



Delta Agricultural Credit Association

Quarterly Report
March 31, 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:

Delta Agricultural Credit Association
P.O. Box 750
Dermott, AR 71638
(870) 538-3258
www.deltaaca.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

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 portfolio. Commodity markets are being negatively affected by the current U.S. tariffs.

The current Farm Bill will provide some cushion to the decline of row crop commodity prices. 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. Cattle prices have stabilized at a profitable level from the price collapse several years ago. Timber prices have rebounded temporarily for harvestable tracts due to an extended wet season. The stress in the crop sector has been cushioned by the new Farm Bill.

The overall field crops, cattle, poultry, and timber economies are sustainable. The borrowers' capital erosion has been limited to the stressed field crop sector. The poultry and timberland real estate values remain stable. Despite decreasing trends and stress in certain sectors of our portfolio, we are experiencing an acceptable economic environment.

LOAN PORTFOLIO

Loan Portfolio

Total loans were \$46.3 million at March 31, 2019, a decrease of \$2.7 million from December 31, 2018. The decrease was primarily due to seasonal repayments of production and intermediate-term loans.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2018. Adversely classified loans increased to 3.1% of the portfolio at March 31, 2019, from 2.6% of the portfolio at December 31, 2018. The increase in adversely classified loans is a result of an increase in volume during the first quarter of 2019 on loans that were classified as substandard at 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 March 31, 2019, \$23.8 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets		
(dollars in thousands)	March 31	December 31
As of:	2019	2018
Loans:		
Nonaccrual	\$ --	\$ --
Accruing restructured	358	353
Accruing loans 90 days or more past due	--	--
Total risk loans	358	353
Other property owned	--	--
Total risk assets	\$ 358	\$ 353
Total risk loans as a percentage of total loans	0.8%	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	--	--

Note: Accruing loans include accrued interest receivable.

Our risk assets have not changed significantly 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		
	March 31	December 31
As of:	2019	2018
Allowance as a percentage of:		
Loans	0.2%	0.2%
Total risk loans	29.1%	29.5%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2019.

RESULTS OF OPERATIONS

Profitability Information		
(dollars in thousands)		
For the three months ended March 31	2019	2018
Net income	\$ 92	\$ 74
Return on average assets	0.8%	0.6%
Return on average members' equity	3.8%	2.7%

Changes in the chart above relate directly to:

- Changes in income discussed below
- 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)			(Decrease)
For the three months ended March 31	2019	2018	increase in net income
Net interest income	\$ 378	\$ 413	\$ (35)
Patronage income	33	33	--
Other income, net	11	23	(12)
Operating expenses	328	395	67
Provision for income taxes	2	--	(2)
Net income	<u>\$ 92</u>	<u>\$ 74</u>	<u>\$ 18</u>

Changes in Net Interest Income

(in thousands)		
For the three months ended March 31	2019 vs 2018	
Changes in volume	\$	(8)
Changes in interest rates		<u>(27)</u>
Net change	\$	<u>(35)</u>

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 decline in salaries expense due to the deferral of salaries on new loan originations. In addition, purchased and vendor services expense decreased due to lower legal fees associated with loan reviews.

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 unallocated surplus.

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.

Total members' equity increased \$92 thousand from December 31, 2018, due to net income for the period.

The Farm Credit Administration (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:	March 31 2019	December 31 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	23.8%	21.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	23.8%	21.2%	6.0%	2.5%*	8.5%
Total capital ratio	24.1%	21.5%	8.0%	2.5%*	10.5%
Permanent capital ratio	24.2%	21.4%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	17.6%	15.1%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	17.3%	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 March 31, 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

May 7, 2019

CONSOLIDATED STATEMENTS OF CONDITION

Delta Agricultural Credit Association

(in thousands)

(Unaudited)

As of:	March 31 2019	December 31 2018
ASSETS		
Loans	\$ 46,261	\$ 48,988
Allowance for loan losses	104	104
Net loans	46,157	48,884
Investment in AgriBank, FCB	1,195	1,196
Accrued interest receivable	888	924
Other assets	437	543
Total assets	\$ 48,677	\$ 51,547
LIABILITIES		
Note payable to AgriBank, FCB	\$ 37,953	\$ 41,390
Accrued interest payable	265	329
Patronage distribution payable	--	170
Other liabilities	796	87
Total liabilities	39,014	41,976
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Protected members' equity	7	7
Capital stock and participation certificates	158	158
Unallocated surplus	9,498	9,406
Total members' equity	9,663	9,571
Total liabilities and members' equity	\$ 48,677	\$ 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)

<i>For the period ended March 31</i>	<i>Three Months Ended</i>	
	2019	2018
Interest income	\$ 643	\$ 648
Interest expense	265	235
Net interest income	378	413
Provision for loan losses	--	--
Net interest income after provision for loan losses	378	413
Other income		
Patronage income	33	33
Fee income	1	2
Allocated Insurance Reserve Accounts distribution	7	19
Miscellaneous income, net	3	2
Total other income	44	56
Operating expenses		
Salaries and employee benefits	203	244
Other operating expenses	125	151
Total operating expenses	328	395
Income before income taxes	94	74
Provision for income taxes	2	--
Net income	\$ 92	\$ 74

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		--		--		74		74
Capital stock and participation certificates issued		--		188		--		188
Capital stock and participation certificates retired		(5)		(251)		--		(256)
Balance at March 31, 2018	\$	7	\$	1,794	\$	8,992	\$	10,793
Balance at December 31, 2018	\$	7	\$	158	\$	9,406	\$	9,571
Net income		--		--		92		92
Capital stock and participation certificates issued		--		1		--		1
Capital stock and participation certificates retired		--		(1)		--		(1)
Balance at March 31, 2019	\$	7	\$	158	\$	9,498	\$	9,663

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 three months ended March 31, 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 (the subsidiaries). 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. When this guidance is adopted, a liability for lease obligations and a corresponding right-of-use asset will be 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.	We have no plans to early adopt this guidance. We have reviewed the accounting standard and are in the process of drafting disclosures. 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:	March 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Real estate mortgage	\$ 32,240	69.6%	\$ 32,181	65.7%
Production and intermediate-term	13,997	30.3%	16,754	34.2%
Agribusiness	24	0.1%	53	0.1%
Total	\$ 46,261	100.0%	\$ 48,988	100.0%

Delinquency

Aging Analysis of Loans

(in thousands)	Not Past Due or Less than 30 Days Past Due		Total
As of March 31, 2019			
Real estate mortgage	\$ 32,856	\$	32,856
Production and intermediate-term	14,269		14,269
Agribusiness	24		24
Total	\$ 47,149	\$	47,149

(in thousands)	Not Past Due or Less than 30 Days Past Due		Total
As of December 31, 2018			
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 March 31, 2019, and 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)	March 31	December 31
As of:	2019	2018
Volume with specific allowance	\$ --	\$ --
Volume without specific allowance	358	353
Total risk loans	\$ 358	\$ 353
Total specific allowance	\$ --	\$ --
For the three months ended March 31	2019	2018
Income on accrual risk loans	\$ 5	\$ --
Income on nonaccrual loans	--	--
Total income on risk loans	\$ 5	\$ --
Average risk loans	\$ 355	\$ 132

Note: Accruing loans include accrued interest receivable.

We had \$1.1 million of commitments to lend additional money to borrowers whose loans were classified as risk loans at March 31, 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 three months ended March 31, 2019, or 2018.

There were no TDRs that defaulted during the three months ended March 31, 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 \$358 thousand and \$353 thousand, all of which were in accrual status at March 31, 2019, and December 31, 2018, respectively.

Additional commitments to lend to borrowers whose loans have been modified in a TDR were \$1.1 million at March 31, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands)

Three months ended March 31	2019	2018
Balance at beginning of period	\$ 104	\$ 105
Loan charge-offs	--	(1)
Balance at end of period	<u>\$ 104</u>	<u>\$ 104</u>

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 March 31, 2019, or December 31, 2018.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 7, 2019, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.