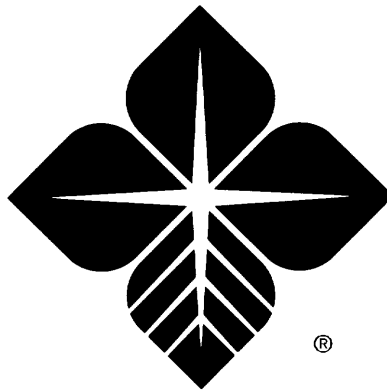


# **LOUISIANA LAND BANK, ACA**

---

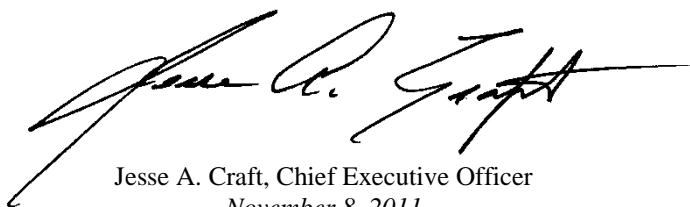
## **2011 Quarterly Report Third Quarter**



**For the Quarter Ended September 30, 2011**

## REPORT OF MANAGEMENT

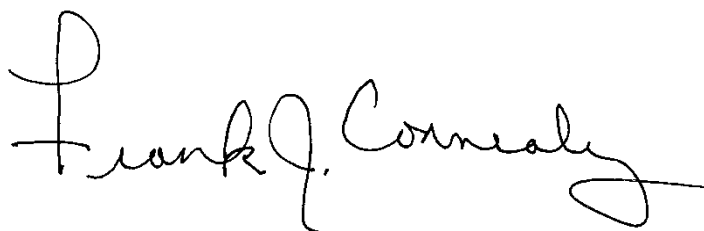
The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his or her knowledge and belief.



Jesse A. Craft, Chief Executive Officer  
*November 8, 2011*



R. Ernest Girouard, Jr., Chairman, Board of Directors  
*November 8, 2011*



Frank J. Connealy, Chief Financial Officer  
*November 8, 2011*

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

The following commentary reviews the financial performance of the Louisiana Land Bank, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and nine months ended September 30, 2011. These comments should be read in conjunction with the accompanying 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 its regulator, the Farm Credit Administration (FCA), 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 September 30, 2011, the Association was in violation of an earnings covenant included in the GFA. The Bank has issued a limited waiver of the covenant default 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 regained GFA compliance during the second quarter of 2011 in relation to the credit quality metrics.

As of September 30, 2011, the Association had \$55,405,107 in nonearning assets, including nonaccrual loans, formally restructured 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 foreclosures states and the market begins to slowly absorb the properties.

Between 2006 and 2008, the Association entered into \$123.3 million of loan participations brokered by a third party originator. The Association has suffered significant credit losses associated with that portfolio, with charge-offs totaling over \$21.7 million since the beginning of 2010. As of September 30, 2011, total remaining recorded investment of that portfolio is \$48,979,280.

The Association's total allowance for loan loss balance was \$14,504,789 as of September 30, 2011. Of that balance, \$10,195,162 or 70.3 percent relates to loans involving the third party originator, with collateral residing primarily in the states of Florida and Georgia.

During the second quarter of 2011, management presented a proposal to the Association's Board of Directors (Board) for the sale of a portion of the Association's Florida assets. The proposal included 11 loans, with a majority of the volume classified as adverse. The transaction was approved by the Association's Board as well as the Bank. The sale was completed and executed on June 29, 2011, and the Association received \$10,628,137 in exchange for the Florida assets. The Association incurred no additional provision expense for this transaction based off of the terms of the sale, but total charge offs were \$8,765,425, which had been reserved against previously. The sale resulted in the removal of \$13,212,910 of mostly adverse assets from the Association's balance sheet.

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 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 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 reiterated the FCA findings identified and communicated throughout 2010, and created 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 May 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 on 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 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 September 30, 2011, including nonaccrual loans and sales contracts, were \$710,838,340 compared to \$773,311,613 at December 31, 2010, reflecting a decrease of 8.1 percent. Nonaccrual loans as a percentage of total loans outstanding were 7.0 percent at September 30, 2011, compared to 10.3 percent at December 31, 2010.

The Association recorded \$1,284 in recoveries and \$10,154,924 in charge-offs for the quarter ending September 30, 2011, and \$0 in recoveries and \$8,288,457 in charge-offs for the same period in 2010. The Association's allowance for loan losses was 2.0 percent and 3.0 percent of total loans outstanding as of September 30, 2011, and December 31, 2010, respectively.

The Association's portfolio contains certain repayment concentrations when analyzing the composition of the portfolio by primary repayment sources. The Association has reliance on row crops (23.3 percent), timber (21.8 percent), professional – nonfarm (15.4 percent) and retail – nonfarm (15.5 percent) as primary repayment sources for more than 75 percent of the portfolio.

Total out-of-state loans, including purchased participation loans, were 24.0 percent of total loans outstanding at September 30, 2011. Purchased participations and out-of-state loans have significantly contributed to the increase in nonaccrual loans and loan loss reserves since 2008. 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.

	<u>September 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 44,508,263	80.3%	\$ 79,306,303	82.7%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Formally restructured	1,409,188	2.5%	5,078,622	5.3%
Other property owned, net	9,487,656	17.1%	11,493,488	12.0%
Total	<u>\$ 55,405,107</u>	<u>100.0%</u>	<u>\$ 95,878,413</u>	<u>100.0%</u>

The Association's 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. The Association has suffered significant credit losses associated with that portfolio, with charge-offs totaling over \$21.7 million since the beginning of 2010. As of September 30, 2011, total remaining recorded investment of that portfolio is \$48,979,280, with related allowance for loan losses of \$10,195,162.

Out of the total nonaccrual loan balance of \$44,508,263 at September 30, 2011, \$29,308,931 and 59.1 percent were brokered through the third party originator.

Although the Association's lending activities between 2006 and 2008 were collateralized, insufficient analysis was placed on cash flow repayment sources. Therefore, the exposure to credit loss was not properly mitigated. The Board and new management have taken steps to remediate this issue. Management now adheres to a new more conservative set of lending policies that has been adopted by the Board. These policies call for better analysis of risk that is inherent with lending activities. Secondly, management has established a special assets team which focuses on the monitoring and servicing of adverse assets and acquired property.

## Results of Operations:

The Association had net losses of \$8,456,653 and \$12,515,213 for the three and nine months ended September 30, 2011, as compared to net losses of \$12,228,297 and \$7,940,778 for the same periods in 2010 reflecting a decrease of 30.8 percent and an increase of 57.6 percent, respectively. Net interest income was \$14,319,916 for the nine months ended September 30, 2011, compared to \$14,233,633 or the same period in 2010. Average loan volume for the third quarter of 2011 was \$724,816,799, compared to \$800,001,250 in the third quarter of 2010. The net interest margin on the loan portfolio for the third quarter of 2011 was 2.54 percent, compared to 2.36 percent in the third quarter of 2010.

The Association's return on average assets for the 9 months ended September 30, 2011, was -1.25 percent compared to -1.09 percent for the same period in 2010. The Association's return on average equity for the 9 months ended September 30, 2011, was -7.99 percent, compared to -6.50 percent for the same period in 2010.

The following table illustrates the impact of interest rates and loan and direct note volumes on interest income and expense for the 9 months ended September 30, 2011 compared to the 9 months ended September 30, 2010:

	September 30, 2011			September 30, 2010		
	Interest	Average Balance	Annualized Rate	Interest	Average Balance	Annualized Rate
Interest earning assets:						
Loans	\$ 25,888,011	\$ 753,348,593	4.59	\$ 29,407,993	\$ 805,802,929	4.88
Total	25,888,011	753,348,593	4.59	29,407,993	805,802,929	4.88
Interest bearing liabilities	11,568,095	651,821,647	2.37	15,174,360	689,746,645	2.94
Net interest rate spread	\$ 14,319,916		2.22	\$ 14,233,633		1.94
Impact of equity financing		\$ 101,526,946	0.32		\$ 116,056,284	0.42
Net interest margin			2.54			2.36

	Analysis of Change in NII Components			Approximate	
	Interest	Average Balance	Annualized Rate	Rate	Volume
				Favorable/(Unfavorable)	
Interest earning assets:					
Loans	\$ (3,519,982)	\$ (52,454,336)	-0.29	\$ (1,605,649)	\$ (1,914,333)
Total	(3,519,982)	(52,454,336)	-0.29	(1,605,649)	(1,914,333)
Interest bearing liabilities	(3,606,265)	(37,924,998)	-0.57	(2,771,913)	(834,352)
Net interest rate spread	\$ 86,283		0.28	\$ 1,166,264	\$ (1,079,981)
Impact of equity financing		\$ (14,529,338)	-0.10		
Net interest margin			0.18		

## Liquidity and Funding Sources:

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

	September 30, 2011	December 31, 2010
Note payable to the bank	\$ 624,036,945	\$ 665,725,115
Accrued interest on note payable	1,151,240	1,446,438
Total	\$ 625,188,185	\$ 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 September 30, 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, 2010 and 2011, as well as substantial provision for other property owned during 2011. This expense has resulted in a return on assets below the 1.00 percent threshold. The Bank has issued a limited waiver of the covenant default 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 regained GFA technical compliance during the second quarter of 2011 in relation to the credit quality metric, adverse assets to risk funds.

## **Capital Resources:**

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at September 30, 2011, was 13.0 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2011, were 12.6 and 12.6 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

## **Significant Recent Accounting Pronouncements:**

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements:

- A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income.
- In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities).
2. Aligning the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets.
3. Clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy.
4. An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks.
5. Clarifying that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance.
6. Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

In January 2011, the FASB issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delayed 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 (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

In April 2011, the FASB issued its guidance entitled, “A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring,” which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The Association is currently evaluating the impact of adoption of this Standard on the financial condition or results of operations. The adoption will result in additional disclosures.

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 rollforward 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 public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard did not impact the Association’s financial condition or results of operations, but did result in significant additional disclosures.

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 rollforward of activity in Level 3 fair value measurements. Those disclosures are 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 or results of operations but did result 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) 483-9204. Copies of the District’s quarterly and annual stockholder reports also can be requested by e-mail at [fcf@farmcreditbank.com](mailto:fcf@farmcreditbank.com). The 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>September 30, 2011 (unaudited)</b>	<b>December 31, 2010</b>
<b><u>ASSETS</u></b>		
Cash	\$ 229,588	\$ 3,204,405
Loans	710,838,340	773,311,613
Less: allowance for loan losses	14,504,789	23,481,716
Net loans	696,333,551	749,829,897
Accrued interest receivable	11,523,045	8,839,965
Investment in and receivable from the Bank:		
Capital stock	13,812,290	13,812,290
Other	1,459,983	168,058
Other property owned, net	9,487,656	11,493,488
Premises and equipment	3,054,677	3,243,235
Other assets	757,027	315,912
Total assets	<u>\$ 736,657,817</u>	<u>\$ 790,907,250</u>
<b><u>LIABILITIES</u></b>		
Note payable to the Bank	\$ 624,036,945	\$ 665,725,115
Accrued interest payable	1,151,240	1,446,438
Drafts outstanding	9,925	110
Other liabilities	2,905,724	2,583,843
Total liabilities	<u>628,103,834</u>	<u>669,755,506</u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	3,061,625	3,111,285
Unallocated retained earnings	105,569,405	118,084,618
Accumulated other comprehensive loss	(77,047)	(44,159)
Total members' equity	<u>108,553,983</u>	<u>121,151,744</u>
Total liabilities and members' equity	<u>\$ 736,657,817</u>	<u>\$ 790,907,250</u>

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

LOUISIANA LAND BANK, ACA

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 8,557,965	\$ 9,671,386	\$ 25,888,011	\$ 29,407,993
<b><u>INTEREST EXPENSE</u></b>				
Note payable to the Bank	3,699,320	4,944,955	11,568,095	15,174,360
Net interest income	4,858,645	4,726,431	14,319,916	14,233,633
<b><u>PROVISION FOR LOAN LOSSES</u></b>				
	10,655,700	14,440,547	15,275,220	16,591,918
Net interest income after provision for loan losses	(5,797,055)	(9,714,116)	(955,304)	(2,358,285)
<b><u>NONINTEREST INCOME</u></b>				
Income from the Bank:				
Patronage income	512,014	539,134	1,538,183	1,624,687
Loan fees	216,404	396,116	347,907	919,154
Financially related services income	834	957	3,218	3,574
Gain on sale of premises and equipment, net	-	17,229	80,859	51,009
Gain on sale of other property owned	-	8,347	-	8,347
Other noninterest income	7,000	-	88,684	822,556
Total noninterest income	736,252	961,783	2,058,851	3,429,327
<b><u>NONINTEREST EXPENSES</u></b>				
Salaries and employee benefits	1,713,534	1,611,422	4,486,141	4,776,521
Directors' expense	64,146	77,092	214,852	195,512
Purchased services	183,315	170,175	781,087	488,646
Travel	120,569	129,741	360,804	365,817
Occupancy and equipment	117,742	115,306	339,310	298,231
Communications	33,553	33,260	114,120	100,676
Advertising	45,264	90,570	207,749	277,273
Public and member relations	54,483	50,129	154,970	157,920
Supervisory and exam expense	107,205	150,122	232,867	412,974
Insurance Fund premiums	104,588	92,288	329,614	273,570
Loss on sale of other property owned, net	614,115	-	844,175	217,736
Loss on sale of premises and equipment, net	3,452	-	-	-
Provision for other property owned	146,608	867,400	5,263,472	1,145,755
Other noninterest expense	84,563	88,459	286,886	301,189
Total noninterest expenses	3,393,137	3,475,964	13,616,047	9,011,820
Income before income taxes	(8,453,940)	(12,228,297)	(12,512,500)	(7,940,778)
Provision for (benefit from) income taxes	2,713	-	2,713	-
Net income	\$ (8,456,653)	\$ (12,228,297)	\$ (12,515,213)	\$ (7,940,778)

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/ Participation Certificates</u>	<u>Retained Earnings Unallocated</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2009	\$ 3,112,790	\$ 132,123,175	\$ 319,221	\$ 135,555,186
Comprehensive income				
Net income	-	(7,940,778)	-	(7,940,778)
Change in postretirement benefit plans	-	-	(50,129)	(50,129)
Total comprehensive income	-	(7,940,778)	(50,129)	(7,990,907)
Capital stock/participation certificates and allocated retained earnings issued	275,710	-	-	275,710
Capital stock/participation certificates and allocated retained earnings retired	(282,895)	-	-	(282,895)
Patronage refunds:				
Cash	-	-	-	-
<b>Balance at September 30, 2010</b>	<b>\$ 3,105,605</b>	<b>\$ 124,182,397</b>	<b>\$ 269,092</b>	<b>\$ 127,557,094</b>
Balance at December 31, 2010	\$ 3,111,285	\$ 118,084,618	\$ (44,159)	\$ 121,151,744
Comprehensive income				
Net income	-	(12,515,213)	-	(12,515,213)
Change in postretirement benefit plans	-	-	(32,888)	(32,888)
Total comprehensive income	-	(12,515,213)	(32,888)	(12,548,101)
Capital stock/participation certificates and allocated retained earnings issued	281,380	-	-	281,380
Capital stock/participation certificates and allocated retained earnings retired	(331,040)	-	-	(331,040)
Patronage refunds:				
Cash	-	-	-	-
<b>Balance at September 30, 2011</b>	<b>\$ 3,061,625</b>	<b>\$ 105,569,405</b>	<b>\$ (77,047)</b>	<b>\$ 108,553,983</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:**

The 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 third quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Stockholders.

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, “Comprehensive Income – Presentation of Comprehensive Income.” This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements:

- A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income.
- In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, “Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs.” The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities).
2. Aligning the fair value measurement of instruments classified within an entity’s shareholders’ equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets.
3. Clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy.
4. An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks.
5. Clarifying that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity’s holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance.
6. Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a

description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

In January 2011, the FASB issued guidance entitled, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings.” This guidance temporarily delayed 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 (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

In April 2011, the FASB issued its guidance entitled, “A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring,” which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The Association is currently evaluating the impact of adoption of this Standard on the financial condition or results of operations. The adoption will result in additional disclosures.

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 rollforward 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 public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard did not impact the Association’s financial condition or results of operations, but did result in additional disclosures.

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 rollforward of activity in Level 3 fair value measurements. Those disclosures are 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 did result 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 September 30, 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	September 30,	December 31,
	2011	2010
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 614,469,259	\$ 659,196,119
Production and intermediate term	12,855,915	5,634,652
Agribusiness:		
Loans to cooperatives	2,093,062	4,774,599
Processing and marketing	20,204,801	19,034,033
Farm-related business	36,651,391	65,388,111
Communication	3,235,753	4,296,260
Energy	2,888,832	2,928,628
Water and waste disposal	-	-
Rural residential real estate	11,839,211	11,441,237
International	-	-
Lease receivables	6,600,116	617,974
Total	<u>\$ 710,838,340</u>	<u>\$ 773,311,613</u>

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2011:

	Farm Credit Bank of Texas and Tenth District Associations		Other Farm Credit Institutions		Non-Farm Credit System Entities		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 20,347,132	\$ 34,878,080	\$ 5,369,706	\$ 231,242	\$ 17,762,809	\$ -	\$ 43,479,647
Production and intermediate term	2,982,932	-	-	-	-	-	2,982,932	-
Agribusiness	10,575,200	-	1,513,096	-	35,811,845	-	47,900,141	-
Communication	3,235,753	-	-	-	-	-	3,235,753	-
Energy	3,185,390	-	-	-	-	-	3,185,390	-
Water and waste disposal	-	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-	-
International	-	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-
Total	<u>\$ 40,326,407</u>	<u>\$ 34,878,080</u>	<u>\$ 6,882,802</u>	<u>\$ 231,242</u>	<u>\$ 53,574,654</u>	<u>\$ -</u>	<u>\$ 100,783,863</u>	<u>\$ 35,109,322</u>

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

	<b>September 30, 2011</b>	December 31, 2010
<b>Nonaccrual loans:</b>		
Real estate mortgage	<b>\$ 28,235,480</b>	\$ 47,772,321
Production and intermediate term	-	-
Agribusiness	<b>15,930,194</b>	31,130,293
Communication	<b>305,337</b>	360,415
Rural residential real estate	<b>37,252</b>	43,274
Energy and water/waste disposal	-	-
Lease receivables	-	-
Total nonaccrual loans	<b>44,508,263</b>	79,306,303
<b>Accruing restructured loans:</b>		
Real estate mortgage	<b>1,112,739</b>	96,357
Production and intermediate term	-	-
Agribusiness	<b>296,449</b>	4,982,265
Total accruing restructured loans	<b>1,409,188</b>	5,078,622
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	-	-
Production and intermediate term	-	-
Agribusiness	-	-
Rural residential real estate	-	-
Communication	-	-
Lease receivables	-	-
Total accruing loans 90 days or more	-	-
Total nonperforming loans	<b>45,917,451</b>	84,384,925
Other property owned	<b>9,487,656</b>	11,493,488
Total nonperforming assets	<b>\$ 55,405,107</b>	\$ 95,878,413

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	<b>September 30, 2011</b>	December 31, 2010
Real estate mortgage		
Acceptable	<b>92.1</b> %	89.6 %
OAEM	<b>1.7</b>	2.0
Substandard/doubtful	<b>6.2</b>	8.4
	<b>100.0</b>	100.0
Production and intermediate term		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Agribusiness		
Acceptable	-	30.8
OAEM	<b>42.2</b>	14.5
Substandard/doubtful	<b>57.8</b>	54.7
	<b>100.0</b>	100.0
Energy and water/waste disposal		
Acceptable	<b>84.8</b>	100.0
OAEM	<b>15.2</b>	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Communication		
Acceptable	<b>90.6</b>	91.6
OAEM	-	-
Substandard/doubtful	<b>9.4</b>	8.4
	<b>100.0</b>	100.0
Rural residential real estate		
Acceptable	<b>94.0</b>	95.7
OAEM	<b>5.6</b>	3.7
Substandard/doubtful	<b>0.4</b>	0.6
	<b>100.0</b>	100.0
International		
Acceptable	-	-
OAEM	-	-
Substandard/doubtful	-	-
	-	-
Lease receivables		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Total Loans		
Acceptable	<b>84.7</b>	83.1
OAEM	<b>5.1</b>	3.4
Substandard/doubtful	<b>10.2</b>	13.5
	<b>100.0</b> %	100.0 %

The following table provides an age analysis of past due loans (including accrued interest) as of September 30, 2011:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 2,495,315	\$ 28,550,230	\$ 31,045,545	\$ 599,633,322	\$ 630,678,867	\$ -
Production and intermediate term	-	-	-	12,926,815	12,926,815	-
Loans to cooperatives	-	-	-	2,100,507	2,100,507	-
Processing and marketing	-	-	-	20,258,406	20,258,406	-
Farm-related business	-	9,289,528	9,289,528	27,466,665	36,756,193	-
Communication	-	-	-	3,238,960	3,238,960	-
Energy and water/waste disposal	-	-	-	2,889,066	2,889,066	-
Rural residential real estate	209,532	-	209,532	11,734,112	11,943,644	-
International	-	-	-	-	-	-
Lease receivables	-	-	-	6,620,683	6,620,683	-
Total	\$ 2,704,847	\$ 37,839,758	\$ 40,544,605	\$ 686,868,536	\$ 727,413,141	\$ -

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

Additional impaired loan information is as follows:

	At September 30, 2011			For the Three Months Ended September 30, 2011		For the Nine Months Ended September 30, 2011	
	Recorded	Unpaid Principal	Related	Average Impaired	Interest Income	Average Impaired	Interest Income
	Investment	Balance <sup>a</sup>	Allowance	Loans	Recognized	Loans	Recognized
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	\$ 16,834,472	\$ 18,825,800	\$ 5,268,212	\$ 17,191,346	\$ -	\$ 14,246,177	\$ 30,569
Production and intermediate term	-	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	603,627	603,627	150,796	544,994	-	472,141	-
Farm-related business	5,395,556	5,395,556	3,887,519	5,395,556	-	5,395,556	(1,277)
Communication	305,337	305,337	236,000	345,259	-	353,766	-
Energy and water/waste disposal	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-
International	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-
Total	\$ 23,138,992	\$ 25,130,320	\$ 9,542,527	\$ 23,477,155	\$ -	\$ 20,467,640	\$ 29,292
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 14,999,486	\$ 20,768,477	\$ -	\$ 14,721,977	\$ 17,884	\$ 14,338,040	\$ 55,905
Production and intermediate term	-	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	383,578	462,638	-	392,382	-	385,871	-
Farm-related business	12,389,965	12,669,192	-	12,434,393	2,383	13,285,018	4,494
Communication	-	-	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-	-	-
Rural residential real estate	37,252	37,795	-	37,912	-	39,849	-
International	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-
Total	\$ 27,810,281	\$ 33,938,102	\$ -	\$ 27,586,664	\$ 20,267	\$ 28,048,778	\$ 60,399
Total impaired loans:							
Real estate mortgage	\$ 31,833,958	\$ 39,594,277	\$ 5,268,212	\$ 31,913,323	\$ 17,884	\$ 28,584,217	\$ 86,474
Production and intermediate term	-	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	987,205	1,066,265	150,796	937,376	-	858,012	-
Farm-related business	17,785,521	18,064,748	3,887,519	17,829,949	2,383	18,680,574	3,217
Communication	305,337	305,337	236,000	345,259	-	353,766	-
Energy and water/waste disposal	-	-	-	-	-	-	-
Rural residential real estate	37,252	37,795	-	37,912	-	39,849	-
International	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-
Total	\$ 50,949,273	\$ 59,068,422	\$ 9,542,527	\$ 51,063,819	\$ 20,267	\$ 48,516,418	\$ 89,691

	At December 31, 2010			For the Year Ended December 31, 2010	
	Recorded	Unpaid	Related	Average	Interest
	Investment	Principal Balance <sup>a</sup>	Allowance	Impaired Loans	Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 30,507,655	\$ 32,543,114	\$ 12,009,294	\$ 19,393,376	\$ 592,863
Production and intermediate term	16,354,764	17,502,027	-	10,396,542	561,407
Loans to cooperatives	-	-	-	-	-
Processing and marketing	-	-	-	-	-
Farm-related business	-	-	-	-	-
Communication	360,415	366,826	236,348	229,112	6,411
Energy and water/waste disposal	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
International	-	-	-	-	-
Lease receivables	-	-	-	-	-
Total	\$ 47,222,834	\$ 50,411,967	\$ 12,245,642	\$ 30,019,030	\$ 1,160,681
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 16,976,613	\$ 21,706,714	\$ -	\$ 10,791,844	\$ 500,107
Production and intermediate term	15,063,582	17,074,638	-	9,575,751	99,041
Loans to cooperatives	-	-	-	-	-
Processing and marketing	-	-	-	-	-
Farm-related business	-	-	-	-	-
Communication	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
International	-	-	-	-	-
Lease receivables	-	-	-	-	-
Total	\$ 32,040,195	\$ 38,781,352	\$ -	\$ 20,367,595	\$ 599,148
Total impaired loans:					
Real estate mortgage	\$ 47,484,268	\$ 54,249,828	\$ 12,009,294	\$ 30,185,220	\$ 1,092,970
Production and intermediate term	31,418,346	34,576,665	-	19,972,293	660,448
Loans to cooperatives	-	-	-	-	-
Processing and marketing	-	-	-	-	-
Farm-related business	-	-	-	-	-
Communication	360,415	366,826	236,348	229,112	6,411
Energy and water/waste disposal	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
International	-	-	-	-	-
Lease receivables	-	-	-	-	-
Total	\$ 79,263,029	\$ 89,193,319	\$ 12,245,642	\$ 50,386,625	\$ 1,759,829

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

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivable	Total
<b>Allowance for Credit Losses:</b>									
Balance at									
December 31, 2010	\$ 12,819,485	\$ 2,257	\$ 10,416,235	\$ 237,922	\$ 1,171	\$ 4,399	\$ -	\$ 247	\$ 23,481,716
Charge-offs	(10,049,146)	-	(14,411,670)	-	-	-	-	-	(24,460,816)
Recoveries	151,899	-	56,770	-	-	-	-	-	208,669
Provision for loan losses	5,262,735	80,837	9,780,173	49,293	49,317	32,572	-	20,293	15,275,220
Adjustment due to merger	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Balance at									
September 30, 2011	\$ 8,184,973	\$ 83,094	\$ 5,841,508	\$ 287,215	\$ 50,488	\$ 36,971	\$ -	\$ 20,540	\$ 14,504,789
Ending Balance:									
individually evaluated for impairment	\$ 5,268,212	\$ -	\$ 4,038,315	\$ 236,000	\$ -	\$ -	\$ -	\$ -	\$ 9,542,527
Ending Balance:									
collectively evaluated for impairment	\$ 2,916,761	\$ 83,094	\$ 1,803,193	\$ 51,215	\$ 50,488	\$ 36,971	\$ -	\$ 20,540	\$ 4,962,262
Ending Balance: loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Recorded Investments in Loans Outstanding:</b>									
Ending Balance at									
September 30, 2011	\$ 627,865,648	\$ 12,926,801	\$ 56,528,704	\$ 3,238,960	\$ 2,889,066	\$ 11,943,663	\$ -	\$ 6,620,683	\$ 722,013,525
Ending Balance for loans individually evaluated for impairment	\$ 27,946,585	\$ -	\$ 21,204,626	\$ 2,933,623	\$ -	\$ 37,251	\$ -	\$ -	\$ 52,122,085
Ending Balance for loans collectively evaluated for impairment	\$ 599,919,063	\$ 12,926,801	\$ 35,324,078	\$ 305,337	\$ 2,889,066	\$ 11,906,412	\$ -	\$ 6,620,683	\$ 669,891,440
Ending Balance for loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

### NOTE 3 — CAPITAL:

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

## NOTE 4 — INCOME TAXES:

Louisiana Land Bank, ACA and its subsidiary 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 nine months ended September 30, 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 nine months ended September 30, 2011, and 2010 net income for tax purposes. For the nine months ended September 30, 2011, the Association had provision for income taxes of \$2,713, and did not have any deferred tax assets or liabilities.

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>September 30, 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 *	\$ -	\$ -	\$40,428,672	\$40,428,672
Other property owned	-	-	9,487,656	9,487,656
<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 9 months ended September 30,:

	Other Benefits	
	2011	2010
Service cost	\$ 45,266	\$ 34,454
Interest cost	82,049	69,306
Expected return on plan assets	-	-
Amortization of prior service costs	(49,781)	(51,064)
Amortizations of net (gain) loss	16,893	935
Net periodic benefit cost	<u>\$ 94,427</u>	<u>\$ 53,631</u>

The Association expects to contribute \$1,284,188 to its defined benefit pension plan in 2011. As of September 30, 2011, \$963,142 of contributions have been made. The Association presently anticipates contributing an additional \$321,046 to funds its defined benefit pension plan in 2011. The structure of the District's defined benefit pension plan is characterized as multi-employer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations).

### 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.

During the course of a routine participation foreclosure action the borrower has filed a counterclaim alleging a breach of the loan agreement by the lead lender and has requested monetary damages in an unspecified amount. Louisiana Land Bank, ACA owns a 20% interest in said loan. Based on correspondence with the lead lender, Association management believes the counterclaims are without merit and intends to vigorously defend the action.

### NOTE 8 — REGULATORY MATTERS:

As of March 15, 2011 the Association entered into a written agreement (Agreement) with the 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 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 is committed to addressing these matters and instituted specific actions throughout 2010 and 2011, 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 assertively directed management to identify the full extent of the problems and to conduct immediate remedial actions over the course of 2010 and 2011. The actions taken to date by the Board 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 for 2011 to preserve capital in respect of the identified potential portfolio credit weaknesses.

Although the Association's management and Board 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 September 30, 2011.

The Board 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 November 8, 2011, which is the date the financial statements were issued. There are no subsequent events to report.