distribution	**--**	--	**7**	19
Miscellaneous income, net	**--**	--	**3**	2
Total other income	**65**	49	**182**	149
Operating expenses				
Salaries and employee benefits	**220**	232	**641**	677
Other operating expenses	**190**	120	**422**	418
Total operating expenses	**410**	352	**1,063**	1,095
Income before income taxes	**98**	209	**338**	429
Provision for income taxes	**--**	--	**2**	--
Net income	**$ 98**	$ 209	**$ 336**	$ 429

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Delta Agricultural Credit Association
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2017	$ 12	$ 1,857	$ 8,918	$ 10,787
Net income	--	--	429	429
Capital stock and participation certificates issued	--	464	--	464
Capital stock and participation certificates retired	(5)	(2,168)	--	(2,173)
Balance at September 30, 2018	$ 7	$ 153	$ 9,347	$ 9,507
Balance at December 31, 2018	$ 7	$ 158	$ 9,406	$ 9,571
Net income	**--**	**--**	**336**	**336**
Capital stock and participation certificates issued	**--**	**5**	**--**	**5**
Capital stock and participation certificates retired	**--**	**(6)**	**--**	**(6)**
Balance at September 30, 2019	**$ 7**	**$ 157**	**$ 9,742**	**$ 9,906**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Income. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the nine months ended September 30, 2019, are not necessarily indicative of the results to be expected for the year ending December 31, 2019. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Delta Agricultural Credit Association (the Association) and its subsidiaries Delta Agricultural Credit Association, FLCA and Delta Agricultural Credit Association, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements on the public business entities effective date or aligned with other System institutions, whichever is earlier.

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 “Leases.” In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The guidance is effective for public business entities in its first quarter of 2019 and early adoption is permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019. The adoption of this guidance did not have a material impact on our financial condition, results of operations, and financial statement disclosures, and had no impact on cash flows.
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses.” This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 and early adoption is permitted.	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.	On October 16, 2019, the FASB voted to defer effective dates for various standards for certain entities, which includes ASU 2016-13. We have determined we qualify for the delay in the required adoption date for this standard. We are evaluating the deferral and have not yet determined if we will early adopt the standard. We have reviewed the accounting standard and significant implementation matters yet to be addressed include system selection, system development and testing, drafting of accounting policies, and designing processes and controls. We are currently unable to estimate the impact on the financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**September 30, 2019**			December 31, 2018		
		Amount	%		Amount	%
Real estate mortgage	**$**	**29,441**	**57.4%**	$	32,181	65.7%
Production and intermediate-term		**21,833**	**42.6%**		16,754	34.2%
Agribusiness		**23**	**0.0%**		53	0.1%
Total	**$**	**51,297**	**100.0%**	$	48,988	100.0%

Delinquency

Aging Analysis of Loans

(in thousands) **As of September 30, 2019**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	**$ 218**	**$ --**	**$ 218**	**$ 29,690**	**$ 29,908**
Production and intermediate-term	**--**	**--**	**--**	**22,194**	**22,194**
Agribusiness	**--**	**--**	**--**	**24**	**24**
Total	**$ 218**	**$ --**	**$ 218**	**$ 51,908**	**$ 52,126**

As of December 31, 2018	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
Real estate mortgage	$ --	$ --	$ --	$ 32,831	$ 32,831
Production and intermediate-term	--	--	--	17,026	17,026
Agribusiness	--	--	--	55	55
Total	$ --	$ --	$ --	$ 49,912	$ 49,912

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at September 30, 2019, or December 31, 2018.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:	**September 30 2019**	December 31 2018
Volume with specific allowance	**$ --**	$ --
Volume without specific allowance	**315**	353
Total risk loans	**$ 315**	$ 353
Total specific allowance	**$ --**	$ --
For the nine months ended September 30	**2019**	2018
Income on accrual risk loans	**$ 15**	$ 10
Income on nonaccrual loans	**--**	--
Total income on risk loans	**$ 15**	$ 10
Average risk loans	**$ 330**	$ 259

Note: Accruing loans include accrued interest receivable.

We did not have any commitments to lend additional money to borrowers whose loans were classified as risk loans at September 30, 2019.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

There were no TDRs that occurred during the nine months ended September 30, 2019. We completed TDRs of certain production and intermediate-term loans during the nine months ended September 30, 2018. Our recorded investment in these loans just prior to restructuring was $450 thousand and immediately following the restructuring was $341 thousand during the nine months ended September 30, 2018. The recorded investment in the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary type of modification included deferral of principal. There were no TDRs that defaulted during the nine months ended September 30, 2019, or 2018 in which the modification was within twelve months of the respective reporting period.

TDRs outstanding in the production and intermediate-term loan category totaled $315 thousand and $353 thousand, all of which were in accrual status at September 30, 2019, and December 31, 2018, respectively.

There were no commitments to lend to borrowers whose loans have been modified in a TDR at September 30, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Nine months ended September 30		**2019**		2018
Balance at beginning of period	**$**	**104**	$	105
Loan charge-offs		**--**		(1)
Balance at end of period	**$**	**104**	$	104

NOTE 3: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2018 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring or non-recurring basis at September 30, 2019, or December 31, 2018.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 8, 2019, which is the date the Consolidated Financial Statements were available to be issued. On October 8, 2019, we notified AgriBank of certain lending limit violations under the Farm Credit Administration (FCA) Regulation 614.4360 and our General Financing Agreement (GFA). AgriBank found us to be in default of our GFA as of October 11, 2019, due to these lending limit violations and failure to create sufficient controls to prevent such violations. The default was cured as of October 28, 2019, as a result of actions taken by us as prescribed in the notice of default. There have been no other material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.