



# SOUTHERN AGCREDIT

*Financial Solutions for Agriculture*

**Stockholders' Quarterly Financial Report**  
**For the Quarter Ended March 31, 2019**

## REPORT OF MANAGEMENT

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

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The board of directors has overall responsibility for the association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously. The undersigned certify that we have reviewed this quarterly report, that it has been prepared in accordance with all applicable statutory and regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge or belief.



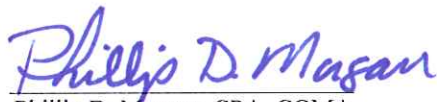
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Joe H. Hayman  
Chief Executive Officer  
May 10, 2019



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Kevin Rhodes  
Chairman, Board of Directors  
May 10, 2019



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Phillip D. Morgan, CPA, CGMA  
Chief Financial and Operating Officer  
May 10, 2019

**SOUTHERN AGCREDIT, ACA  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Southern AgCredit, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended March 31, 2019. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2018 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:**

In December 2018, the association’s board of directors declared a patronage in the amount of \$19,670,106 to stockholders, including \$9,870,816 to be paid in cash, and \$9,799,290 in the form of non-qualified allocated equity on behalf of the individual stockholders and retained by the association. Nonqualified allocated equities are not taxable to the stockholder. The cash patronage was disbursed to the association stockholders in February 2019. The 2018 cash patronage represents a record return of earnings to the stockholders of the association.

The association continues to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the association while offering competitive loan products that meet the financial needs of agricultural producers.

**Loan Portfolio:**

Total loans outstanding at March 31, 2019, including nonaccrual loans and sales contracts, were \$1,048,623,845 compared to \$1,039,235,244 at December 31, 2018, reflecting an increase of 0.9 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.4 percent at March 31, 2019, compared to 0.3 percent at December 31, 2018.

The association recorded no recoveries or charge-offs for the quarter ended March 31, 2019, or for the same period in 2018. The association’s allowance for loan losses was 0.1 percent of total loans outstanding as of March 31, 2019, and December 31, 2018, respectively.

*Agribusiness Loan Program*

The Association utilizes the Mississippi Development Authority’s Agribusiness Enterprise Loan Program (ABE) to lower the cost of financing for its borrowers. The ABE loan program is designed to provide a percentage of low-cost state financing that is combined with private financial lending institutions’ loan proceeds to encourage loans to the agribusiness industry in the state.

The Association guarantees payment of the borrower’s ABE loan to the Mississippi Development Authority (MDA) and, therefore, the amount of ABE loans outstanding and due to MDA is included in “Loans” on the consolidated balance sheet with an offsetting liability at “Guaranteed obligations to government entities.” ABE loans totaled \$16,340,389 and \$16,340,773 as of March 31, 2019 and December 31, 2018, respectively.

**Risk Exposure:**

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the association’s components and trends of high-risk assets.

|                           | March 31, 2019 |        | December 31, 2018 |        |
|---------------------------|----------------|--------|-------------------|--------|
|                           | Amount         | %      | Amount            | %      |
| Nonaccrual                | \$ 4,522,066   | 44.9%  | \$ 2,598,873      | 31.9%  |
| Formally restructured     | 471,017        | 4.7%   | 472,784           | 5.8%   |
| Other property owned, net | 5,076,652      | 50.4%  | 5,076,652         | 62.3%  |
| Total                     | \$ 10,069,735  | 100.0% | \$ 8,148,309      | 100.0% |

The balance of nonaccrual volume as of March 31, 2019 is primarily secured by real estate with a total specific allowance of \$39,641 related to two loans. The increase in nonaccrual volume since the prior year end is primarily related to loans to two borrowers with loan balances of \$1,505,275.

The balance of other property owned as of March 31, 2019 is primarily related to the foreclosure of a large complex of loans to a group of borrowers originated in 2006, and recognized as nonperforming in the first quarter of 2008. Upon completion of the foreclosure, the association recognized an increase in other property owned related to the value of the acquired collateral from these loans of \$11,145,692, and \$8,563,039, as received in years 2010 and 2011, respectively. Subsequent decreases in the value include property liquidations and market value adjustments.

### Investments:

During the first quarter of 2019, the association exchanged \$35,192,440 of mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security. No gain or loss was recognized in the financial statements upon completion of the exchange transaction. The association continues to service the loans included in this transaction. These investments in guaranteed securities, with a remaining balance of 5,730,201, are included in this report's Consolidated Balance Sheet as investments – held-to-maturity.

### Results of Operations:

The association had net income of \$5,267,585 for the three months ended March 31, 2019, as compared to net income of \$5,403,836 for the same period in 2018, reflecting a decrease of 2.5 percent. Net interest income was \$6,711,136 for the three ended March 31, 2019, compared to \$6,607,439 for the same period in 2018.

|   | Three months ended    |                     |                       |                     |
|---|-----------------------|---------------------|-----------------------|---------------------|
|   | March 31,<br>2019     |                     | March 31,<br>2018     |                     |
|   | Average<br>Balance    | Interest            | Average<br>Balance    | Interest            |
| Loans   | \$ 1,041,715,914      | \$ 13,041,912       | \$ 1,019,272,260      | \$ 11,855,337       |
| Investments   | 5,835,405             | 73,058              | 6,459,558             | 72,740              |
| Total interest-earning assets                                 | <u>1,047,551,319</u>  | <u>13,114,970</u>   | 1,025,731,818         | 11,928,077          |
| Interest-bearing liabilities                                  | <u>895,353,737</u>    | <u>6,403,834</u>    | 879,360,585           | 5,320,638           |
| Impact of capital   | <u>\$ 152,197,582</u> |                     | <u>\$ 146,371,233</u> |                     |
| Net interest income   |                       | <u>\$ 6,711,136</u> |                       | <u>\$ 6,607,439</u> |
|   | <b>2019</b>           |                     | <b>2018</b>           |                     |
|   | <u>Average Yield</u>  |                     | <u>Average Yield</u>  |                     |
| Yield on loans  | 5.08%                 |                     | 4.72%                 |                     |
| Yield on investments  | 5.08%                 |                     | 4.57%                 |                     |
| Total yield on interest-earning assets                        | 5.08%                 |                     | 4.72%                 |                     |
| Cost of interest-bearing liabilities                          | 2.90%                 |                     | 2.45%                 |                     |
| Interest rate spread  | 2.18%                 |                     | 2.27%                 |                     |
| Net interest income as a percentage of average earning assets | 2.60%                 |                     | 2.61%                 |                     |

| <b>Three months ended:</b>               |               |             |              |
|--|---------------|-------------|--------------|
| <b>March 31, 2019 vs. March 31, 2018</b> |               |             |              |
| <b>Increase (decrease) due to</b>        |               |             |              |
|  | <b>Volume</b> | <b>Rate</b> | <b>Total</b> |
| Interest income - loans                  | \$ 261,047    | \$ 925,528  | \$ 1,186,575 |
| Interest income - investments            | (7,028)       | 7,346       | 318          |
| Total interest income                    | 254,018       | 932,875     | 1,186,893    |
| Interest expense                         | 96,766        | 986,430     | 1,083,196    |
| Net interest income                      | \$ 157,252    | \$ (53,555) | \$ 103,697   |

Interest income for the three months ended March 31, 2019, increased by \$1,186,893, or 9.5 percent respectively, from the same period of 2018, primarily due to increase in earning assets and loan yield. Interest expense for the three months ended March 31, 2019, increased by \$1,083,196, or 14.6 percent, from the same period of 2018 due to an increase in interest-bearing liabilities, with a relative increase in rates on interest-bearing liabilities. Average loan volume for the first quarter of 2019 was \$1,041,715,914, compared to \$1,019,272,260 in the first quarter of 2018. The average net interest rate spread on the loan portfolio for the first quarter of 2019 was 2.18 percent, compared to 2.27 percent in the first quarter of 2018.

The association's return on average assets for the three months ended March 31, 2019, was 1.96 percent compared to 2.06 percent for the same period in 2018. The association's return on average equity for the three months ended March 31, 2019, was 13.17 percent, compared to 14.45 percent for the same period in 2018.

#### **Liquidity and Funding Sources:**

The association secures the majority of its lendable funds from the Farm Credit Bank of Texas (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.

|                                  | <b>March 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|----------------------------------|---------------------------|------------------------------|
| Note payable to the bank         | \$ 905,656,265            | \$ 888,231,951               |
| Accrued interest on note payable | 2,259,233                 | 2,147,612                    |
| Total                            | \$ 907,915,498            | \$ 890,379,563               |

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of \$905,656,265 as of March 31, 2019, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.92 percent at March 31, 2019. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2018, is due to the association's increase in the association's loan volume and increase in the direct loan rate. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were \$127,271,529 at March 31, 2019. The maximum amount the association may borrow from the bank as of March 31, 2019, was \$1,040,144,901 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

#### **Capital Resources:**

The association's capital position increased by \$5,270,710 at March 31, 2019, compared to December 31, 2018. The association's debt as a percentage of members' equity was 5.56:1 as of March 31, 2019, compared to 5.69:1 as of December 31, 2018.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2019, the association exceeded all regulatory capital requirements.

## **Significant Recent Accounting Pronouncements:**

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost.” The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association’s financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans.” The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association’s financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement.” The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association’s financial condition or its results of operations, but will impact the fair value measurements disclosures.

In August 2017, the FASB issued guidance entitled “Targeted Improvements to Accounting for Hedging Activities.” The guidance better aligns an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association’s financial condition or its results of operations.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance did not materially impact the Association’s financial condition and results of operations but did impact lease disclosures. The Association adopted this guidance on January 1, 2019 and upon adoption, recorded \$137,986 in right of use asset and an equal lease liability.

## **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 2018 Annual Report of Southern AgCredit, ACA more fully describe the association’s relationship with the bank.

The Texas Farm Credit District’s 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, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the bank are also available on its website at [www.farmcreditbank.com](http://www.farmcreditbank.com).

The association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Southern AgCredit, ACA, 402 West Parkway Place, Ridgeland, MS 39157 or calling 601-499-2820. The annual and quarterly stockholder reports for the association are also available on its website at [www.southernagcredit.com](http://www.southernagcredit.com). Copies of the association's quarterly stockholder reports can also be requested by e-mailing [dlsouthernagcreditadmin@farmcreditbank.com](mailto:dlsouthernagcreditadmin@farmcreditbank.com).

**SOUTHERN AGCREDIT, ACA**

**CONSOLIDATED BALANCE SHEET**

|   | <b>March 31,<br/>2019<br/>(unaudited)</b> | <b>December 31,<br/>2018</b>   |
|---|---|--------------------------------|
| <b><u>ASSETS</u></b>                          |   |                                |
| Cash  | \$ 14,029                                 | \$ 30,691                      |
| Investments                                   | 5,730,201                                 | 6,046,842                      |
| Loans   | 1,048,623,845                             | 1,039,235,244                  |
| Less: allowance for loan losses               | 1,042,830                                 | 1,079,319                      |
| Net loans                                     | <u>1,047,581,015</u>                      | <u>1,038,155,925</u>           |
| Accrued interest receivable                   |   |                                |
| Loans   | 10,181,717                                | 8,945,560                      |
| Investments                                   | 64,487                                    | 128,571                        |
| Investment in and receivable from the Farm    |   |                                |
| Credit Bank of Texas:                         |   |                                |
| Capital stock                                 | 17,725,455                                | 17,725,455                     |
| Other   | 1,907,173                                 | 1,740,666                      |
| Other property owned, net                     | 5,076,652                                 | 5,076,652                      |
| Premises and equipment, net                   | 8,697,882                                 | 7,904,333                      |
| Other assets                                  | 1,066,767                                 | 1,030,945                      |
| Total assets                                  | <u><u>\$ 1,098,045,378</u></u>            | <u><u>\$ 1,086,785,640</u></u> |
| <b><u>LIABILITIES</u></b>                     |   |                                |
| Note payable to the Farm Credit Bank of Texas | \$ 905,656,265                            | \$ 888,231,951                 |
| Guaranteed obligations to government entities | 16,340,389                                | 16,340,773                     |
| Advance conditional payments                  | 115,472                                   | 1,995                          |
| Accrued interest payable                      | 2,259,233                                 | 2,147,612                      |
| Drafts outstanding                            | 875,858                                   | 132,941                        |
| Patronage payable                             | -   | 9,870,816                      |
| Other liabilities                             | 5,308,479                                 | 7,840,580                      |
| Total liabilities                             | <u>930,555,696</u>                        | <u>924,566,668</u>             |
| <b><u>MEMBERS' EQUITY</u></b>                 |   |                                |
| Capital stock and participation certificates  | 4,384,450                                 | 4,377,950                      |
| Additional paid-in capital                    | 10,238,891                                | 10,238,891                     |
| Unallocated retained earnings                 | 152,977,733                               | 147,710,148                    |
| Accumulated other comprehensive income (loss) | (111,392)                                 | (108,017)                      |
| Total members' equity                         | <u>167,489,682</u>                        | <u>162,218,972</u>             |
| Total liabilities and members' equity         | <u><u>\$ 1,098,045,378</u></u>            | <u><u>\$ 1,086,785,640</u></u> |

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



**SOUTHERN AGCREDIT, ACA**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited)

|   | <b>Quarter Ended</b> |                     |
|---|----------------------|---------------------|
|   | <b>March 31,</b>     |                     |
|   | <b>2019</b>          | 2018                |
| <b><u>INTEREST INCOME</u></b>                                   |                      |                     |
| Loans   | \$ 13,041,912        | \$ 11,855,337       |
| Investments   | 73,058               | 72,740              |
| Total interest income   | <u>13,114,970</u>    | <u>11,928,077</u>   |
| <b><u>INTEREST EXPENSE</u></b>                                  |                      |                     |
| Note payable to the Farm Credit Bank of Texas                   | 6,403,834            | 5,320,305           |
| Advance conditional payments                                    | -                    | 333                 |
| Total interest expense  | <u>6,403,834</u>     | <u>5,320,638</u>    |
| Net interest income   | <u>6,711,136</u>     | <u>6,607,439</u>    |
| <b><u>PROVISION FOR LOAN LOSSES</u></b>                         | <u>(32,959)</u>      | <u>129,038</u>      |
| Net interest income after<br>provision for loan losses          | <u>6,744,095</u>     | <u>6,478,401</u>    |
| <b><u>NONINTEREST INCOME</u></b>                                |                      |                     |
| Income from the Farm Credit Bank of Texas:                      |                      |                     |
| Patronage income  | 1,021,933            | 921,452             |
| Loan fees   | 82,658               | 76,521              |
| Financially related services income                             | 188                  | 175                 |
| Gain (loss) on other property owned, net                        | (14,017)             | (13,838)            |
| Other noninterest income  | 246,465              | 525,261             |
| Total noninterest income  | <u>1,337,227</u>     | <u>1,509,571</u>    |
| <b><u>NONINTEREST EXPENSES</u></b>                              |                      |                     |
| Salaries and employee benefits                                  | 1,375,178            | 1,307,160           |
| Occupancy and equipment   | 225,634              | 184,329             |
| Insurance Fund premiums   | 171,052              | 167,304             |
| Other components of net periodic postretirement<br>benefit cost | 47,783               | 48,095              |
| Other noninterest expense                                       | 994,090              | 877,248             |
| Total noninterest expenses                                      | <u>2,813,737</u>     | <u>2,584,136</u>    |
| Income before income taxes                                      | <u>5,267,585</u>     | <u>5,403,836</u>    |
| <b>NET INCOME</b>   | <u>5,267,585</u>     | <u>5,403,836</u>    |
| Other comprehensive income:                                     |                      |                     |
| Change in postretirement benefit plans                          | (3,375)              | (3,783)             |
| Other comprehensive income, net of tax                          | <u>(3,375)</u>       | <u>(3,783)</u>      |
| <b>COMPREHENSIVE INCOME</b>                                     | <u>\$ 5,264,210</u>  | <u>\$ 5,400,053</u> |

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

|   | <u>Capital Stock/<br/>Participation<br/>Certificates</u> | <u>Additional<br/>Paid-in-Capital</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, 2017  | \$ 4,255,070   | \$ 10,238,891                         | \$ 137,716,130                           | \$ (548,446)   | \$ 151,661,645                       |
| Comprehensive income  | -  | -                                     | 5,403,836                                | (3,783)  | 5,400,053                            |
| Capital stock/participation certificates<br>and allocated retained earnings issued  | 153,160  |                                       |  |  | 153,160                              |
| Capital stock/participation certificates<br>and allocated retained earnings retired | (125,960)  |                                       |  |  | (125,960)                            |
| Balance at March 31, 2018   | <u>\$ 4,282,270</u>                                      | <u>\$ 10,238,891</u>                  | <u>\$ 143,119,966</u>                    | <u>\$ (552,229)</u>  | <u>\$ 157,088,898</u>                |
| <br>  |  |                                       |  |  |                                      |
| Balance at December 31, 2018  | \$ 4,377,950   | \$ 10,238,891                         | \$ 147,710,148                           | \$ (108,017)   | \$ 162,218,972                       |
| Comprehensive income  | -  | -                                     | 5,267,585                                | (3,375)  | 5,264,210                            |
| Capital stock/participation certificates<br>and allocated retained earnings issued  | 152,125  |                                       |  |  | 152,125                              |
| Capital stock/participation certificates<br>and allocated retained earnings retired | (145,625)  |                                       |  |  | (145,625)                            |
| <b>Balance at March 31, 2019</b>  | <u><b>\$ 4,384,450</b></u>                               | <u><b>\$ 10,238,891</b></u>           | <u><b>\$ 152,977,733</b></u>             | <u><b>\$ (111,392)</b></u>                                       | <u><b>\$ 167,489,682</b></u>         |

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

**SOUTHERN AGCREDIT, ACA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(UNAUDITED)

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

Southern AgCredit, ACA, including its wholly-owned subsidiaries, Southern AgCredit, PCA and Southern AgCredit, FLCA (collectively called “the association”), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Adams, Amite, Carroll, Claiborne, Clarke, Copiah, Covington, Forrest, Franklin, George, Greene, Grenada, Hancock, Harrison, Hinds, Holmes, Humphreys, Issaquena, Jackson, Jasper, Jefferson, Jefferson Davis, Jones, Kemper, Lamar, Lauderdale, Lawrence, Leake, Leflore, Lincoln, Madison, Marion, Montgomery, Neshoba, Newton, Pearl River, Perry, Pike, Rankin, Scott, Sharkey, Simpson, Smith, Stone, Walthall, Warren, Washington, Wayne, Wilkinson and Yazoo in the state of Mississippi, as well as the parishes of Bienville, Bossier, Caddo, Claiborne, DeSoto, Jackson, Lincoln, Ouachita (west of Ouachita River), Red River, Union and Webster in the state of Louisiana. In addition, the association is the single owner of Parkway Place Investments, LLC, which was organized for the purpose of holding and managing foreclosed property for which the assets, liabilities and results of operation have been consolidated in the association’s financial statements. 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 accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2018, as contained in the 2018 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2018, as contained in the 2018 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2018. Descriptions of the significant accounting policies are included in the 2018 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost.” The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association’s financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans.” The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association’s financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement.” The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association’s financial condition or its results of operations, but will impact the fair value measurements disclosures.

In August 2017, the FASB issued guidance entitled “Targeted Improvements to Accounting for Hedging Activities.” The guidance better aligns an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association’s financial condition or its results of operations.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance did not materially impact the Association’s financial condition and results of operations but did impact lease disclosures. The Association adopted this guidance on January 1, 2019 and upon adoption, recorded a \$137,986 right of use asset and an equal lease liability.

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, 2019, are not necessarily indicative of the results to be expected for the year ended December 31, 2018. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

**NOTE 2 — INVESTMENTS:**

Effective in the first quarter of 2010, \$35,192,440 of agricultural mortgage loans previously covered under a long-term standby commitment to purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

|   | <b>March 31, 2019</b>     |                                       |  |                   |                                   |
|---|---------------------------|---------------------------------------|--|-------------------|-----------------------------------|
|   | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair Value</b> | <b>Weighted Average<br/>Yield</b> |
| Agricultural mortgage-backed securities | \$5,730,201               | \$ -                                  | \$ 22,555                              | \$5,707,646       | 5.01 %                            |

|   | <b>December 31, 2018</b>  |                                       |  |                   |                                   |
|---|---------------------------|---------------------------------------|--|-------------------|-----------------------------------|
|   | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair Value</b> | <b>Weighted Average<br/>Yield</b> |
| Agricultural mortgage-backed securities | \$ 6,046,842              | \$ -                                  | \$ 84,019                              | \$ 5,962,823      | 4.95 %                            |

**NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:**

A summary of loans follows:

| <u>Loan Type</u>                    | <u>March 31,<br/>2019<br/>Amount</u> | <u>December 31,<br/>2018<br/>Amount</u> |
|-------------------------------------|--------------------------------------|---|
| Production agriculture:             |                                      |   |
| Real estate mortgage                | \$ 916,824,582                       | \$ 911,436,406                          |
| Production and<br>intermediate term | 68,113,442                           | 71,454,037                              |
| Agribusiness:                       |                                      |   |
| Loans to cooperatives               | 3,003,209                            | 2,287,400                               |
| Processing and marketing            | 41,977,053                           | 35,133,760                              |
| Farm-related business               | 251,182                              | 276,141                                 |
| Communication                       | 3,784,520                            | 3,849,662                               |
| Energy                              | 12,064,183                           | 12,119,153                              |
| Rural residential real estate       | 2,605,674                            | 2,678,685                               |
| Total                               | <u>\$ 1,048,623,845</u>              | <u>\$ 1,039,235,244</u>                 |

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2019:

|                                  | Other Farm Credit Institutions |                      | Non-Farm Credit Institutions |                     | Total                    |                      |
|----------------------------------|--------------------------------|----------------------|------------------------------|---------------------|--------------------------|----------------------|
|                                  | Participations Purchased       | Participations Sold  | Participations Purchased     | Participations Sold | Participations Purchased | Participations Sold  |
| Real estate mortgage             | \$ 4,886,819                   | \$ 27,630,916        | \$ 393,763                   | \$ -                | \$ 5,280,582             | \$ 27,630,916        |
| Production and intermediate term | 3,868,792                      | 28,793,007           | 56,268                       | -                   | 3,925,060                | 28,793,007           |
| Agribusiness                     | 44,980,262                     | -                    | -                            | -                   | 44,980,262               | -                    |
| Communication                    | 3,784,520                      | -                    | -                            | -                   | 3,784,520                | -                    |
| Energy                           | 12,064,183                     | -                    | -                            | -                   | 12,064,183               | -                    |
| Total                            | <u>\$ 69,584,576</u>           | <u>\$ 56,423,923</u> | <u>\$ 450,031</u>            | <u>\$ -</u>         | <u>\$ 70,034,607</u>     | <u>\$ 56,423,923</u> |

The association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the association on such balances. Balances of ACPs were \$115,472 and \$1,995 at March 31, 2019, and December 31, 2018, respectively.

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

|                                     | <u>March 31,<br/>2019</u> | <u>December 31,<br/>2018</u> |
|-------------------------------------|---------------------------|------------------------------|
| <b>Nonaccrual loans:</b>            |                           |                              |
| Real estate mortgage                | <b>\$ 3,835,536</b>       | \$ 1,798,190                 |
| Production and intermediate term    | <b>686,530</b>            | 800,683                      |
| Total nonaccrual loans              | <b>4,522,066</b>          | 2,598,873                    |
| <b>Accruing restructured loans:</b> |                           |                              |
| Real estate mortgage                | <b>391,082</b>            | 392,792                      |
| Production and intermediate term    | <b>79,935</b>             | 79,992                       |
| Total accruing restructured loans   | <b>471,017</b>            | 472,784                      |
| Total nonperforming loans           | <b>4,993,083</b>          | 3,071,657                    |
| Other property owned                | <b>5,076,652</b>          | 5,076,652                    |
| Total nonperforming assets          | <b>\$ 10,069,735</b>      | \$ 8,148,309                 |

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

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

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

|                                  | <b>March 31,<br/>2019</b> | December 31,<br>2018 |
|----------------------------------|---------------------------|----------------------|
| Real estate mortgage             |                           |                      |
| Acceptable                       | <b>98.19</b> %            | 98.44 %              |
| OAEM                             | <b>1.07</b>               | 1.04                 |
| Substandard/doubtful             | <b>0.74</b>               | 0.52                 |
|                                  | <b>100.00</b>             | 100.00               |
| Production and intermediate term |                           |                      |
| Acceptable                       | <b>98.87</b>              | 98.77                |
| OAEM                             | <b>0.12</b>               | 0.11                 |
| Substandard/doubtful             | <b>1.01</b>               | 1.12                 |
|                                  | <b>100.00</b>             | 100.00               |
| Loans to cooperatives            |                           |                      |
| Acceptable                       | <b>100.00</b>             | 100.00               |
| OAEM                             | -                         | -                    |
| Substandard/doubtful             | -                         | -                    |
|                                  | <b>100.00</b>             | 100.00               |
| Processing and marketing         |                           |                      |
| Acceptable                       | <b>100.00</b>             | 100.00               |
| OAEM                             | -                         | -                    |
| Substandard/doubtful             | -                         | -                    |
|                                  | <b>100.00</b>             | 100.00               |
| Farm-related business            |                           |                      |
| Acceptable                       | <b>100.00</b>             | 100.00               |
| OAEM                             | -                         | -                    |
| Substandard/doubtful             | -                         | -                    |
|                                  | <b>100.00</b>             | 100.00               |
| Communication                    |                           |                      |
| Acceptable                       | <b>100.00</b>             | 100.00               |
| OAEM                             | -                         | -                    |
| Substandard/doubtful             | -                         | -                    |
|                                  | <b>100.00</b>             | 100.00               |
| Energy                           |                           |                      |
| Acceptable                       | <b>100.00</b>             | 100.00               |
| OAEM                             | -                         | -                    |
| Substandard/doubtful             | -                         | -                    |
|                                  | <b>100.00</b>             | 100.00               |
| Rural residential real estate    |                           |                      |
| Acceptable                       | <b>100.00</b>             | 100.00               |
| OAEM                             | -                         | -                    |
| Substandard/doubtful             | -                         | -                    |
|                                  | <b>100.00</b>             | 100.00               |
| Total loans                      |                           |                      |
| Acceptable                       | <b>98.34</b>              | 98.54                |
| OAEM                             | <b>0.94</b>               | 0.92                 |
| Substandard/doubtful             | <b>0.72</b>               | 0.54                 |
|                                  | <b>100.00</b> %           | 100.00 %             |

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

| March 31, 2019                   | 30-89<br>Days<br>Past Due | 90 Days<br>or More<br>Past Due | Total<br>Past<br>Due | Not Past Due or<br>Less Than 30<br>Days Past Due | Total<br>Loans          |
|----------------------------------|---------------------------|--------------------------------|----------------------|--|-------------------------|
| Real estate mortgage             | \$ 4,773,483              | \$ 1,130,392                   | \$ 5,903,875         | \$ 920,010,191                                   | \$ 925,914,066          |
| Production and intermediate term | 601,980                   | -                              | 601,980              | 68,366,635                                       | 68,968,615              |
| Loans to cooperatives            | -                         | -                              | -                    | 3,004,784  | 3,004,784               |
| Processing and marketing         | -                         | -                              | -                    | 42,033,940                                       | 42,033,940              |
| Farm-related business            | -                         | -                              | -                    | 252,930  | 252,930                 |
| Communication                    | -                         | -                              | -                    | 3,786,120  | 3,786,120               |
| Energy                           | -                         | -                              | -                    | 12,230,171                                       | 12,230,171              |
| Rural residential real estate    | 55,537                    | -                              | 55,537               | 2,559,399  | 2,614,936               |
| Total                            | <u>\$ 5,431,000</u>       | <u>\$ 1,130,392</u>            | <u>\$ 6,561,392</u>  | <u>\$ 1,052,244,170</u>                          | <u>\$ 1,058,805,562</u> |

| December 31, 2018                | 30-89<br>Days<br>Past Due | 90 Days<br>or More<br>Past Due | Total<br>Past<br>Due | Not Past Due or<br>Less Than 30<br>Days Past Due | Total<br>Loans          |
|----------------------------------|---------------------------|--------------------------------|----------------------|--|-------------------------|
| Real estate mortgage             | \$ 4,661,284              | \$ 1,095,404                   | \$ 5,756,688         | \$ 913,574,769                                   | \$ 919,331,457          |
| Production and intermediate term | -                         | 243,797                        | 243,797              | 72,052,156                                       | 72,295,953              |
| Loans to cooperatives            | -                         | -                              | -                    | 2,286,708  | 2,286,708               |
| Processing and marketing         | -                         | -                              | -                    | 35,162,728                                       | 35,162,728              |
| Farm-related business            | -                         | -                              | -                    | 276,449  | 276,449                 |
| Communication                    | -                         | -                              | -                    | 3,850,420  | 3,850,420               |
| Energy                           | -                         | -                              | -                    | 12,289,411                                       | 12,289,411              |
| Rural residential real estate    | -                         | -                              | -                    | 2,687,678  | 2,687,678               |
| Total                            | <u>\$ 4,661,284</u>       | <u>\$ 1,339,201</u>            | <u>\$ 6,000,485</u>  | <u>\$ 1,042,180,319</u>                          | <u>\$ 1,048,180,804</u> |

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

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of March 31, 2019, the total recorded investment of troubled debt restructured loans was \$818,055, including \$347,038 classified as nonaccrual and \$471,017 classified as accrual, with no specific reserve. There were no commitments to lend funds to borrowers whose loan terms have been modified in a trouble debt restructuring as of March 31, 2019 and December 31, 2018.



There were no troubled debt restructurings occurring during the three months ended March 31, 2019 and 2018, respectively. The balance of loans formally restructured prior to January 1, 2019, were \$826,385. In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

The predominant form of concession granted for troubled debt restructuring includes extension of terms and interest rate decreases. Other types of modifications include principal or accrued interest reductions, and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table at:

|                                  | <u>Loans Modified as TDRs</u> |                              | <u>TDRs in Nonaccrual Status*</u> |                              |
|----------------------------------|-------------------------------|------------------------------|-----------------------------------|------------------------------|
|                                  | <u>March 31,<br/>2019</u>     | <u>December 31,<br/>2018</u> | <u>March 31,<br/>2019</u>         | <u>December 31,<br/>2018</u> |
| Real estate mortgage             | \$ 738,120                    | \$ 746,393                   | \$ 347,037                        | \$ 353,600                   |
| Production and intermediate term | 79,935                        | 79,992                       | -                                 | -                            |
| Total                            | <u>\$ 818,055</u>             | <u>\$ 826,385</u>            | <u>\$ 347,037</u>                 | <u>\$ 353,600</u>            |

\*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

|   | March 31, 2019         |   |                      | December 31, 2018      |   |                      |
|---|------------------------|---|----------------------|------------------------|---|----------------------|
|   | Recorded<br>Investment | Unpaid<br>Principal<br>Balance <sup>a</sup> | Related<br>Allowance | Recorded<br>Investment | Unpaid<br>Principal<br>Balance <sup>a</sup> | Related<br>Allowance |
| Impaired loans with a related allowance for credit losses:  |                        |   |                      |                        |   |                      |
| Real estate mortgage  | \$ 865,371             | \$ 865,371                                  | \$ 39,641            | \$ 103,122             | \$ 103,122                                  | \$ 24,208            |
| Production and intermediate term                            | -                      | -   | -                    | -                      | -   | -                    |
| Total   | <u>\$ 865,371</u>      | <u>\$ 865,371</u>                           | <u>\$ 39,641</u>     | <u>\$ 103,122</u>      | <u>\$ 103,122</u>                           | <u>\$ 24,208</u>     |
| Impaired loans with no related allowance for credit losses: |                        |   |                      |                        |   |                      |
| Real estate mortgage  | \$3,361,246            | \$ 3,360,004                                | \$ -                 | \$ 2,087,860           | \$ 2,086,614                                | \$ -                 |
| Production and intermediate term                            | 766,466                | 766,422                                     | -                    | 880,675                | 880,983                                     | -                    |
| Total   | <u>\$4,127,712</u>     | <u>\$ 4,126,426</u>                         | <u>\$ -</u>          | <u>\$ 2,968,535</u>    | <u>\$ 2,967,597</u>                         | <u>\$ -</u>          |
| Total impaired loans:                                       |                        |   |                      |                        |   |                      |
| Real estate mortgage  | \$4,226,617            | \$ 4,225,375                                | \$ 39,641            | \$ 2,190,982           | \$ 2,189,736                                | \$ 24,208            |
| Production and intermediate term                            | 766,466                | 766,422                                     | -                    | 880,675                | 880,983                                     | -                    |
| Total   | <u>\$4,993,083</u>     | <u>\$ 4,991,797</u>                         | <u>\$ 39,641</u>     | <u>\$ 3,071,657</u>    | <u>\$ 3,070,719</u>                         | <u>\$ 24,208</u>     |

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

|   | For the Quarter & Year Ended<br>March 31, 2019 |                                  | For the Quarter & Year Ended<br>March 31, 2018 |                                  |
|---|--|----------------------------------|--|----------------------------------|
|   | Average<br>Impaired<br>Loans                   | Interest<br>Income<br>Recognized | Average<br>Impaired<br>Loans                   | Interest<br>Income<br>Recognized |
| Impaired loans with a related allowance for credit losses:  |  |                                  |  |                                  |
| Real estate mortgage  | \$ 135,668                                     | \$ -                             | \$ 113,378                                     | \$ -                             |
| Production and intermediate term                            | -  | -                                | -  | -                                |
| Total   | <u>\$ 135,668</u>                              | <u>\$ -</u>                      | <u>\$ 113,378</u>                              | <u>\$ -</u>                      |
| Impaired loans with no related allowance for credit losses: |  |                                  |  |                                  |
| Real estate mortgage  | \$ 2,410,694                                   | \$ 8,827                         | \$ 2,271,835                                   | \$ 73,270                        |
| Production and intermediate term                            | 649,221  | 16,369                           | 237,798  | 21,421                           |
| Total   | <u>\$ 3,059,915</u>                            | <u>\$ 25,196</u>                 | <u>\$ 2,509,633</u>                            | <u>\$ 94,691</u>                 |
| Total impaired loans:                                       |  |                                  |  |                                  |
| Real estate mortgage  | \$ 2,546,362                                   | \$ 8,827                         | \$ 2,385,213                                   | \$ 73,270                        |
| Production and intermediate term                            | 649,221  | 16,369                           | 237,798  | 21,421                           |
| Total   | <u>\$ 3,195,583</u>                            | <u>\$ 25,196</u>                 | <u>\$ 2,623,011</u>                            | <u>\$ 94,691</u>                 |

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

|   | Real Estate<br>Mortgage | Production and<br>Intermediate<br>Term | Agribusiness         | Communications      | Energy and<br>Water/Waste<br>Water | Rural<br>Residential<br>Real Estate | Total                   |
|---|-------------------------|--|----------------------|---------------------|------------------------------------|-------------------------------------|-------------------------|
| <b>Allowance for Credit Losses:</b>               |                         |  |                      |                     |                                    |                                     |                         |
| Balance at December 31, 2018                      | \$ 917,475              | \$ 96,408                              | \$ 45,418            | \$ 8,140            | \$ 9,469                           | \$ 2,409                            | \$ 1,079,319            |
| Charge-offs                                       | -                       | -                                      | -                    | -                   | -                                  | -                                   | -                       |
| Recoveries  | -                       | -                                      | -                    | -                   | -                                  | -                                   | -                       |
| Provision for loan losses                         | (52,984)                | (1,617)                                | 20,981               | 1,119               | (613)                              | 155                                 | (32,959)                |
| Other   | 12                      | (4,909)                                | 1,775                | (108)               | (300)                              | -                                   | (3,530)                 |
| Balance at March 31, 2019                         | <u>\$ 864,503</u>       | <u>\$ 89,882</u>                       | <u>\$ 68,174</u>     | <u>\$ 9,151</u>     | <u>\$ 8,556</u>                    | <u>\$ 2,564</u>                     | <u>\$ 1,042,830</u>     |
| Ending Balance:                                   |                         |  |                      |                     |                                    |                                     |                         |
| Individually evaluated for impairment             | \$ 39,641               | \$ -                                   | \$ -                 | \$ -                | \$ -                               | \$ -                                | \$ 39,641               |
| Collectively evaluated for impairment             | 824,863                 | 89,882                                 | 68,174               | 9,150               | 8,556                              | 2,564                               | 1,003,189               |
| Balance at March 31, 2019                         | <u>\$ 864,504</u>       | <u>\$ 89,882</u>                       | <u>\$ 68,174</u>     | <u>\$ 9,150</u>     | <u>\$ 8,556</u>                    | <u>\$ 2,564</u>                     | <u>\$ 1,042,830</u>     |
| Balance at  |                         |  |                      |                     |                                    |                                     |                         |
| December 31, 2017                                 | \$ 759,757              | \$ 76,000                              | \$ 36,074            | \$ 8,969            | \$ 9,334                           | \$ 2,607                            | \$ 892,741              |
| Charge-offs                                       | -                       | -                                      | -                    | -                   | -                                  | -                                   | -                       |
| Recoveries  | -                       | -                                      | -                    | -                   | -                                  | -                                   | -                       |
| Provision for loan losses                         | 68,652                  | 69,661                                 | (3,581)              | (691)               | (5,426)                            | 423                                 | 129,038                 |
| Other   | 21                      | 112                                    | 2,871                | (49)                | 3,760                              | -                                   | 6,715                   |
| Balance at March 31, 2018                         | <u>\$ 828,430</u>       | <u>\$ 145,773</u>                      | <u>\$ 35,364</u>     | <u>\$ 8,229</u>     | <u>\$ 7,668</u>                    | <u>\$ 3,030</u>                     | <u>\$ 1,028,494</u>     |
| Ending Balance:                                   |                         |  |                      |                     |                                    |                                     |                         |
| Individually evaluated for impairment             | \$ 23,262               | \$ -                                   | \$ -                 | \$ -                | \$ -                               | \$ -                                | \$ 23,262               |
| Collectively evaluated for impairment             | 805,168                 | 145,773                                | 35,364               | 8,229               | 7,668                              | 3,030                               | 1,005,232               |
| Balance at March 31, 2018                         | <u>\$ 828,430</u>       | <u>\$ 145,773</u>                      | <u>\$ 35,364</u>     | <u>\$ 8,229</u>     | <u>\$ 7,668</u>                    | <u>\$ 3,030</u>                     | <u>\$ 1,028,494</u>     |
| <b>Recorded Investments in Loans Outstanding:</b> |                         |  |                      |                     |                                    |                                     |                         |
| Ending Balance at                                 |                         |  |                      |                     |                                    |                                     |                         |
| March 31, 2019                                    | <u>\$ 925,914,066</u>   | <u>\$ 68,968,615</u>                   | <u>\$ 45,291,654</u> | <u>\$ 3,786,120</u> | <u>\$ 12,230,171</u>               | <u>\$ 2,614,936</u>                 | <u>\$ 1,058,805,562</u> |
| Individually evaluated for impairment             | \$ 4,226,618            | \$ 766,466                             | \$ -                 | \$ -                | \$ -                               | \$ -                                | \$ 4,993,084            |
| Collectively evaluated for impairment             | <u>\$ 921,687,448</u>   | <u>\$ 68,202,149</u>                   | <u>\$ 45,291,654</u> | <u>\$ 3,786,120</u> | <u>\$ 12,230,171</u>               | <u>\$ 2,614,936</u>                 | <u>\$ 1,053,812,478</u> |
| Ending Balance at                                 |                         |  |                      |                     |                                    |                                     |                         |
| March 31, 2018                                    | <u>\$ 910,930,767</u>   | <u>\$ 67,761,143</u>                   | <u>\$ 32,210,078</u> | <u>\$ 3,830,969</u> | <u>\$ 12,170,303</u>               | <u>\$ 2,956,259</u>                 | <u>\$ 1,029,859,519</u> |
| Individually evaluated for impairment             | \$ 2,385,949            | \$ 236,047                             | \$ -                 | \$ -                | \$ -                               | \$ -                                | \$ 2,621,996            |
| Collectively evaluated for impairment             | <u>\$ 908,544,818</u>   | <u>\$ 67,525,096</u>                   | <u>\$ 32,210,078</u> | <u>\$ 3,830,969</u> | <u>\$ 12,170,303</u>               | <u>\$ 2,956,259</u>                 | <u>\$ 1,027,237,523</u> |

**NOTE 4 — CAPITAL:**

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

**Regulatory Capitalization Requirements**

| Risk-adjusted:             | Regulatory<br>Minimums | Conservation<br>Buffer | Total  | As of<br>March 31, 2019 |
|----------------------------|------------------------|------------------------|--------|-------------------------|
| Common equity tier 1 ratio | 4.50%                  | 2.50%                  | 7.00%  | 14.28%                  |
| Tier 1 capital ratio       | 6.00%                  | 2.50%                  | 8.50%  | 14.28%                  |
| Total capital ratio        | 8.00%                  | 2.50%                  | 10.50% | 14.39%                  |
| Permanent capital ratio    | 7.00%                  | 0.00%                  | 7.00%  | 14.29%                  |
| Non-risk-adjusted:         |                        |                        |        |                         |
| Tier 1 leverage ratio      | 4.00%                  | 1.00%                  | 5.00%  | 13.68%                  |
| UREE leverage ratio        | 1.50%                  | 0.00%                  | 1.50%  | 10.16%                  |

| (dollars in thousands)   | Tier 1<br>leverage ratio | UREE<br>leverage ratio |
|--|--------------------------|------------------------|
| Numerator:   |                          |                        |
| Unallocated retained earnings  | 77,801,150               | 77,801,150             |
| Paid-in capital  | 10,238,891               | 10,238,891             |
| Common Cooperative Equities:   |                          |                        |
| Statutory minimum purchased borrower stock   | 4,382,825                | -                      |
| Other required member purchased stock held <5 years                                    |                          |                        |
| Other required member purchased stock held ≥ 5 years but < 7 years                     |                          |                        |
| Other required member purchased stock held ≥ 7 years                                   |                          |                        |
| Allocated equities:  |                          |                        |
| Allocated equities held <5 years   |                          |                        |
| Allocated equities held ≥ 5 years but < 7 years  |                          |                        |
| Allocated equities held ≥ 7  | 48,938,092               | -                      |
| Nonqualified allocated equities not subject to retirement                              | 22,975,969               | 22,975,969             |
| Non-cumulative perpetual preferred stock   | -                        |                        |
| Other preferred stock subject to certain limitations                                   |                          |                        |
| Subordinated debt subject to certain limitation  |                          |                        |
| Allowance for loan losses and reserve for credit losses subject to certain limitations |                          |                        |
| Regulatory Adjustments and Deductions:   |                          |                        |
| Amount of allocated investments in other System institutions                           | (17,706,008)             | (2,148,365)            |
| Other regulatory required deductions   | -                        | -                      |
|  | <b>146,630,919</b>       | <b>108,867,645</b>     |
| Denominator:   |                          |                        |
| Total Assets   | 1,090,698,988            | 1,090,698,988          |
| Regulatory Adjustments and Deductions:   |                          |                        |
| Regulatory deductions included in tier 1 capital                                       | (18,948,287)             | (18,948,287)           |
|  | <b>1,071,750,701</b>     | <b>1,071,750,701</b>   |

| (dollars in thousands)   | Common<br>equity<br>tier 1 ratio | Tier 1<br>capital ratio | Total capital<br>ratio | Permanent<br>capital ratio |
|--|----------------------------------|-------------------------|------------------------|----------------------------|
| Numerator:   |                                  |                         |                        |                            |
| Unallocated retained earnings  | 77,801,150                       | 77,801,150              | 77,801,150             | 77,801,150                 |
| Paid-in capital  | 10,238,891                       | 10,238,891              | 10,238,891             | 10,238,891                 |
| Common Cooperative Equities:   |                                  |                         |                        |                            |
| Statutory minimum purchased borrower stock   | 4,382,825                        | 4,382,825               | 4,382,825              | 4,382,825                  |
| Other required member purchased stock held <5 years                                    |                                  |                         |                        |                            |
| Other required member purchased stock held ≥ 5 years but < 7 years                     |                                  |                         |                        |                            |
| Other required member purchased stock held ≥ 7 years                                   |                                  |                         |                        |                            |
| Allocated equities:  |                                  |                         |                        |                            |
| Allocated equities held <5 years   |                                  |                         |                        |                            |
| Allocated equities held ≥ 5 years but < 7 years  |                                  |                         |                        |                            |
| Allocated equities held ≥ 7  | 48,938,092                       | 48,938,092              | 48,938,092             | 48,938,092                 |
| Nonqualified allocated equities not subject to retirement                              | 22,975,969                       | 22,975,969              | 22,975,969             | 22,975,969                 |
| Non-cumulative perpetual preferred stock   |                                  | -                       | -                      | -                          |
| Other preferred stock subject to certain limitations                                   |                                  |                         | -                      | -                          |
| Subordinated debt subject to certain limitation  |                                  |                         |                        |                            |
| Allowance for loan losses and reserve for credit losses subject to certain limitations |                                  |                         | 1,145,526              |                            |
| Regulatory Adjustments and Deductions:   |                                  |                         |                        |                            |
| Amount of allocated investments in other System institutions                           | (17,706,008)                     | (17,706,008)            | (17,706,008)           | (17,706,008)               |
| Other regulatory required deductions   | -                                | -                       | -                      | -                          |
|  | <b>146,630,919</b>               | <b>146,630,919</b>      | <b>147,776,445</b>     | <b>146,630,919</b>         |
| Denominator:   |                                  |                         |                        |                            |
| Risk-adjusted assets excluding allowance   | 1,044,852,014                    | 1,044,852,014           | 1,044,852,014          | 1,044,852,014              |
| Regulatory Adjustments and Deductions:   |                                  |                         |                        |                            |
| Regulatory deductions included in total capital  | (17,706,008)                     | (17,706,008)            | (17,706,008)           | (17,706,008)               |
| Allowance for loan losses  |                                  |                         |                        | (1,077,943)                |
|  | <b>1,027,146,006</b>             | <b>1,027,146,006</b>    | <b>1,027,146,006</b>   | <b>1,026,068,063</b>       |

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the three months ended June 30:

|   | <u>2019</u>               | <u>2018</u>               |
|---|---------------------------|---------------------------|
| Accumulated other comprehensive income (loss) at January 1                          | \$(108,017)               | \$(548,446)               |
| Amortization of actuarial (gain) loss included<br>in salaries and employee benefits | <u>(3,375)</u>            | <u>(3,783)</u>            |
| Other comprehensive income (loss), net of tax                                       | <u>(3,375)</u>            | <u>(3,783)</u>            |
| Accumulated other comprehensive income at March 31                                  | <u><u>\$(111,392)</u></u> | <u><u>\$(552,229)</u></u> |

#### NOTE 5 — INCOME TAXES:

Southern AgCredit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Southern AgCredit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Southern AgCredit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. 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 30, 2019 and 2018, the net accrued tax liability/benefit was \$0.

#### NOTE 6 — 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 14 to the 2018 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

| <u>March 31, 2019</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 held in nonqualified benefit trusts | \$216,330                           | \$ -           | \$ -           | \$ 216,330              |
|  |                                     |                |                |                         |
| <u>December 31, 2018</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 held in nonqualified benefit trusts | \$ 214,200                          | \$ -           | \$ -           | \$ 214,200              |

\*Accounting guidance requires that the fair value measurement for investments be broken out by the different types of investments held.

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

| <u>March 31, 2019</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*                   | \$ -                                | \$ -           | \$ 825,730     | \$ 825,730              |
| Other property owned     | -                                   | -              | 5,076,652      | 5,076,652               |
| <br>                     |                                     |                |                |                         |
| <u>December 31, 2018</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*                   | \$ -                                | \$ -           | \$ 78,914      | \$ 78,914               |
| Other property owned     | -                                   | -              | 5,076,652      | 5,076,652               |

\*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.

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

### **Valuation Techniques**

As more fully discussed in Note 14 to the 2018 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the association’s assets and liabilities. For a more complete description, see Notes to the 2018 Annual Report to Stockholders.

#### *Investment Securities*

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. This would include U.S. Treasury, U.S. agency and certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include a small portion of asset-backed securities and certain mortgage-backed securities, including private label-FHA/VA securities and those issued by Farmer Mac.

#### *Assets Held in Nonqualified Benefits Trusts*

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

#### *Standby Letters of Credit*

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

### *Loans Evaluated for Impairment*

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are 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, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

### *Other Property Owned*

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

### *Cash*

For cash, the carrying amount is a reasonable estimate of fair value.

### *Loans*

Fair value is estimated by discounting the expected future cash flows using the associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

### *Commitments to Extend Credit*

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

## **NOTE 7 — EMPLOYEE BENEFIT PLANS:**

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

|   | Other Benefits   |                  |
|---|------------------|------------------|
|   | 2019             | 2018             |
| Service cost                                  | \$ 8,317         | \$ 8,492         |
| Interest cost                                 | 39,466           | 38,368           |
| Amortization of prior service (credits) costs | (3,375)          | (11,364)         |
| Net periodic benefit cost                     | <u>\$ 44,408</u> | <u>\$ 35,496</u> |

The association's liability for the unfunded accumulated obligation for these benefits at March 31, 2019, was \$3,412,245 and is included in "Other Liabilities" in the balance sheet.

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



The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2018, that it expected to contribute \$71,308 to the district's defined benefit pension plan in 2019. As of March 31, 2019, \$17,827 of contributions have been made. The association presently anticipates contributing an additional \$53,481 to fund the defined benefit pension plan in 2019 for a total of \$71,308.

**NOTE 8 — 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.

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At March 31, 2019, \$74,976,477 of commitments and \$360,448 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

**NOTE 9 — SUBSEQUENT EVENTS:**

The association has evaluated subsequent events through May 10, 2019, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 10, 2019.