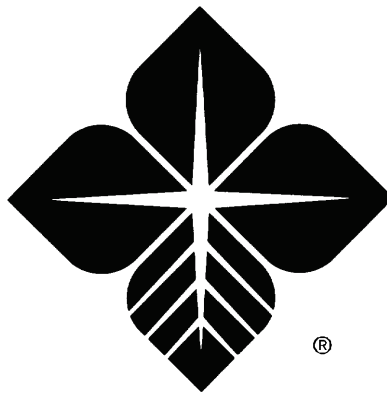


# **LOUISIANA LAND BANK, ACA**

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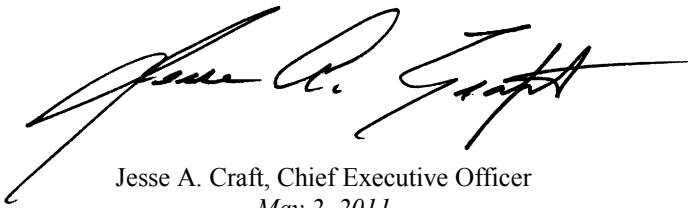
## **2011 Quarterly Report First Quarter**



**For the Quarter Ended March 31, 2011**

**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 his or her knowledge and belief.



Jesse A. Craft, Chief Executive Officer  
*May 2, 2011*



R. Ernest Girouard, Jr., Chairman, Board of Directors  
*May 2, 2011*



Frank J. Connealy, Chief Financial Officer  
*May 2, 2011*

## LOUISIANA LAND BANK, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Louisiana Land Bank, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and three months ended March 31, 2011. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2010 Annual Report to Stockholders.

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

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

### **Significant Events:**

Effective January 1, 2010, the Association received approval from the regulator, the Farm Credit Administration, and the Farm Credit Bank of Texas (Bank) to restructure as an Agricultural Credit Association (ACA). This reorganization required the approval of voting stockholders of the Association. Approval from stockholders was granted on November 10, 2009. The approved structure allows the Association the opportunity to provide short and intermediate term agricultural lending products to customers in addition to the Association's current product mix.

The Association has a contractual relationship with the Bank from which the Association borrows to fund its loan portfolio. The indebtedness is governed by a general financing agreement (GFA) which contains certain covenants. As of March 31, 2011, the Association was in violation of earnings and credit quality covenants included in the GFA. The Bank has issued a limited waiver of these covenant defaults through 2011, subject to the Association taking certain actions to correct the deficiencies. Remedies/corrective actions by the Association to these defaults include meeting certain profitability and credit quality metrics as defined by the Bank in the waiver, as well as additional Bank review over large credit originations.

The Association's allowance for loan loss balance was \$19,801,018 as of March 31, 2011. Of that balance, \$10,557,980 and 53 percent relates to loans involving a third party originator, with collateral residing primarily in the states of Florida and Georgia. In total, as of March 31, 2011, the Association has approximately \$95.0 million in nonearning assets, including nonaccrual loans and other property owned. These nonearning assets are expected to have a negative impact on net interest margins for up to the next three years as legal collections move through the court systems in judicial foreclosure states and the market begins to slowly absorb the properties.

As of March 15, 2011 the Association entered into a written agreement (agreement) with our regulator, the FCA. Per the agreement, the Association is subject to various operational, financial, compliance and reporting requirements. The conditions which led to this agreement were unsafe and unsound conditions including excessive portfolio risk and asset quality weaknesses which stemmed from weaknesses in the credit underwriting function which became more apparent with the downturn in the overall economy. The identification of these matters concluded that they were violations of certain FCA regulations. The weaknesses as asserted by FCA are largely related to purchased loans and participations with the underlying collateral predominantly located in Florida. The board of directors is committed to addressing these matters and instituted specific actions beginning in January 2010, including replacing certain members of management, strengthening controls over problem loan identification, and generally ensuring that all identified weaknesses are both in the process of remediation (if not already remediated) and otherwise accounted for via the allowance for loan losses. The Board is also complying with the requirements of the March 15, 2011 agreement with the FCA, which reiterates the FCA findings identified and communicated throughout 2010, and creates new reporting requirements to the FCA. The Board will continue to monitor the remediation of the underlying causes of the conditions which led to the need for the agreement with the FCA.

Pursuant to that effort, during March 2010, the Association hired a new Chief Credit Officer (CCO), who was promoted to Chief Executive Officer (CEO) on an interim basis as of October 1, 2010, and was named as the Association's permanent CEO on January 19, 2011. A new CCO was hired in April 2011 to fill that vacated position. Additionally, during August 2010 the Association brought in a new Chief Financial Officer (CFO) on an interim basis. A permanent CFO was hired as of December 20, 2010. During September 2010, the former CEO retired after 38 years of service, and the former CCO retired after 29 years of service.

The Board of Directors elected to not pay a patronage to stockholders or bonuses to Association staff for 2010 due to the significant credit losses experienced by the Association.

## Loan Portfolio:

Total loans outstanding at March 31, 2011, including nonaccrual loans and sales contracts, were \$768,468,362 compared to \$773,311,613 at December 31, 2010 reflecting an decrease of 0.6 percent. Nonaccrual loans as a percentage of total loans outstanding were 10.7 percent at March 31, 2011, compared to 10.3 percent at December 31, 2010.

The Association recorded \$0 in recoveries and \$4,130,698 in charge-offs for the quarter ending March 31, 2011, and \$74,803 in recoveries and \$68,802 in charge-offs for the same period in 2010. Included in the charge-offs was \$3.0 million related to a timber loan with collateral in Florida that was brokered by the third party originator. The Association's allowance for loan losses was 2.6 percent and 3.0 percent of total loans outstanding as of March 31, 2011, and December 31, 2010, respectively.

The Association's portfolio was comprised of 45.1 percent timberland loans as of March 31, 2011. The percentage of timberland loans relative to total loans is essentially commensurate with timberland as a percentage of total agricultural land in Louisiana.

Total out-of-state loans, including purchased participation loans, were 28.7 percent of total loans outstanding. Purchased participations and out-of-state loans have significantly contributed to the increase in nonaccrual loans and loan loss reserves for the year. These out-of-state loans, specifically those in Georgia and Florida, require increased monitoring and servicing due to the economic condition of the states where some of the collateral is located.

## 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, 2011 |        | December 31, 2010 |        |
|--|----------------|--------|-------------------|--------|
|  | Amount         | %      | Amount            | %      |
| Nonaccrual                                   | \$ 82,463,797  | 86.8%  | \$ 79,306,303     | 82.7%  |
| 90 days past due and still accruing interest | -              | 0.0%   | -                 | 0.0%   |
| Formally restructured                        | 390,505        | 0.4%   | 5,078,622         | 5.3%   |
| Other property owned, net                    | 12,099,206     | 12.8%  | 11,493,488        | 12.0%  |
| Total  | \$ 94,953,508  | 100.0% | \$ 95,878,413     | 100.0% |

Our high risk assets relate primarily to the capital markets portfolio, and specifically, a portfolio of loans originated through a third party originator. Between 2006 and 2008 the Association entered into \$123.3 million loan participations brokered by this third party originator. Of this portfolio, approximately \$74.9 million had underlying collateral of real estate in Florida or Georgia. Since the time of origination, the underlying real estate collateral of these Florida and Georgia properties has decreased in value significantly in line with the US economy's general downturn and regional property devaluations over the same time period. Out of the total nonaccrual loan balance of \$82,463,797 at March 31, 2011, \$32,646,577 and 39.6 percent have underlying real estate collateral in Florida or Georgia. In addition, timber related loans comprised \$60,836,053 and 73.8 percent of the nonaccrual loan balance at March 31, 2011.

## Results of Operations:

The Association had net income of \$2,471,791 for the three months ended March 31, 2011, as compared to net income of \$2,237,219 for the same period in 2010 reflecting an increase of 10.5 percent. Net interest income was \$4,733,701 for the three months ended March 31, 2011, compared to \$4,858,497 for the same period in 2010. Interest income for the first three months of 2011 decreased by \$1,331,702, or 13.3 percent, from the same period of 2010, primarily due to a decrease in average loan volume, as well as the significant increase in nonaccrual loans over that period. Interest expense for the first three months of 2011 decreased by \$1,206,906, or 23.3 percent, from the same period of 2010 due to a decrease in interest rates and a decrease in average debt volume. Average loan volume for the first quarter of 2011 was \$ 772,670,726, compared to \$ 810,634,903 in the first quarter of 2010. The average spread on the loan portfolio for the first quarter of 2011 was 2.14 percent, compared to 2.00 percent in the first quarter of 2010. The changes in average volume and interest rates on net interest income and spread over the past year are presented in the following tables:

|  | March 31, 2011 |                 |                           | March 31, 2010 |                 |                           |
|--|----------------|-----------------|---------------------------|----------------|-----------------|---------------------------|
|  | Interest       | Average Balance | Annualized Rate (Percent) | Interest       | Average Balance | Annualized Rate (Percent) |
| Interest earning assets:               |                |                 |                           |                |                 |                           |
| Loans                                  | \$ 8,710,759   | \$ 772,670,726  | 4.57                      | \$ 10,042,461  | \$ 810,634,903  | 5.02                      |
| Total                                  | 8,710,759      | 772,670,726     | 4.57                      | 10,042,461     | 810,634,903     | 5.02                      |
| Interest bearing liabilities           | 3,977,058      | 663,462,135     | 2.43                      | 5,183,964      | 694,739,808     | 3.03                      |
| Net interest rate spread               | \$ 4,733,701   |                 | 2.14                      | \$ 4,858,497   |                 | 2.00                      |
| Impact of equity financing             |                | \$ 109,208,591  | 0.34                      |                | \$ 115,895,095  | 0.43                      |
| Net interest to average earning assets |                |                 | 2.48                      |                |                 | 2.43                      |

|  | Analysis of Change in NII Components |                 |                           | Approximate                  |              |
|--|--------------------------------------|-----------------|---------------------------|------------------------------|--------------|
|  | Interest                             | Average Balance | Annualized Rate (Percent) | Rate Favorable/(Unfavorable) | Volume       |
| Interest earning assets:               |                                      |                 |                           |                              |              |
| Loans                                  | \$ (1,331,702)                       | \$ (37,964,177) | (0.45)                    | \$ (861,385)                 | \$ (470,317) |
| Total                                  | (1,331,702)                          | (37,964,177)    | (0.45)                    | (861,385)                    | (470,317)    |
| Interest bearing liabilities           | (1,206,906)                          | (31,277,673)    | (0.60)                    | (973,524)                    | (233,382)    |
| Net interest rate spread               | \$ (124,796)                         |                 | 0.14                      | \$ 112,139                   | \$ (236,935) |
| Impact of equity financing             |                                      | \$ (6,686,504)  | (0.09)                    |                              |              |
| Net interest to average earning assets |                                      |                 | 0.05                      |                              |              |

The Association's return on average assets for the three months ended March 31, 2011, was 1.27 percent compared to 1.0808 percent for the same period in 2010. The Association's return on average equity for the three months ended March 31, 2011, was 8.19 percent, compared to 6.522 percent for the same period in 2010.

## Liquidity and Funding Sources:

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

|                                  | March 31,<br>2011 | December 31,<br>2010 |
|----------------------------------|-------------------|----------------------|
| Note payable to the bank         | \$ 661,251,525    | \$ 665,725,115       |
| Accrued interest on note payable | 1,358,131         | 1,446,438            |
| Total                            | \$ 662,609,656    | \$ 667,171,553       |

The Association has a contractual relationship with the Bank from which the Association borrows to fund its loan portfolio. The indebtedness is governed by a GFA which contains certain covenants. Beginning in the third quarter of 2009 and continuing through March 31, 2011, with the exception of the months of July and August 2010, the Association violated the earnings covenant as defined in the agreement which requires a rolling one-year average return on assets of 1.00 percent or greater. This default was derived from the substantial provision for loan loss expense incurred during 2009 and 2010, resulting in a return on assets below the 1.00 percent threshold. Beginning in the third quarter of 2009 and continuing through December 31, 2010, the Association fell out of compliance with the adverse assets to risk funds ratio requirements as defined in the agreement. The Bank has issued a limited waiver of these covenant defaults through 2011, subject to the Association taking certain actions to correct the deficiencies. Remedies/corrective actions by the Association to these defaults include meeting certain profitability and credit quality metrics as defined by the Bank in the waiver, as well as additional Bank review over large credit originations.

**Capital Resources:**

At March 31, 2011, the Association's capital position increased by \$2,427,352 compared to December 31, 2010. The Association's debt as a percentage of members' equity was 5.38:1 as of March 31, 2011, compared to 5.53:1 as of December 31, 2010.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital ratio of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2011, was 13.9 percent, which exceeds the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2011, were 13.5 and 13.5 percent, respectively, which exceed the FCA's minimum surplus standard.

**Significant Recent Accounting Pronouncements:**

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delays the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring will be coordinated and is anticipated to be effective for periods ending after June 15, 2011.

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses," which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a roll forward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables by class, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption of this Standard will not have an impact on the Association's financial condition or results of operations, but will result in additional disclosures for annual reporting periods ending after December 15, 2011.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the Association's financial condition and results of operations but resulted in additional disclosures.

**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 December 31, 2010 Annual Report of Louisiana 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 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) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at [fcb@farmcreditbank.com](mailto:fcb@farmcreditbank.com). The District makes its annual and quarterly stockholder reports available on its website at [www.farmcreditbank.com](http://www.farmcreditbank.com).

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Louisiana Land Bank, ACA, 2413 Tower Drive, Monroe, Louisiana 71201 or calling (318) 387-7535. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing [frank.connealy@louisianalandbank.com](mailto:frank.connealy@louisianalandbank.com).

**LOUISIANA LAND BANK, ACA**  
**CONSOLIDATED BALANCE SHEET**

|  | <b>March 31,<br/>2011<br/>(unaudited)</b> | <b>December 31,<br/>2010</b> |
|--|---|------------------------------|
| <b><u>ASSETS</u></b>                         |   |                              |
| Cash   | \$ 352,291                                | \$ 3,204,405                 |
| Loans  | 768,468,362                               | 773,311,613                  |
| Less: allowance for loan losses              | <u>19,801,018</u>                         | <u>23,481,716</u>            |
| Net loans                                    | 748,667,344                               | 749,829,897                  |
| Accrued interest receivable                  | 7,977,708                                 | 8,839,965                    |
| Investment in and receivable from the Bank:  |   |                              |
| Capital stock                                | 13,812,290                                | 13,812,290                   |
| Other  | 1,080,892                                 | 168,058                      |
| Other property owned, net                    | 12,099,206                                | 11,493,488                   |
| Premises and equipment                       | 3,139,140                                 | 3,243,235                    |
| Other assets                                 | <u>1,463,719</u>                          | <u>315,912</u>               |
| Total assets                                 | <u><u>\$ 788,592,590</u></u>              | <u><u>\$ 790,907,250</u></u> |
| <b><u>LIABILITIES</u></b>                    |   |                              |
| Note payable to the Bank                     | \$ 661,251,525                            | \$ 665,725,115               |
| Accrued interest payable                     | 1,358,131                                 | 1,446,438                    |
| Drafts outstanding                           | -   | 110                          |
| Other liabilities                            | <u>2,403,838</u>                          | <u>2,583,843</u>             |
| Total liabilities                            | <u><u>665,013,494</u></u>                 | <u><u>669,755,506</u></u>    |
| <b><u>MEMBERS' EQUITY</u></b>                |   |                              |
| Capital stock and participation certificates | 3,077,655                                 | 3,111,285                    |
| Unallocated retained earnings                | 120,556,409                               | 118,084,618                  |
| Accumulated other comprehensive loss         | <u>(54,968)</u>                           | <u>(44,159)</u>              |
| Total members' equity                        | <u>123,579,096</u>                        | <u>121,151,744</u>           |
| Total liabilities and members' equity        | <u><u>\$ 788,592,590</u></u>              | <u><u>\$ 790,907,250</u></u> |

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

**LOUISIANA LAND BANK, ACA**  
**CONSOLIDATED STATEMENT OF INCOME**  
(unaudited)

|   | <b>Quarter Ended</b>       |                            |
|---|----------------------------|----------------------------|
|   | <b>March 31,</b>           |                            |
|   | <b>2011</b>                | <b>2010</b>                |
| <b><u>INTEREST INCOME</u></b>                       |                            |                            |
| Loans   | \$ 8,710,759               | \$ 10,042,461              |
| <b><u>INTEREST EXPENSE</u></b>                      |                            |                            |
| Note payable to the Bank                            | <u>3,977,058</u>           | <u>5,183,964</u>           |
| Net interest income                                 | <b>4,733,701</b>           | <b>4,858,497</b>           |
| <b><u>PROVISION FOR LOAN LOSSES</u></b>             |                            |                            |
| Provision for loan losses                           | <u>450,000</u>             | <u>750,000</u>             |
| Net interest income after provision for loan losses | <u><b>4,283,701</b></u>    | <u><b>4,108,497</b></u>    |
| <b><u>NONINTEREST INCOME</u></b>                    |                            |                            |
| Income from the Bank:                               |                            |                            |
| Patronage income                                    | 582,703                    | 543,466                    |
| Loan fees   | 52,958                     | 251,935                    |
| Financially related services income                 | 1,095                      | 1,167                      |
| Gain on sale of premises and equipment, net         | 30,638                     | 15,060                     |
| Other noninterest income                            | <u>75,684</u>              | <u>1,788</u>               |
| Total noninterest income                            | <u><b>743,078</b></u>      | <u><b>813,416</b></u>      |
| <b><u>NONINTEREST EXPENSES</u></b>                  |                            |                            |
| Salaries and employee benefits                      | 1,343,523                  | 1,575,428                  |
| Directors' expense                                  | 84,810                     | 62,551                     |
| Purchased services                                  | 375,997                    | 168,821                    |
| Travel  | 113,778                    | 98,495                     |
| Occupancy and equipment                             | 106,653                    | 95,179                     |
| Communications                                      | 42,059                     | 34,741                     |
| Advertising   | 101,391                    | 102,011                    |
| Public and member relations                         | 34,925                     | 50,246                     |
| Supervisory and exam expense                        | 17,087                     | 123,942                    |
| Insurance Fund premiums                             | 112,426                    | 171,629                    |
| Loss on other property owned, net                   | 116,008                    | 44,373                     |
| Other noninterest expense                           | <u>106,331</u>             | <u>157,278</u>             |
| Total noninterest expenses                          | <u><b>2,554,988</b></u>    | <u><b>2,684,694</b></u>    |
| Net income  | <u><b>\$ 2,471,791</b></u> | <u><b>\$ 2,237,219</b></u> |

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

LOUISIANA LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY  
(unaudited)

|  | <u>Capital Stock/<br/>Participation<br/>Certificates</u> | <u>Retained Earnings<br/>Unallocated</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</u> | <u>Total<br/>Members'<br/>Equity</u> |
|--|--|--|--|--------------------------------------|
| Balance at December 31, 2009                     | \$ 3,112,790   | \$ 132,123,175                           | \$ 319,221   | \$ 135,555,186                       |
| Comprehensive income                             |  |  |  |                                      |
| Net income                                       | -  | 2,237,219                                | -  | 2,237,219                            |
| Change in postretirement benefit plans           | -  | -  | (16,709)   | (16,709)                             |
| Total comprehensive income                       | -  | 2,237,219                                | (16,709)   | 2,220,510                            |
| Capital stock/participation certificates issued  | 91,220   | -  | -  | 91,220                               |
| Capital stock/participation certificates retired | (91,780)   | -  | -  | (91,780)                             |
| Balance at March 31, 2010                        | <u>\$ 3,112,230</u>                                      | <u>\$ 134,360,394</u>                    | <u>\$ 302,512</u>  | <u>\$ 137,775,136</u>                |
| Balance at December 31, 2010                     | \$ 3,111,285   | \$ 118,084,618                           | \$ (44,159)  | \$ 121,151,744                       |
| Comprehensive income                             |  |  |  |                                      |
| Net income                                       | -  | 2,471,791                                | -  | 2,471,791                            |
| Change in postretirement benefit plans           | -  | -  | (10,809)   | (10,809)                             |
| Total comprehensive income                       | -  | 2,471,791                                | (10,809)   | 2,460,982                            |
| Capital stock/participation certificates issued  | 91,250   | -  | -  | 91,250                               |
| Capital stock/participation certificates retired | (124,880)  | -  | -  | (124,880)                            |
| <b>Balance at March 31, 2011</b>                 | <b><u>\$ 3,077,655</u></b>                               | <b><u>\$ 120,556,409</u></b>             | <b><u>\$ (54,968)</u></b>  | <b><u>\$ 123,579,096</u></b>         |

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

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

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

Louisiana 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 parishes of Acadia, Allen, Ascension, Assumption, Avoyelles, Beauregard, Bienville, Bossier, Caddo, Calcasieu, Caldwell, Cameron, Catahoula, Claiborne, Concordia, DeSoto, East Baton Rouge, East Carroll, East Feliciana, Evangeline, Franklin, Grant, Iberia, Iberville, Jackson, Jefferson, Jefferson Davis, Lafayette, Lafourche, LaSalle, Lincoln, Livingston, Madison, Morehouse, Natchitoches, Orleans, Ouachita, Plaquemines, Pointe Coupee, Rapides, Red River, Richland, Sabine, St. Bernard, St. Charles, St. Helena, St. James, St. John the Baptist, St. Landry, St. Martin, St. Mary, St. Tammany, Tangipahoa, Tensas, Terrebonne, Union, Vermillion, Vernon, Washington, Webster, West Baton Rouge, West Carroll, West Feliciana, and Winn in the state of Louisiana. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The significant accounting policies followed and the financial condition and results of operations of the Association as of and for the year ended December 31, 2010 are contained in the 2010 Annual Report to Stockholders. These unaudited first quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Stockholders.

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings.” This guidance temporarily delays the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” The effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring will be coordinated and is anticipated to be effective for periods ending after June 15, 2011.

In July 2010, the FASB issued guidance on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses,” which is intended to provide additional information to assist financial statement users in assessing an entity’s credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a roll forward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables by class, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption of this Standard will not have an impact on the Association’s financial condition or results of operations, but will result in additional disclosures for annual reporting periods ending after December 15, 2011.

In January 2010, the FASB issued guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the Association’s financial condition and results of operations but resulted in additional disclosures.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles 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.

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, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011. 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,<br>2011<br>Amount | December 31,<br>2010<br>Amount |
|-------------------------------------|-----------------------------|--------------------------------|
| Production agriculture:             |                             |                                |
| Real estate mortgage                | \$ 665,256,360              | \$ 659,196,119                 |
| Production and<br>intermediate term | 4,483,222                   | 5,634,652                      |
| Agribusiness:                       |                             |                                |
| Loans to cooperatives               | 6,620,598                   | 4,774,599                      |
| Processing and marketing            | 17,224,993                  | 19,034,033                     |
| Farm-related business               | 63,704,269                  | 65,388,111                     |
| Communication                       | 4,540,184                   | 4,296,260                      |
| Energy                              | 2,915,339                   | 2,928,628                      |
| Rural residential real estate       | 3,165,755                   | 11,441,237                     |
| Lease receivables                   | 557,642                     | 617,974                        |
| Total                               | \$ 768,468,362              | \$ 773,311,613                 |

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. An analysis of the allowance for loan losses follows:

|                                 | March 31,<br>2011 | December 31,<br>2010 |
|---------------------------------|-------------------|----------------------|
| Balance at beginning of quarter | \$ 23,481,716     | \$ 8,418,615         |
| Provision for loan losses       | 450,000           | 26,699,705           |
| Charge-offs                     | (4,130,698)       | (12,253,414)         |
| Recoveries                      | -                 | 616,810              |
| Balance at end of quarter       | \$ 19,801,018     | \$ 23,481,716        |

The following table presents information concerning impaired loans:

|   | March 31,<br>2011 | March 31,<br>2010 |
|---|-------------------|-------------------|
| Impaired loans with related allowance             | \$ 49,521,477     | \$ 26,536,525     |
| Impaired loans with no related allowance          | 33,332,825        | 24,095,229        |
| Total impaired loans                              | \$ 82,854,302     | \$ 50,631,754     |
| Allowance on impaired loans                       | \$ 17,147,516     | \$ 6,943,691      |
| Average impaired loans                            | \$ 80,336,949     | \$ 42,537,379     |
| Interest income on impaired loans for the quarter | \$ 55,943         | \$ 194,119        |

### NOTE 3 — CAPITAL:

The Association's Board of Directors (Board) 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 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.

### NOTE 4 — INCOME TAXES:

Louisiana Land Bank, ACA and its subsidiaries are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the associations 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, 2011, 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, 2011, the Association did not have any deferred tax assets or liabilities or provision for income taxes.

The subsidiary, Louisiana FLBA, 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 11 to the 2010 Annual Report to Stockholders for a more complete description.

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

| <u>March 31, 2011</u>    | <u>Fair Value Measurement Using</u> |                |                | <u>Total Fair Value</u> |
|--------------------------|-------------------------------------|----------------|----------------|-------------------------|
|                          | <u>Level 1</u>                      | <u>Level 2</u> | <u>Level 3</u> |                         |
| Assets:                  |                                     |                |                |                         |
| Loans *                  | \$ -                                | \$ -           | \$ 65,706,786  | \$ 65,706,786           |
| Other property owned     | -                                   | -              | 12,100,000     | 12,100,000              |
| <br>                     |                                     |                |                |                         |
| <u>December 31, 2010</u> | <u>Fair Value Measurement Using</u> |                |                | <u>Total Fair Value</u> |
|                          | <u>Level 1</u>                      | <u>Level 2</u> | <u>Level 3</u> |                         |
| Assets:                  |                                     |                |                |                         |
| Loans *                  | \$ -                                | \$ -           | \$ 75,225,415  | \$ 75,225,415           |
| Other property owned     | -                                   | -              | 11,500,000     | 11,500,000              |

\*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.

### Valuation Techniques

As more fully discussed in Note 2 to the 2010 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 Associations' assets and liabilities. For a more complete description, see Notes to the 2010 Annual Report to Stockholders.

#### *Loans*

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the 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.

#### *Other Property Owned*

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value, which is generally determined using appraisals or other indications based on comparable sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

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

The following table summarizes the components of net periodic benefit costs of non-pension other postretirement employee benefits for the three months ended March 31, 2011 :

|                                     | Other Benefits   |                  |
|-------------------------------------|------------------|------------------|
|                                     | 2011             | 2010             |
| Service cost                        | \$ 15,089        | \$ 11,485        |
| Interest cost                       | 27,350           | 23,102           |
| Amortization of prior service costs | (16,594)         | (17,021)         |
| Amortizations of net loss           | 5,785            | 312              |
| Net periodic benefit cost           | <u>\$ 31,630</u> | <u>\$ 17,878</u> |

The Association expects to contribute \$1,284,188 to its defined pension plan in 2011. As of March 31, 2011, \$321,047 of contributions have been made. The Association presently anticipates contributing an additional \$963,141 to fund its defined pension plan during 2011.

### **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 – REGULATORY MATTERS:**

As of March 15, 2011 the Association entered into a written agreement (agreement) with the regulator, the Farm Credit Administration (FCA). Per the agreement, the Association is subject to various operational, financial, compliance and reporting requirements. The conditions which led to this agreement were unsafe and unsound conditions including excessive portfolio risk and asset quality weaknesses which stemmed from weaknesses in the credit underwriting function which became more apparent with the downturn in the overall economy. The identification of these matters concluded that they result in violations of certain FCA regulations. The weaknesses as asserted by FCA are largely related to purchased loans and participations with the underlying collateral predominantly located in Florida. The board of directors is committed to addressing these matters and instituted specific actions throughout 2010, including replacing certain members of management, strengthening controls over problem loan identification, and generally ensuring that all identified weaknesses are both in the process of remediation (if not already remediated) and otherwise accounted for via the allowance for loan losses.

The board of directors assertively directed management to identify the full extent of the problems and to conduct immediate remedial actions over the course of 2010. The actions taken to date by the board of directors include:

- Strengthening the competencies of Association management and engaging external expertise where necessary;
- Attending relevant board training sessions;
- Increasing the allowance for loan losses to address the incurred credit losses;
- Overseeing the implementation of stronger controls related to credit decisions and administration;
- Monitoring the status and progress of management's corrective action plans, which cover the range of requirements identified above;
- Ensuring that the remedial actions taken to date consider all recommendations made by the FCA;
- Implementing procedures to comply with FCA requests, including communications and data requirements mandated by the agreements with the FCA; and
- Choosing not to declare a patronage refund this year to preserve capital in respect of the identified potential portfolio credit weaknesses.

Although the Association's management and board of directors initiated and monitored corrective actions, the excessive portfolio risk and material weaknesses in the Association's financial condition and performance were exacerbated by the stresses caused by the general weakening of the US economy throughout 2010. The resulting impact of the economic environment has created a pronounced and significant devaluation in real estate values in certain segments of the Association's portfolio, which include real estate valuations for lands held in transitions in Florida and Georgia. The Association has adequately provided for the inherent and probable losses associated with these exposures at December 31, 2010.

The board of directors will continue to identify necessary actions to address the Association's financial weaknesses, and is committed to complying with the requirements of all agreements with the FCA.

**NOTE 9 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through May 2, 2011, which is the date the financial statements were issued. A new Chief Credit Officer (CCO) was hired by the Association in April 2011 to fill the position vacated by promotion of the former CCO to Chief Executive Officer. Otherwise, there are no events to report.