SOUTHERN AGCREDIT

2019 ANNUAL REPORT

Begin. Grow. Improve. Hunt. Unwind.

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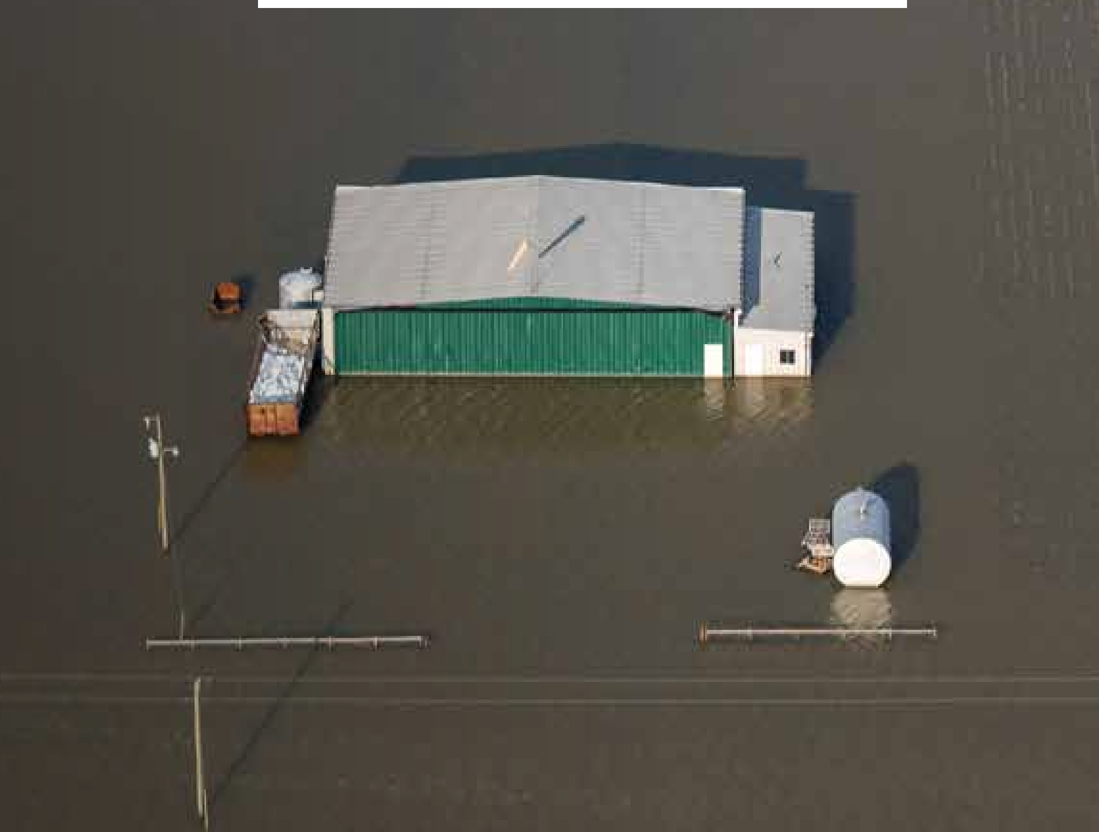


Message from the CEO

Dear Stockholder,

We are pleased to present Southern AgCredit's financial condition and record operating performance for 2019. We continued our market leadership with almost $200 million in new loans while growing loan assets by 7.6%. High credit quality, coupled with a focus on operating efficiency, produced another year of record earnings. Our capital position remains stable, which will enable us to continue our lending and cooperative profit-sharing objectives. As a testament to the year's success, our 2019 results gave the board of directors another opportunity to declare record cash patronage of $10.1 million to you, our customer-owners.

The following pages provide a summary of the association's balance sheet and operations. These numbers represent thousands of individual success stories — of farmers, ranchers and rural entrepreneurs who are Southern AgCredit stockholders.

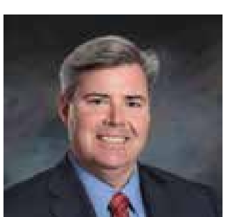
Our association is embracing change and moving forward. As rural entrepreneurs, you know change is the one constant we can all count on during day-to-day operations. The new year ushered in a major change for Southern AgCredit's leadership team. After more than a decade of diligent service, Joe H. Hayman announced his departure as CEO, and I was honored to receive the board's appointment to succeed him.

Joe had been CEO since 2008, which coincided with the beginning of a volatile financial environment. Through his leadership, the association thrived during the challenging years known now as the Great Recession. Joe's commitment to the association and its stockholders was unwavering, and best witnessed by those working closely with him each day. I was fortunate to have Joe invite me to be the chief financial officer in 2008. Together, our management team and employees weathered a turbulent economic downturn, transitioned our organization to an Agricultural Credit Association, completed a successful merger with Louisiana AgCredit, more than doubled our assets, created consistent strong financial performance and, ultimately, paid record returns to our borrowers each year. In 2020, our primary commitment is to continue this success for our farmers, ranchers and rural entrepreneurs.

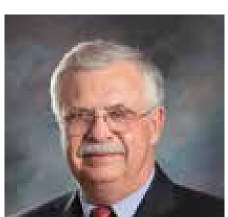
Another change we are all experiencing together is advancement in technology. Like each of you, we rely on technology to achieve our business goals. Our calling is to serve our customer-owners efficiently with high-quality credit and to remain the premier rural and agricultural lender you have come to count on. To achieve these objectives, we have expanded on our expertise by investing in new cloud-based lending software that focuses on customer service. As your cooperative rural lender, we understand the importance to our customers of user-friendly lending technology. Our commitment is to anticipate and stay ahead of your needs so that we remain your coveted lender for success!

The borrowers highlighted in the following pages offer a cross section of our diversified loan portfolio. Our hope is you discover common relatable themes: a commitment to family, an entrepreneurial spirit and an investment in the future through technology. They represent you, our stockholders, and you are our greatest success story.

Our team looks forward to supporting you as we continue promoting life outside the city limits together.



PHILLIP MORGAN
Chief Executive Officer



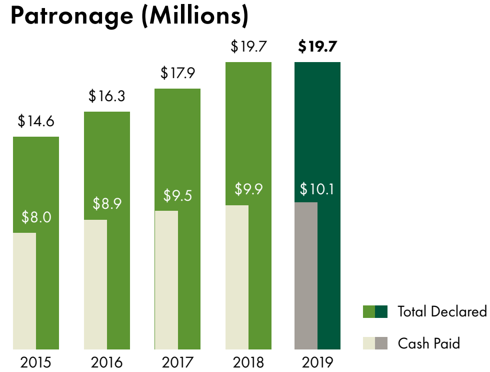
KEVIN RHODES
Board Chairman

FINANCIAL AND OTHER HIGHLIGHTS

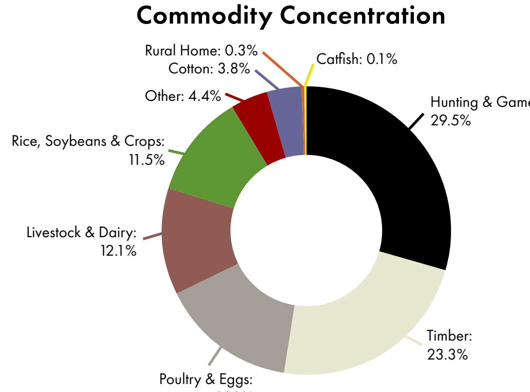
Total Assets (Millions)

Net Income (Millions)

Patronage (Millions)



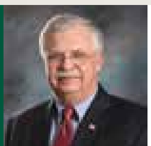
Commodity Concentration



MEMBER-OWNER LEADERSHIP

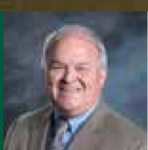
The Southern AgCredit Board of Directors proudly recognizes the financial challenges faced by the vast majority of our customers — because they are agricultural producers and rural business leaders, too. Both our stockholder-elected and board-appointed directors have experience in agricultural financing, accounting, farm and timber management, and more. Together, they set the direction and policy for the cooperative and represent the best interests of our customer-stockholders, to whom they are accountable. For full biographies of each director, see the Disclosure Information and Index section of this report.

BOARD OF DIRECTORS



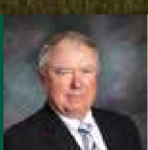
KEVIN RHODES
Chairman
Cattle & Poultry Farmer
Pelahatchie, Mississippi

BRYAN "SCOTT" BELL
Vice Chairman
Cattle/Poultry/Row-crop Farmer
Lena, Mississippi

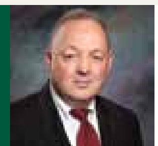


REGGIE ALLEN
Timber & Cattle Farmer
Brookhaven, Mississippi

JOHN "VAN" BENNETT
Timber & Cattle Farmer
Spearsville, Louisiana

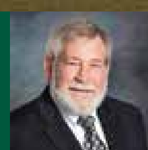


LONNIE "GENE" BOYKIN
Wheat/Soybean/Corn Farmer
Rolling Fork, Mississippi

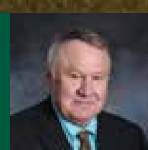


STEVEN "STEVE" DOCKENS, CPA
Accounting & Consulting
Ocean Springs, Mississippi

CHARLES "ALLEN" EUBANKS
Vegetable Producer
Lucedale, Mississippi



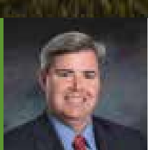
THOMAS "T.C." HALL
Timber & Cattle Farmer
Gloster, Louisiana



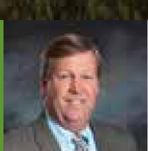
LARRY W. KILLEBREW
Cotton/Corn/Soybean/Cattle Farmer
Lexington, Mississippi

LINDA STANISZEWSKI, CPA
Retired Accounting Instructor
Hattiesburg, Mississippi

SENIOR MANAGEMENT TEAM



PHILLIP MORGAN
President
Chief Executive Officer



KEN HOBART
Senior Vice President
Chief Collateral Risk Officer

TED MURKERSON
Senior Vice President
Chief Credit Officer

RICHARD PALMER, CPA
Vice President
Chief Financial Officer

DISASTER ASSISTANCE

2019 was an unprecedented and historic year with tornadoes, storms and floods throughout Southern AgCredit's territory. Flooding along the Mississippi River set records for duration and total volume. No matter the amount of damage, Southern AgCredit stood alongside our customer-owners and locked arms with them to get through these tough times. Our disaster assistance policy remains in place for natural disasters, storms, accidents or other such events that could cause damage to your farm or financial hardship. Options may include:

- Waived fees for late payments
- Payment deferrals
- Loan restructures
- Short-term lines of credit

We encourage you to continue your payments according to your loan agreement. Southern AgCredit remains committed to working with our borrowers through disasters.

Neel Ferrell, Stephania Ferrell, Ross Lyon, Heather Ferrell, Sean Ferrell, Ian Ferrell and Jessica Holmes

HOMEWOOD CATTLE CO.

Sean & Ian Ferrell
Homewood, Mississippi

Homewood Cattle Company was founded by two brothers, Sean and Ian Ferrell, originally from Union, Mississippi. Sean is the Scott County Manager for Farm Bureau and married to his wife, Heather, who handles the books for Homewood Cattle Company. Ian is a directional driller for Halliburton and is engaged to Jessica Holmes. The brothers are first-generation cattle farmers.

In 2011, Sean moved to Scott County to begin work with Farm Bureau. Sean and Ian purchased three Charolais heifers from Mr. Larry Addkison of Louisville, Mississippi. Sean knew there were not many other local breeders of this type of cattle in Scott County, so he quickly saw this as a great business opportunity, thus the beginning of Homewood Cattle Company.

"Mr. Larry made a huge impact on our lives, and he is our biggest mentor in the cattle business. We wouldn't be where we are today without him," said Sean. Since 2011, they have grown their herd size from three head to the current herd size of 60 brood cows.

"We got into farming to get away from the fast-paced life," said Sean. However, the deeper they got into farming and researching ways to directly impact their bottom line, the more they realized just how important technology is to profit margins.

"If you're not using the latest and greatest technologies available," Sean added, "you are going to leave profits on the table."

Homewood Cattle Company uses various types of technologies to collect, manage and chart data on the herd. Data collected allows them to highlight projections on quality genetics and prove quality breeds. They also use herd management software to track measurements on each cow, which they can access from the touch of their iPhone.

"I can be sitting anywhere in the world and pull up a specific cow in our herd, and I can tell a potential buyer not only what the cow weighed at birth but also the characteristics about the cow's parents' EPDs (expected progeny differences) and even show them every time I gave that cow any type of medical treatments such as shots and vaccinations," explained Sean.

The company has plans to add other types of technology to enhance their business operations which, they believe, will continue to set them apart from competition.

"If we are going to charge a premium price, we know we better have the data to back it up and justify the cost," commented Ian.

The goal of Homewood Cattle Company is to sell quality purebred bulls to improve someone else's herd. To accomplish this, data collection and information integrity are vital. According to Sean, their focus has always been on quality over quantity.

"We want to have a good product. When people see the Homewood Cattle Company, they will know they can trust it."

The Ferrell brothers also attribute some of their successes to the persistence of maintaining personal contacts within the industry, such as sponsoring Cattlemen's Association dinners and other events, as well as educating potential buyers on the advantages of using a Charolais herd sire. They are proud of the fact that up to 90% of their buyers are from word-of-mouth referrals, personal contacts and existing relationships from other cattlemen. According to Sean, "the most rewarding part of what we do is to see repeat customers who feel like Homewood Cattle Company has made a difference in their family's bottom line."

Their parents, Stephania and Neel Ferrell, managed Ferrell and Company, a local co-op in Union, from 1976 and worked there until their retirement in 2015. Watching their parents work tirelessly at the co-op inspired the brothers to dream of one day starting their own business. Now that the day is here, Sean and Ian hope Homewood Cattle Company continues growing into a thriving cattle business so that they can eventually pass the farm down to their children.

Selecting a lender was an easy choice for the Ferrells. They chose Southern AgCredit because they believe it has the same goals as Homewood Cattle Company, which is supporting local communities in rural Mississippi.

"Southern AgCredit has great loan products to help us meet our needs, and those products were introduced to us by a great friend," said Sean, referring to their Southern AgCredit loan officer, Kevin Brown, who grew up in the same community as Sean and Ian.

"Kevin is a local guy and he knows rural Mississippi. We found it was easy to work with him because he understands us and our business," added Sean.

The Ferrell brothers both agree they view Southern AgCredit as a partner and are excited to see this partnership grow.

Homewood Cattle Company has been a Southern AgCredit member since August 2019.

Ian Ferrell

"If you're not using the latest and greatest technologies available, you are going to leave profits on the table." **–Sean Ferrell**

ARROWHEAD LODGE

Chris & Christine Payton
Poplarville, Mississippi

Arrowhead Lodge consists of 343 acres of high-fence property as well as a 6,000-square-foot lodge and bunkhouse in rural Mississippi. Chris and Christine Payton bought the property in September 2018 because they wanted to have a place where their family could enjoy wide-open spaces and be fully immersed in the outdoors. The Paytons also wanted their kids to experience a way of life where things are not as fast-paced as they are in their hometown of Lafayette, Louisiana.

Chris, an entrepreneur at heart, is the founding partner of Assurance Financial, a successful mortgage company headquartered in Baton Rouge, Louisiana, with over 200 employees. Originally from Jacksonville, Alabama, Chris grew up on a 120-acre family farm where his grandparents raised beef cattle, pigs, chickens, goats and horses.

"I grew up working alongside my family taking care of the farm's daily needs," said Chris. "My parents were hard workers and instilled that in me. I learned the value of hard work early, and that's stuck with me."

Chris's mother was the more business-oriented of his two parents and was the executive director of the Girl Scouts in northern Alabama. Chris's wife, Christine, is a nonpracticing CPA and stays home with the couple's two boys, Charlie, 15, and Jacob, 12. Christine grew up in the New Iberia, Louisiana, area.

The land surrounding the lodge has all sorts of wildlife, including white-tailed deer, wild turkey, bass, wood ducks and a family of fox squirrels that the Paytons have grown to love.

"While I wasn't in the market to buy a high-fence property, I appreciate the additional control that you have," said Chris. "It keeps the wild pigs and coyotes out as well as provides an added layer of security."

Chris, an avid outdoorsman, commented that "this property checked all the boxes for us. It's not too far away, a little less than a three-hour drive from our home, and gives our family the opportunity to hunt and fish in a beautiful rural setting. This is the place that we've dreamed of owning."

In an effort to improve the buck-to-doe ratio, the Paytons work with a wildlife biologist to manage the deer herd on their property.

"Currently, we have about two does to one buck, and we would like to get a one-doe-to-one-buck ratio. The plan is to have balance along with trophy bucks," said Chris.

He is most excited about bow hunting, although he has not had much time to do it, and said that rifle hunting has been fun for his boys and their cousins and friends. They are also working with a lake biologist to manage the fish to maximize their health to attain more trophy bass.

Christine says her favorite aspect of the property is the time they get to spend together as a family.

Chris, Christine, Jacob and Charlie Payton

They also have game cameras set up to survey their deer population, which they're able to do remotely from their iPhones.

"We're able to bring the entire family here without the distractions of the busy life that we have in Lafayette," Christine said. "Life just moves a little slower at the lodge."

The Payton family would be remiss if they did not mention their gratitude for the caretaker of the property, Keith Ladner, a local man who lives just a few miles from the lodge and allows them to enjoy the property to its fullest potential. They all agree that without Keith, Arrowhead Lodge could not operate.

Technology also plays a factor at Arrowhead Lodge. Their oldest son, Charlie, received a drone for his birthday. One of his favorite activities is flying the drone around the land to survey the property and check on the animals, lake and fencing. They also have game cameras set up to survey their deer population, which they're able to do remotely from their iPhones.

As a young boy, Chris would search the family farm for Indian arrowheads. Then, as fate would have it, the Payton's property in Poplarville turned out to be full of them — hence the name of the place — and the young Payton boys love searching for them just like Chris did in his youth.

"My grandfather always told me, 'Son, if you ever find land with arrowheads on it, buy it,'" said Chris. And that's exactly what the Payton family did.

The Paytons have lots of contacts in the financial world because of Chris's mortgage business. However, since Arrowhead Lodge included a lot of acreage, it didn't fit the traditional mortgage guidelines his company operates under. They narrowed their search down to three lenders, and weighed the pros and cons.

"We wanted to find a lender that was motivated to do the best for us," said Chris. "Not only did we find that in Alex Riser (Southern AgCredit's Gulfport branch manager), but we also found that he was an avid outdoorsman and knew exactly what we were talking about in terms of recreational property."

The Paytons also liked the fact Alex was able to provide them with the best interest rate and terms for their deal.

"We've always felt that Southern AgCredit was looking out for our best interest, and we are glad we chose them as our lender and partner," said Chris.

The Paytons have been Southern AgCredit stockholders since September 2018.

ALEXANDER BLUEBERRY FARMS

Steve & Amanda Alexander DeBerry, Texas / Frierson, Louisiana

Alexander Blueberry Farms encompasses farmland in Louisiana and Texas, where the Alexanders grow blueberries. Steve and Amanda Alexander own and operate the farm alongside their children, Caroline, Timothy, and Elizabeth. They also have a grown daughter, Kayla, who lives in Lubbock, Texas, with her 5-year-old daughter, baby and husband. Their blueberries are sold to grocery stores across the region.

Steve grew up on a dairy farm where he worked with his father and brother. After deciding in his mid-20s that he wanted to start his own farm, he purchased and raised heifers while still on his dad's property. In 1991 he decided to go out on his own and leased a dairy farm in Louisiana where he started milking his own herd. After overcoming many obstacles with grit and determination, his dairy operation grew and thrived.

In 1995 Steve and Amanda purchased acreage in Louisiana and planted blueberries to diversify their income stream while continuing to operate the dairy farm. In 2004 a dairy farm came up for sale in East Texas, and the Alexander family purchased the property with plans to continue the dairy operation. Three years later, they decided to plant blueberries on the new farm in Texas, along with the farm in Louisiana, and built a packing facility on the Texas property. Up until this time, they had all their blueberries packed at an outside facility. The Alexanders packed their first blueberry crop on-site in their own packing facility in 2008. Tough times struck the dairy industry the following year, causing Steve to shut down the dairy operation and focus entirely on berries.

"What many people do not realize is that it takes between six to seven years to get a good blueberry crop, and that's a long time to wait, but we did it and are glad we did," commented Amanda.

Amanda grew up in Kentucky until the eigth grade, when her family moved to New Iberia, Louisiana. She worked as a schoolteacher until she and Steve married and had their first child, after which they decided she would stay at home with the baby and help Steve with the farm, which she still does today.

"We all help out with the blueberries," said Amanda. "Our kids grew up helping on the farm and still do. It's a family business."

In addition to the on-site packing facility, Steve and Amanda have made other improvements to their blueberry operation.

Elizabeth, Steve, Amanda, Timothy and Caroline Alexander

“You have to make changes and adapt to the demands of the market,” explained Amanda.

Take, for instance, the color and soft berry sorters that improve their operation. In total, they use three different sorting machines to enhance the quality of their crop. The machine used for color sorters has two cameras that detect the color of the fruit and software that allows the user to determine the colors of the berries that should be discarded.

The soft sorter machine detects how firm or soft every berry is. The user sets the sensitivity of the sensors to control the firmness of the fruit that is to be rejected. Those berries are then rerouted onto a discharge conveyor belt.

The third machine is a combination sorter of both color and over-ripe berries. This machine has two sets of optical cameras. There are two cameras for each sorting channel on the sorting conveyor belt. Upper and lower cameras allow for more surface area of every single berry to be inspected as they fall on the sorting conveyor belt. At the beginning of the season, the machine can be set to discard red and green berries. At the end of the season, or whenever needed, the machine can be set to discard overripe berries. Overripe berries are detected with infrared light wavelength built into the cameras. Each sorting channel is aligned with a corresponding reject air jet. Upon receiving a signal from the electronic/optics subsystem, the air valve opens and high-pressure air is released. The high-pressure air from the air jets deflect defective fruit onto another conveyor belt.

With all three machines combined, each berry is viewed three times for softness and three times for color in one pass. Such technology significantly increases the pack-out quality of the blueberries, maximizes efficiency, and improves their bottom line.

“A business in agriculture has many challenges such as adverse weather, labor shortages, markets and finances, just to name a few,” explained Steve. “You have to be a fighter to overcome the challenges of farming.”

Not only did the farm overcome — it thrived. In fact, this year the Alexanders are planning to plant more blueberry acreage than ever before.

“We want to run the farm to the best of our ability and one day be able to retire,” said Amanda.

(Sorting) technology significantly increases the pack-out quality of the blueberries, maximizes efficiency, and improves their bottom line.

Steve came to Southern AgCredit many years ago when he was in the dairy business, and continued to keep his business with Southern AgCredit even when he diversified to blueberries. His father was also with Southern AgCredit while he was in the dairy industry.

“I use Southern AgCredit because they are honest and flexible. Farmers face challenges that other businesses do not, which sometimes requires unique financing strategies,” Steve explained. “Southern AgCredit works with you and gives you a chance to recover from the challenges that farmers are faced with.”

“It’s never crossed our mind to do business anywhere else because Southern AgCredit knows our business and understands our needs,” Amanda added.

The Alexanders have been Southern AgCredit stockholders since 1991.


Jeremy, Jim, Susan and Jamie Long

ADVANCED TIMBER SERVICES, INC.

Jim, Susan, Jeremy & Jamie Long Shreveport, Louisiana

Advanced Timber Services, Inc., (ATS) is a timber-buying and-selling company as well as a timber management company started by Jim Long in 1996. ATS is operated by Jim, his wife, Susan, and two adult sons, Jeremy and Jamie.

Jim started in the forest industry when he was 19 years old, working his way through college as a forestry technician for Crown Zellerbach, a national company that has since sold. Next, Jim took a job as a procurement forester for a timber company in Arkansas, a position he held for seven years. He then made the move to another timber company, where he worked another seven years.

When Jim was 40 years old, he decided to go out on his own and start his own timber company, ATS. An outgoing entrepreneur, Jim grew the operation into a thriving business and has never looked back. He's now semi-retired and depends on his sons to handle the day-to-day operations in the field.

Susan began her career as a human resources professional and worked until her sons were in elementary school. The Longs decided that Susan would stay home with the two boys and assist Jim with ATS. Susan obtained her real estate license and began helping with the office duties of ATS, a role she still fills today. In total, the company has 19 employees, including loggers, drivers, foresters and an operations manager. Until 2018, the Longs would subcontract out their logging services. Now they own all their own logging equipment and run two logging crews, with the goal of adding another logging crew soon.

"In order to scale the company, if we must spend money, we have to spend it to make more money. In our case, that was spending money on our own logging equipment," said Jeremy, the Long's oldest son, who is a degreed forester.

Safety and technology go hand in hand for ATS, and purchasing their own logging equipment and trucks has paid dividends. All trucks have built-in GPS tracking and diagnostic information. The user can see idle time, fuel consumption, total miles driven, total number of stops, and have the capability to set the maximum speed of the trucks. Such technology helps increase safety, which in turn helps maximize profits.

"In order to scale the company, if we must spend money, we have to spend it to make more money." **–Jeremy Long**

"We have to be as safe as possible," commented Jim. "In this industry, your reputation is all you have."

Jeremy and Jamie have been in the woods with their father since they were in their early teens, whether tagging along while he was working or camping together as a family. It was during these times that they learned to love and respect nature. The Long sons grew up listening to their father talk on the phone to landowners and foresters. The boys quickly picked up on the lingo and learned the fundamentals of what it took to do field work without the use of modern technology. These days, they're able to integrate the knowledge gleaned from their father with today's technology, giving them a well-rounded perspective on how to meet and exceed the company's goals.

After high school, Jeremy and Jamie pursued degrees in forestry and business, respectively. Upon graduating, the boys decided to come back to Shreveport and work in the family business, which thrilled Jim and Susan.

"I wanted to come back and help my parents retire and have the life that they want, because they provided for me and my brother and helped us have the life that we wanted," said Jamie. "I wanted to return the favor and help the family do well and succeed."

Susan, a 12-year cancer survivor, had an illness that at one point took her and Jim away from their day-to-day jobs with ATS. Jamie was in college during this time, which left Jeremy to fill in and run the company, giving him a jump start on his career. It was also during this time that Jamie realized just how much he wanted to come back and be part of the company his family built.

At ATS, they've made a commitment to surround themselves with hardworking, like-minded people, which they believe is the key to success. They are thankful that they have a wonderful group of employees to work with each day, and know that ATS is only as strong as its team.

"I feel like God prepared me for my position by working previous jobs as a receptionist, all the way from accounts payable to human resources management. I am still using all those skills for the job I have now. I can see my path very clearly was built up to help support my husband and family in this business," said Susan. "Jim has a God-given ability to work with trees and he's never strayed from his career choice. Even in times of very volatile markets, he never gave up."

"When things got hard and times were tough, I never gave up. I learned from my mistakes and turned them into something positive and kept going," Jim said. "In this industry, you must be dedicated and be willing to do whatever it takes."

ATS chose Southern AgCredit as their lender for a variety of reasons.

"We liked the rates and terms, and we also quickly found Southern AgCredit could handle any of our financing needs," explained Susan. "We also liked that Justin (Southern AgCredit's Shreveport branch manager) helped us in planning our financing strategies for future needs of the business."

The Longs have been Southern AgCredit members since July 2016.

REPORT OF MANAGEMENT

The consolidated financial statements of Southern AgCredit, ACA (association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

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 consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who also conduct a review of internal controls to the extent necessary to comply with auditing standards solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The association is also examined by the Farm Credit Administration.

The board of directors has oversight 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 annual 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.

Phillip D. Morgan

Phillip D. Morgan
Chief Executive Officer
March 10, 2020

Kevin Rhodes

Kevin Rhodes
Chairman, Board of Directors
March 10, 2020

Richard Palmer, CPA

Richard Palmer, CPA
Chief Financial Officer
March 10, 2020

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The association's chief executive officer and chief financial officer, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the association's principal executives and principal financial officers, or persons performing similar functions, and effected by its boards of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the association's assets that could have a material effect on its consolidated financial statements.

The association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2019. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the association concluded that as of December 31, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2019. A review of the assessment performed was reported to the association's audit committee.

Phillip D. Morgan	Richard Palmer, CPA
Phillip D. Morgan	Richard Palmer, CPA
Chief Executive Officer	Chief Financial Officer
March 10, 2020	*March 10, 2020*

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of Linda Staniszewski, chair, Lonnie "Gene" Boykin, Steven "Steve" Dockens, and Bryan "Scott" Bell, board vice chairman. In 2019, ten committee meetings were held. The Committee oversees the scope of Southern AgCredit, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Southern AgCredit, ACA's website. The Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) for 2019.

Management is responsible for Southern AgCredit, ACA's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the Committee. PwC is responsible for performing an independent audit of Southern AgCredit, ACA's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed Southern AgCredit, ACA's audited consolidated financial statements for the year ended December 31, 2019 (audited consolidated financial statements) with management and PwC. The Committee also reviews with PwC the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PwC's and Southern AgCredit, ACA's internal auditors directly provide reports on significant matters to the Committee.

The Committee discussed with PwC its independence from Southern AgCredit, ACA. The Committee also reviewed the nonaudit services provided by PwC and concluded that these services were not incompatible with maintaining the independent accountant's independence. The Committee has discussed with management and PwC such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the board of directors include the audited consolidated financial statements in Southern AgCredit, ACA's Annual Report to Stockholders for the year ended December 31, 2019.

Audit Committee Members

Linda Staniszewski, Chair
Lonnie "Gene" Boykin
Steven "Steve" Dockens
Bryan "Scott" Bell

March 10, 2020

SOUTHERN AGCREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2019	2018	2017	2016	2015
Balance Sheet Data					
Assets					
Cash	**$ 25**	$ 31	$ 27	$ 36	$ 36
Investments	**5,496**	6,047	6,675	10,291	11,714
Loans	**1,118,167**	1,039,235	1,023,299	969,583	877,149
Less: allowance for loan losses	**1,205**	1,079	893	753	1,069
Net loans	**1,116,962**	1,038,156	1,022,406	968,830	876,080
Investment in and receivable from the Farm Credit Bank of Texas	**20,508**	19,466	20,013	18,355	16,972
Other property owned, net	**4,435**	5,077	5,597	9,938	11,737
Other assets	**20,377**	18,009	15,151	13,834	13,654
Total assets	**$ 1,167,803**	$ 1,086,786	$ 1,069,869	$ 1,021,284	$ 930,193
Liabilities					
Obligations with maturities of one year or less	**$ 19,203**	$ 17,863	$ 18,429	$ 17,513	$ 17,268
Obligations with maturities greater than one year	**976,374**	906,704	899,778	860,382	777,084
Total liabilities	**995,577**	924,567	918,207	877,895	794,352
Members' Equity					
Capital stock and participation certificates	**4,576**	4,378	4,255	4,108	3,812
Additional paid-in capital	**10,239**	10,239	10,239	10,239	10,239
Unallocated retained earnings	**157,725**	147,710	137,716	129,182	121,928
Accumulated other comprehensive income (loss)	**(314)**	(108)	(548)	(140)	(138)
Total members' equity	**172,226**	162,219	151,662	143,389	135,841
Total liabilities and members' equity	**$ 1,167,803**	$ 1,086,786	$ 1,069,869	$ 1,021,284	$ 930,193
Statement of Income Data					
Net interest income	**$ 27,291**	$ 26,436	$ 25,499	$ 24,246	$ 22,173
(Provision for loan losses) or loan loss reversal	**(191)**	(204)	(162)	333	(285)
Income from the Farm Credit Bank of Texas	**5,328**	4,804	4,011	3,919	3,752
Other noninterest income	**634**	1,011	328	161	248
Noninterest expense	**(12,956)**	(12,182)	(11,639)	(12,215)	(11,647)
Net income	**$ 20,106**	$ 19,865	$ 18,037	$ 16,444	$ 14,241
Key Financial Ratios for the Year					
Return on average assets	**1.8%**	1.8%	1.7%	1.7%	1.7%
Return on average members' equity	**11.6%**	13.0%	12.5%	12.1%	10.8%
Net interest income as a percentage of average earning assets	**2.5%**	2.6%	2.6%	2.6%	2.7%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.1%

SOUTHERN AGCREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2019	2018	2017	2016	2015
Key Financial Ratios at Year End *					
Members' equity as a percentage of total assets	**14.7%**	14.9%	14.2%	14.0%	14.6%
Debt as a percentage of members' equity	**578.1%**	569.9%	605.4%	612.2%	584.8%
Allowance for loan losses as a percentage of loans	**0.1%**	0.1%	0.1%	0.1%	0.1%
Common equity tier 1 ratio	**14.4%**	14.8%	14.5%	n/a	n/a
Tier 1 capital ratio	**14.4%**	14.8%	14.5%	n/a	n/a
Total capital ratio	**14.6%**	14.9%	14.6%	n/a	n/a
Permanent capital ratio	**14.5%**	14.8%	14.5%	14.3%	15.0%
Tier 1 leverage ratio	**13.9%**	14.1%	13.7%	n/a	n/a
UREE leverage ratio	**10.6%**	10.9%	10.6%	n/a	n/a
Total surplus ratio	**n/a**	n/a	n/a	13.9%	14.5%
Core surplus ratio	**n/a**	n/a	n/a	13.9%	14.5%
Net Income Distribution					
Cash dividends paid	**$ 9,871**	$ 9,502	$ 8,883	$ 8,016	$ 7,569
Cash patronage declared	**10,091**	9,871	9,502	8,883	8,016

*Effective January 1, 2017 the new regulatory capital ratios were implemented by the association. The association's ratios remained well above the regulatory minimums, including the conservation and leverage buffers at December 31, 2019. For more information, see Note 10 in the accompanying consolidated financial statements, "Members' Equity" included in this annual report.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Unaudited)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Southern AgCredit, ACA, including its wholly-owned subsidiaries, Southern AgCredit, PCA and Southern AgCredit, FLCA (association) for the years ended December 31, 2019, 2018 and 2017, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the association's Audit Committee.

Forward-Looking Information:

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will" or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease-related and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- obsolete or disruptions to information technology systems and services;
- cyber security risks such as unauthorized access to sensitive information or disruption of business operations:
- changes in United States government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government and government-sponsored enterprises; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Commodity Review And Outlook:

The economy within the association's lending territory remains stable. Economic conditions for all commodities, including cattle, poultry and row crops, are cyclical in nature and affected by external factors such as weather, input costs, demand, international trade and government intervention among many others. The general economic conditions both nationally and locally remain important to the association due to the primary repayment for much of the association's loan volume being tied to off-farm sources. Locally, our branch teams continue to grow their respective loan portfolios by seeking out quality credits and ensuring that the association has an opportunity to reach as many qualifying credit deals as possible. As such, the association's lending territory and borrowers seem to have little fluctuation in their repayment capacity based on national, state and local economic conditions at this time. As of December 31, 2019, there were no heightened or unusual concerns regarding financed commodities or economic conditions.

Significant Events:

In December 2019, the association's board of directors declared a patronage in the amount of $19,705,067 to stockholders, including $10,090,899 to be paid in cash, and $9,614,168 in the form of non-qualified allocated equities on behalf of the individual stockholders and retained by the association. Non-qualified allocated equities are not taxable to the stockholder. The cash patronage was disbursed to the association stockholders in February 2020. The 2019 cash patronage is a record return of earnings to the stockholders of the association, and represents on average a 1 percent reduction in borrowers loan interest rate. Patronage declarations from 2015-2018 also included cash disbursements and allocated equities retained by the association. Borrowers received total cash returns in the amounts of $9,870,816, $9,502,359, $8,883,457 and $8,015,743 in 2018, 2017, 2016 and 2015, respectively.

In December 2019, the association received a direct loan patronage of $4,293,433 from the Farm Credit Bank of Texas (bank), representing 46 basis points on the average daily balance of the association's direct loan with the bank. During 2019, the association received $516,768 in cash patronage payments from the bank, based on the association's stock investment in the bank. Also, the association received a capital markets patronage of $293,128 from the bank, representing 75 basis points on the association's average balance of participations in the bank's patronage pool program and $225,000 from other participation partners. Total patronage received in 2018, 2017, 2016 and 2015 was $4,803,531, $4,010,801, $3,918,861 and $3,752,160, respectively.

In an effort to improve the association's operating efficiency and customer service capacity, a new branch office was purchased in Ruston, Louisiana, replacing an existing building that was leased. The board and management of the association believe that the purchase of the new office building improves upon the association's continuing commitment to provide its borrowers with the highest quality of customer service.

In February 2020, Phillip D. Morgan succeeded Joe H. Hayman as the association's chief executive officer. Mr. Morgan was previously the association's chief financial and operating officer. Mr. Hayman resigned his position to take on the role of chief executive officer of a Farm Credit association located in Texas.

The association has continued 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:

The association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, LIBOR-based and prime-based interest rates. Loan maturities range from one to 30 years, with annual operating loans comprising the majority of the commercial loans and 20- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The association remains the premier lender for agriculture commodities produced in Mississippi and Louisiana. In addition to production loans, the association's portfolio is considerably strengthened by long-term loans for agriculture and recreational real estate throughout our territory. The association's largest commodities financed for each year end 2017-2019 continue to be related to timber, poultry and livestock. The timber portfolio also includes loans primarily for recreational purposes. The timber industry continues to improve as local and national housing demand improves, and the primary repayment sources for timber and recreational purposes continues to be off-farm income. Poultry production and domestic demand grew in 2019; however, exports decreased, resulting in lower prices. The outlook for 2020 indicates poultry production will grow and domestic demand will remain strong. In November a trading partner announced it will lift the ban on U.S. poultry imports, which has been in effect since January 2015; this represents a significant opportunity for growth in poultry production, potentially resulting in higher prices. The association expects a continued but very limited expansion of poultry production in certain parts of our lending territory. Negative returns were experienced during 2019 in the cattle industry due to unfavorable weather conditions which impacted breeding and feed costs. Livestock production and demand within the association's territory was consistent through the end of 2019. The 2020 outlook for livestock indicates domestic demand is dependent on the U.S. economy remaining strong. Exports are expected to improve in 2020.

The composition of the association's loan portfolio, including principal less funds held of $1,118,166,820, $1,039,235,244 and $1,023,298,902 as of December 31, 2019, 2018 and 2017, respectively, is described more fully in detailed tables in Note 4 to the consolidated financial statements, "Loans and Allowance for Loan Losses" included in this annual report.

Purchase and Sales of Loans:

During 2019, 2018 and 2017, the association was participating in loans with other lenders. As of December 31, 2019, 2018 and 2017, these participations totaled $89,979,266, $62,468,292 and $54,113,099, or 8.0 percent, 6.0 percent and 5.3 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the district of $413,295, $454,771 and

$496,544, or 0.0 percent, 0.0 percent and 0.1 percent of loans, respectively. The association has also sold participations of $40,659,844, $64,618,710 and $70,843,702 as of December 31, 2019, 2018 and 2017, respectively.

The association also utilizes the Mississippi Development Authority's Agribusiness Enterprise Loan Program (ABE), which is designed to provide a percentage of low-cost state financing combined with private financial lending institutions' loan proceeds to encourage loans to the agribusiness industry in the state. ABE loans totaled $15,899,082, $16,340,773 and $16,573,976 as of December 31, 2019, 2018 and 2017, respectively.

During 2010, the association exchanged loans totaling $35,192,440 for Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long-Term Standby Commitment to Purchase Agreements with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. These AMBS are included in the association's Consolidated Balance Sheet as held-to-maturity investments at an amortized cost balance of $5,495,707 at December 31, 2019. The association continues to service the loans included in those transactions.

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, net.

The following table illustrates the association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2019		2018		2017	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 3,971,684**	**45.1%**	$ 2,598,873	31.9%	$ 3,283,762	34.9%
Formally restructured	**408,402**	**4.6%**	472,784	5.8%	535,519	5.7%
Other property owned, net	**4,435,392**	**50.3%**	5,076,652	62.3%	5,597,118	59.4%
Total	**$ 8,815,478**	**100.0%**	$ 8,148,309	100.0%	$ 9,416,399	100.0%

At December 31, 2019, 2018 and 2017, loans that were considered impaired were $4,380,086, $3,071,657 and $3,819,281, representing 0.4 percent, 0.3 percent and 0.4 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The increase in nonaccrual loan volume for the 12 months ended December 31, 2019, is primarily due to the transfer of loans to three borrowers with an aggregate loan balance of $2,079,289. Transfers to nonaccrual included two loans to two separate borrowers with a loan balance of $740,073 and $765,203 both secured by real estate and transferred in the first quarter of 2019, and three loans to one borrower with a balance of $574,013 secured by real estate and transferred in the third quarter of 2019.

The decrease in nonaccrual loan volume for the 12 months ended December 31, 2018, is primarily due to the payoff of four loans to one borrower with a balance of $1,141,089, secured by real estate and moved to nonaccrual in the third quarter of 2017.

Nonaccrual loan volume for the 12 months ended December 31, 2017, increased primarily due to the transfer of one borrower with a loan balance of $1,141,089 secured by real estate and moved to nonaccrual in the third quarter of 2017. No additional specific allowance reserve was required on these loans.

Acquired property as of December 31, 2019, 2018 and 2017 is primarily the cumulative result of a series of foreclosures in 2010 and 2011 of a large complex of loans to a group of borrowers originated in 2006, and recognized as nonperforming in the first quarter of 2008. A subsequent market valuation decrease was recognized on these properties in the amount of $644,400, $524,966 and $312,950 in years 2019, 2018 and 2017, respectively. The association, through its marketing and disposal efforts, has separated and sold numerous tracts from these properties at values primarily exceeding the current book values per acre. The association will continue its marketing plan of these properties and expects their disposal to accelerate as the local market continues to improve. These acquired properties are located in South Mississippi and have a remaining fair value of $4,102,800 as of December 31, 2019.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the association is not affected by any seasonal characteristics. The factors affecting the operations of the association are the same factors that would affect any agricultural real estate lender. To help mitigate and diversify credit risk, the association has employed practices including securitization of loans, obtaining credit guarantees and engaging in loan participations. Although management and the board develop underwriting standards that limit the risk of loss exposure to the association, management and the board understand that loan defaults and resulting losses are inherent to the lending industry.

Allowance for Loan Losses:

The following table provides relevant information regarding the allowance for loan losses as of, or for the year ended, December 31:

	2019	2018	2017
Allowance for loan losses	**$ 1,204,690**	$ 1,079,319	$ 892,741
Allowance for loan losses to total loans	**0.1%**	0.1%	0.1%
Allowance for loan losses to nonaccrual loans	**30.3%**	41.5%	27.2%
Allowance for loan losses to impaired loans	**27.5%**	35.1%	23.4%
Net charge-offs to average loans	**0.0%**	0.0%	0.0%

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowance for loan losses including but not limited to: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, borrower repayment capacity, depth of lender staff, and/or past trends, and weather-related influences.

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of $1,204,690, $1,079,319 and $892,741 at December 31, 2019, 2018 and 2017, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates Management considers the year-end amounts adequate based on their assessments of the evaluation criteria referenced above as of year end.

Results of Operations:

The association's net income for the year ended December 31, 2019, was $20,106,081 as compared to $19,864,834 for the year ended December 31, 2018, reflecting an increase of $241,247, or 1.2 percent. The association's net income for the year ended December 31, 2017 was $18,036,574. Net income increased $1,828,260, or 10.1 percent, in 2018 versus 2017.

Net interest income for 2019, 2018 and 2017 was $27,290,666, $26,436,499 and $25,499,468, respectively, reflecting increases of $854,167, or 3.2 percent, for 2019 versus 2018 and $937,031, or 3.7 percent, for 2018 versus 2017. Net interest income is the principal source of earnings for the association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

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	2019		2018		2017	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 1,081,195,292**	**$ 54,297,974**	$ 1,028,788,066	$ 49,434,098	$ 989,446,824	$ 44,340,252
Investments	**5,653,940**	**285,566**	6,236,385	295,453	7,511,880	321,752
Total interest-earning assets	**1,086,849,232**	**54,583,540**	1,035,024,451	49,729,551	996,958,704	44,662,004
Interest-bearing liabilities	**933,018,355**	**27,292,874**	887,606,500	23,293,052	859,568,322	19,162,536
Impact of capital	**$ 153,830,877**		$ 147,417,951		$ 137,390,382	
Net interest income		**$ 27,290,666**		$ 26,436,499		$ 25,499,468

	2019 Average Yield	2018 Average Yield	2017 Average Yield
Yield on loans	**5.02%**	4.81%	4.48%
Yield on investments	**5.05%**	4.74%	4.28%
Total yield on interest-earning assets	**5.02%**	4.80%	4.48%
Cost of interest-bearing liabilities	**2.93%**	2.62%	2.23%
Interest rate spread	**2.09%**	2.18%	2.25%

	2019 vs. 2018			2018 vs. 2017		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 2,518,220**	**$ 2,345,656**	**$ 4,863,876**	$ 1,762,999	$ 3,330,847	$ 5,093,846
Interest income - investments	**(27,594)**	**17,707**	**(9,887)**	(54,632)	28,333	(26,299)
Total interest income	**2,490,626**	**2,363,363**	**4,853,989**	1,708,367	3,359,180	5,067,547
Interest expense	**1,191,743**	**2,808,079**	**3,999,822**	625,055	3,505,461	4,130,516
Net interest income	**$ 1,298,882**	**$ (444,715)**	**$ 854,167**	$ 1,083,312	$ (146,281)	$ 937,031

Interest income for 2019 increased by $4,853,989, or 9.8 percent, compared to 2018, primarily due to an increase in earning assets and mitigated by a declining loan yield. Interest expense for 2019 increased by $3,999,822, or 17.2 percent, compared to 2018 due to an increase in interest-bearing liabilities and related weighted average interest rate. The interest rate spread decreased by 9 basis points to 2.09 percent in 2019 from 2.18 percent in 2018, primarily due to rapidly rising cost of funding as compared to borrower offering rates, competitive market conditions and longer term loan pricing in a rising rate environment. The interest rate spread decreased by 7 basis points to 2.18 percent in 2018 from 2.25 percent in 2017, primarily due to rapidly rising cost of funding as compared to borrower offering rates, competitive market conditions and longer term loan pricing in a rising rate environment.

Noninterest income for 2019 increased by $147,724, or 2.5 percent, compared to 2018, due primarily to an increase in patronage income offset by a decrease in FCSIC insurance refund. Noninterest income for 2018 increased by $1,476,109, or 34.0 percent, compared to 2017, due primarily to a FCSIC insurance refund and an increase in bank patronage.

Provisions for loan losses in 2019 decreased by $13,245, or 6.5 percent, compared to 2018, due primarily to adjustments in internally generated loss drivers based on current risk characteristics that reflect industry concentrations in the lending territory.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. Operating expenses increased by $773,889, or 6.4 percent for 2019 compared to 2018 due primarily to increased expenses related to employee salary and benefits, building and occupancy, and costs related to investment in technology and software licenses. Operating expenses increased by $542,478, or 4.7 percent for 2018 compared to 2017 due to an increase in salaries expense offset by a decrease in the premium rates from 15 basis points to 9 basis points on the insurance fund at the beginning of 2018. In accordance with authoritative accounting guidance, loan origination fees and related loan origination costs (salaries and employee benefits) are netted and capitalized in the year occurring, and the net fee or cost is amortized over the life of the originated loans as an adjustment to loan yield.

The association's return on average assets was 1.8 percent, 1.8 percent and 1.7 percent for the years ended December 31, 2019, 2018 and 2017, respectively. For the year ended December 31, 2019, the association's return on average members' equity was 11.6 percent, as compared to 13.0 percent and 12.5 percent for the years ended December 31, 2018 and 2017, respectively.

In July 2017, the United Kingdom's Financial Conduct Authority, the authority regulating the London Inter-Bank Offered Rate (LIBOR) announced that it will stop persuading or compelling banks to submit rates for the calculation of the LIBOR after 2021. Since this announcement, central banks around the world, including the Federal Reserve, have commissioned working groups with the goal of finding suitable replacements for LIBOR. In the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York. Specifically, the ARRC has proposed the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR. SOFR is based on a broad segment of the overnight Treasury repurchase market and is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. The bank and its affiliated associations are currently evaluating the impacts of a potential phase-out of the LIBOR benchmark interest rate, including the possibility of using SOFR as an alternative to LIBOR. The transition from LIBOR to SOFR is expected to be complex and to include the development of term and credit adjustments to minimize, to the extent possible, discrepancies between LIBOR and SOFR. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR-based instruments, including certain of the Farm Credit Systemwide debt securities, the bank's borrowings, loans, investments, derivatives, and other bank assets and liabilities that are indexed to LIBOR.

The bank established a LIBOR Workgroup, with cross-functional representation from the finance, operations, credit and legal departments. The LIBOR Workgroup is progressing in implementing its transition plan to an alternative benchmark rate. The LIBOR Workgroup coordinates outreach to our associations and with other Farm Credit System institutions, especially the Funding Corporation.

Because the association depends on the bank for funding, any significant positive or negative factors affecting the operations of the bank may have an effect on the operations of the association.

Liquidity and Funding Sources:

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $958,141,466, $888,231,951 and $881,449,875 as of December 31, 2019, 2018 and 2017, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.80 percent, 2.82 percent and 2.32 percent at December 31, 2019, 2018 and 2017, respectively. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by a general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2018, is due to loan growth and increase in cost of funds, respectively. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $144,213,390, $136,267,570 and $128,569,000 at December 31, 2019, 2018 and 2017, respectively. The maximum amount the association may borrow from the bank as of December 31, 2019, was $1,115,437,056 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.

The liquidity policy of the association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2020. As borrower payments are received, they are applied to the association's note payable to the bank.

The association will continue to fund its operations through direct borrowings from the bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the association are sufficient to fund its operations for the coming year.

Capital Resources:

The association's capital position remains strong, with total members' equity of $172,226,126, $162,218,972 and $151,661,645 at December 31, 2019, 2018 and 2017, respectively. 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.

Risk-adjusted:	Regulatory Minimums	Conservation Buffer*	Total	As of December 31, 2019
Common equity tier 1 ratio	4.50%	2.50%	7.00%	14.44%
Tier 1 capital ratio	6.00%	2.50%	8.50%	14.44%
Total capital ratio	8.00%	2.50%	10.50%	14.55%
Permanent capital ratio	7.00%	0.00%	7.00%	14.46%
Non-risk-adjusted:				
Tier 1 leverage ratio**	4.00%	1.00%	5.00%	13.85%
UREE leverage ratio	1.50%	0.00%	1.50%	10.55%

*The 2.5 percent capital conservation buffer for the risk-adjusted ratios will be phased in over a three year period ending on December 31, 2019.

**Must include the regulatory minimum requirement for the URE and UREE Leverage ratio

Significant Recent Accounting Pronouncements: Refer to Note 2 – "Summary of Significant Accounting Policies" in this annual report for disclosures of recent accounting pronouncements which may impact the associations consolidated financial position and results of operations and for critical accounting policies.

Regulatory Matters:

At December 31, 2019, the association was not under written agreements with the Farm Credit Administration.

On June 12, 2018, the Farm Credit Administration (FCA) published a final rule revising the requirements governing the eligibility of investments for System banks and associations. The stated objectives of the final rule are as follows:

- To strengthen investment practices at System banks and associations to enhance their safety and soundness;
- To ensure that System banks hold sufficient high-quality liquid investments for liquidity purposes;
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers and their cooperatives in times of financial distress;
- To comply with the requirements of section 939A of the Dodd-Frank Act;
- To modernize the investment eligibility criteria for System banks; and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

The regulation became effective January 1, 2019.

On January 22, 2019, the Farm Credit Administration issued an information memorandum citing the fact that effective December 20, 2018, the Agriculture Improvement Act of 2018 repealed the limitations on bank director compensation contained in section 4.21 of the Farm Credit Act of 1971, as amended. As a result, beginning in 2019, the Farm Credit Administration will no longer calculate the maximum annual compensation adjustments in FCA regulation § 611.400(b)(c), but will continue to review System bank director compensation to ensure that pay levels do not adversely affect the safety and soundness of System institutions.

On March 19, 2019, an interim final rule on margin and capital requirements for covered swap entities was published in the Federal Register. Five federal agencies acted to ensure that qualifying swaps may be transferred from a United Kingdom (UK) entity to an affiliate in the European Union (EU) or the United States without triggering new margin requirements. The interim final rule adopted would ensure that any legacy swap currently exempt from the agencies' rule on margin for non-cleared swaps would not become subject to the rule if such swap is amended solely for the purpose of transferring it to an affiliate as a result of a non-negotiated UK withdrawal from the EU. The interim final rule had no effect on the association's financial condition or results of operations.

Relationship With the Bank:

The association's statutory obligation to borrow only from the bank is discussed in Note 9 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The bank's ability to access capital of the association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank."

The bank's role in mitigating the association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 9 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The bank provides computer systems to support the critical operations of all district associations. In addition, each association has operating systems and facility-based systems that are not supported by the bank. As disclosed in Note 13 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the bank provides many services that the association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the bank bills district expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Over the past 103 years, regardless of the state of the agricultural economy, your association's board of directors and management, as well as the board of directors and management of the bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this association.

Report of Independent Auditors

To the Board of Directors of Southern Ag Credit, ACA

We have audited the accompanying consolidated financial statements of Southern Ag Credit, ACA and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019, December 31, 2018, and December 31, 2017, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Ag Credit, ACA and its subsidiaries as of December 31, 2019, December 31, 2018, and December 31, 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 10, 2020

PricewaterhouseCoopers LLP, 835 West 6th Street, Suite 1600 Austin, TX 78703
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SOUTHERN AGCREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31, 2019	2018	2017
Assets			
Cash	**$ 25,095**	$ 30,691	$ 26,739
Investments	**5,495,707**	6,046,842	6,674,806
Loans	**1,118,166,820**	1,039,235,244	1,023,298,902
Less: allowance for loan losses	**1,204,690**	1,079,319	892,741
Net loans	**1,116,962,130**	1,038,155,925	1,022,406,161
Accrued interest receivable	**9,997,578**	9,074,131	8,362,825
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**18,533,000**	17,725,455	17,142,040
Other	**1,974,729**	1,740,666	2,870,529
Other property owned, net	**4,435,392**	5,076,652	5,597,118
Premises and equipment	**9,233,855**	7,904,333	5,963,610
Other assets	**1,145,872**	1,030,945	825,099
Total assets	**$ 1,167,803,358**	$ 1,086,785,640	$ 1,069,868,927
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 958,141,466**	$ 888,231,951	$ 881,449,875
Guaranteed obligations to government entities	**15,899,082**	16,340,773	16,573,976
Advance conditional payments	**148,249**	1,995	78,653
Accrued interest payable	**2,336,230**	2,147,612	1,755,661
Drafts outstanding	**598,395**	132,941	586,124
Patronage distributions payable	**10,090,899**	9,870,816	9,502,359
Other liabilities	**8,362,911**	7,840,580	8,260,634
Total liabilities	**995,577,232**	924,566,668	918,207,282
Members' Equity			
Capital stock and participation certificates	**4,575,675**	4,377,950	4,255,070
Additional paid-in capital	**10,238,891**	10,238,891	10,238,891
Unallocated retained earnings	**157,725,330**	147,710,148	137,716,130
Accumulated other comprehensive loss	**(313,770)**	(108,017)	(548,446)
Total members' equity	**172,226,126**	162,218,972	151,661,645
Total liabilities and members' equity	**$ 1,167,803,358**	$ 1,086,785,640	$ 1,069,868,927

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2019	2018	2017
Interest Income			
Loans	**$ 54,297,974**	$ 49,434,098	$ 44,340,252
Investments	**285,566**	295,453	321,752
Total interest income	**54,583,540**	49,729,551	44,662,004
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**27,292,874**	23,292,792	19,161,127
Advance conditional payments	**-**	260	1,409
Total interest expense	**27,292,874**	23,293,052	19,162,536
Net interest income	**27,290,666**	26,436,499	25,499,468
Provision for Loan Losses	**191,250**	204,495	162,093
Net interest income after provision for losses	**27,099,416**	26,232,004	25,337,375
Noninterest Income			
Patronage income from other Farm Credit Institution	**5,328,329**	4,803,531	4,010,801
Loan fees	**379,105**	373,523	264,839
Financially related services income	**3,073**	29,779	20,973
Other noninterest income	**251,984**	607,934	42,045
Total noninterest income	**5,962,491**	5,814,767	4,338,658
Noninterest Expenses			
Salaries and employee benefits	**6,485,081**	6,359,059	5,863,289
Occupancy and equipment	**975,315**	632,500	586,212
Insurance Fund premiums	**725,233**	679,484	1,099,406
Other components of net periodic postretirement benefit cost	**191,132**	192,384	187,440
Other noninterest expense	**4,579,065**	4,318,510	3,903,112
Total noninterest expenses	**12,955,826**	12,181,937	11,639,459
Income before income taxes	**20,106,081**	19,864,834	18,036,574
Benefit from income taxes	**-**	-	-
NET INCOME	**20,106,081**	19,864,834	18,036,574
Other comprehensive income:			
Change in postretirement benefit plans	**(205,753)**	440,429	(408,304)
Income tax expense related to items of other comprehensive income	**-**	-	-
Other comprehensive income, net of tax	**(205,753)**	440,429	(408,304)
COMPREHENSIVE INCOME	**$ 19,900,328**	$ 20,305,263	$ 17,628,270

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2016	$ 4,107,855	$ 10,238,891	$ 129,181,915	$ (140,142)	$ 143,388,519
Comprehensive income	-	-	18,036,574	(408,304)	17,628,270
Capital stock/participation certificates and allocated retained earnings issued	724,570				724,570
Capital stock/participation certificates and allocated retained earnings retired	(577,355)				(577,355)
Patronage dividends:					
Cash			(9,502,359)		(9,502,359)
Balance at December 31, 2017	4,255,070	10,238,891	137,716,130	(548,446)	151,661,645
Comprehensive income	-	-	19,864,834	440,429	20,305,263
Capital stock/participation certificates issued	633,635				633,635
Capital stock/participation certificates and allocated retained earnings retired	(510,755)				(510,755)
Patronage dividends:					
Cash			(9,870,816)		(9,870,816)
Balance at December 31, 2018	4,377,950	10,238,891	147,710,148	(108,017)	162,218,972
Comprehensive income	-	-	20,106,081	(205,753)	19,900,328
Capital stock/participation certificates issued	790,450				790,450
Capital stock/participation certificates and allocated retained earnings retired	(592,725)				(592,725)
Patronage dividends:					
Cash			(10,090,899)		(10,090,899)
Balance at December 31, 2019	**$ 4,575,675**	**$ 10,238,891**	**$ 157,725,330**	**$ (313,770)**	**$ 172,226,126**

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	**$ 20,106,081**	$ 19,864,834	$ 18,036,574
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**191,250**	204,495	162,093
Provision for other property owned	**644,400**	524,966	312,950
Loss (gain) on sale of other property owned, net	**29,284**	-	(194,381)
Depreciation and amortization	**1,279,125**	833,524	707,507
Accretion of net discounts on acquired assets	**(27,515)**	(27,515)	(27,515)
Gain on sale of premises and equipment, net	**(88,241)**	(122)	(6,039)
Increase in accrued interest receivable	**(923,447)**	(711,306)	(638,758)
Decrease (increase) in other receivables from the Farm Credit Bank of Texas	**(234,063)**	1,129,863	(543,827)
Increase in other assets	**(114,927)**	(205,846)	(2,858)
Increase in accrued interest payable	**188,618**	391,951	291,759
Increase in other liabilities	**310,339**	2,458	172,554
Net cash provided by operating activities	**21,360,904**	22,007,302	18,270,059
Cash flows from investing activities:			
Increase in loans, net	**(80,145,631)**	(16,498,031)	(54,162,578)
Proceeds from purchase of investment in the Farm Credit Bank of Texas	**(807,545)**	(583,415)	(1,113,955)
Investment securities held-to-maturity			
Proceeds from maturities, calls and prepayments	**551,135**	627,964	3,615,774
Purchases of premises and equipment	**(1,961,485)**	(2,215,728)	(932,279)
Proceeds from sales of premises and equipment	**344,919**	26,307	29,422
Proceeds from sales of other property owned	**245,666**	-	4,222,634
Net cash used in investing activities	**(81,772,941)**	(18,642,903)	(48,340,982)

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2019	2018	2017
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	**69,909,515**	6,782,076	36,242,197
Increase (decrease) in guaranteed obligations to government entities	**(441,691)**	(233,203)	3,182,935
Increase (decrease) in drafts outstanding	**465,454**	(453,183)	(604,703)
Increase (decrease) in advance conditional payments	**146,254**	(76,658)	(22,576)
Issuance of capital stock and participation certificates	**790,450**	633,635	724,570
Retirement of capital stock and participation certificates	**(592,725)**	(510,755)	(577,355)
Patronage dividends paid	**(9,870,816)**	(9,502,359)	(8,883,457)
Net cash provided by (used in) financing activities	**60,406,441**	(3,360,447)	30,061,611
Net (decrease) increase in cash	**(5,596)**	3,952	(9,312)
Cash at the beginning of the year	**30,691**	26,739	36,051
Cash at the end of the year	**$ 25,095**	$ 30,691	$ 26,739
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	**278,090**	4,500	-
Loans charged off	**59,640**	-	-
Patronage distributions declared	**10,090,899**	9,870,816	9,502,359
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 27,292,873**	$ 22,901,101	$ 18,870,777

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

SOUTHERN AGCREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: 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 (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2019, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

   The Farm Credit Bank of Texas (bank) and its related associations are collectively referred to as the "district." The bank provides funding to all associations within the district and is responsible for supervising certain activities of the district associations. At December 31, 2019, the district consisted of the bank, one FLCA and 13 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

   The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System associations to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

   The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2 percent level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions.

   FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services that can be offered by the association. The association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the bank.

The association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

The association's financial condition may be affected by factors that affect the bank. The financial condition and results of operations of the bank may materially affect stockholders' investments in the association. Upon request, stockholders of the association will be provided with the Farm Credit Bank of Texas Annual Report to Stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates The consolidated financial statements include the accounts of Southern AgCredit, PCA and Southern AgCredit, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted Accounting Pronouncements:

In December 2019, the Financial Accounting Standards Board (FASB) issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgement in application or presentation. The guidance becomes effective for fiscal years after December 15, 2021. Early adoption of the guidance is permitted and the association adopted the new standard on January 1, 2020. No cumulative-effect adjustments will be recorded to retained earnings or current year results of operations. The adoption of this guidance will not impact the association's financial condition or its results of operations; nor will the guidance impact the presentation of taxes for prior periods in the year 2020 interim or year-end financial statements.

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 for public business entities and for years ending after December 15, 2021 for all other entities. 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. The association early adopted the removal and modified disclosures during the fourth quarter of 2018.

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. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The institution qualifies for the delay in the adoption date. The association continues to evaluate the impact of adoption on the association's financial condition and its 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. 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 but did impact lease disclosures. The association adopted this guidance January 1, 2019, and upon adoption, recorded a $137,986 right of use asset and an equal lease liability.

B. Cash: Cash, as included in the financial statements, represents cash on hand and deposits at banks.

C. Investments: The association's investments include mortgage-backed securities issued by Federal Agricultural Mortgage Corporation (Farmer Mac) for which the association has the intent and ability to hold to maturity and which are consequently classified as held-to-maturity. Held-to-maturity investments are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Changes in the fair value of these investments are not recorded unless the investment is deemed to be other-than-temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

Gains and losses on the sales of investments available for sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. The association does not hold investments for trading purposes.

The association may also hold additional investments in accordance with mission-related investment and other investment programs approved by the Farm Credit Administration. These programs allow the association to make investments that further the System's mission to serve rural America. Mission-related investments for which the association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

In accordance with the Farm Credit Administration regulations, the association, with the approval of its bank, may purchase and hold investments to manage risks. The association must identify and evaluate how the investments that it purchases contributes to management of its risks. Only securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the United States Government or its agencies are investments that the association may acquire. The total amount of investments allowed must not exceed 10 percent of the association's total outstanding loans.

The investments may not necessarily be held to maturity and accordingly have been classified as available for sale. These investments are reported at fair value and unrealized holding gains and losses on investments that are reported as a separate component of members' equity (accumulated other comprehensive income (loss)). Changes in the fair value of these investments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other than temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the institution would record an additional other-than-temporary impairment and adjust the yield of the security prospectively. The amount of total other-than-temporary impairment for an available-for-sale security that previously was impaired is determined as the difference between its carrying amount prior to the determination of other-than-temporary impairment and its fair value.

The association may also hold additional investments in accordance with other investment programs approved by the Farm Credit Administration. These programs allow the association to make investments that further the System's mission to serve rural America. These other investments are not included in the investment limitation specified by the Farm Credit Administration regulations. Mortgage-backed securities issued by Farmer Mac are considered other investments. Other investments for which the institution has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts. Farmer Mac investments are classified either as held-to-maturity or available-for-sale depending on the institution's ability and intent to hold the investment to maturity.

D. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and net deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield.

Loans acquired in a business combination are initially recognized at fair value, and therefore, no "carryover" of the allowance for loan losses is permitted. Those loans with evidence of credit quality deterioration at purchase are required to follow the authoritative accounting guidance on "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for loan losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. For variable rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The bank and related associations use a two-dimensional loan rating model based on an internally generated combined system risk-rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk-rating methodology is a key component of the association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowances for loan losses including but not limited to: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, borrower repayment capacity, depth of lender staff, and/or past trends, and weather-related influences. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

Transfers of an entire financial asset, group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the association, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the association does not maintain effective control over the transferred assets.

The association purchases loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. Additionally, the association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. Loans are sold and the sale terms comply with requirements under ASC 860 "Transfers and Servicing."

E. Capital Stock Investment in the Farm Credit Bank of Texas: The association's investment in the bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the association's proportional utilization of the bank compared to other district associations. The bank requires a minimum stock investment of 2 percent of the association's average borrowing from the bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

   If needed to meet regulatory capital adequacy requirements, the board of directors of the bank may increase the percentage of stock held by an association from 2 percent of the average outstanding balance of borrowings from the bank to a maximum of 5 percent of the average outstanding balance of borrowings from the bank.

F. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, and is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the consolidated balance sheet. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the consolidated statements of comprehensive income.

G. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.

H. Guaranteed Obligations to Government Entities: These obligations represent the association's guarantee of repayment of loans made to borrowers of the association from the Mississippi Development Authority (MDA). The MDA provides these loans to the respective borrower at no interest and must be included with the association's primary loan to the borrower for the production of certain commodities encouraged within the MDA loan assistance program. The association guarantees the full repayment of the loan provided by MDA, but maintains a first lien on related loan collateral.

I. Advance Conditional Payments: The association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the association on such accounts at rates established by the board of directors.

J. Employee Benefit Plans: Employees of the association participate in either the district defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. Also, the association sponsors a nonqualified defined contribution 401(k) plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The “projected unit credit” actuarial method is used for financial reporting and funding purposes for the DB plan.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers’ contributions, 5.0 percent of eligible pay for the year ended December 31, 2019, made on their behalf into various investment alternatives.

The structure of the district’s DB plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The association recognized pension costs for the DC plan of $71,308, $59,060 and $191,558 for the years ended December 31, 2019, 2018 and 2017, respectively. For the DB plan, the association recognized pension costs of $338,390, $293,110 and $281,351 for the years ended December 31, 2019, 2018 and 2017, respectively.

The association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The association’s contributions to the 401(k) plan were $232,924, $207,561 and $194,406 for the years ended December 31, 2019, 2018 and 2017, respectively.

In addition to the DB plan, the DC plan and the Farm Credit Benefits Alliance 401(k) plan above, the association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan; therefore, the associated liabilities are included in the association’s consolidated balance sheet in other liabilities.

In addition to pension benefits, the association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities on the consolidated balance sheet.

K. Income Taxes: The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Deferred taxes are provided on the association’s taxable income on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management’s estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the association’s expected patronage program, which reduces taxable earnings.

Deferred income taxes have not been provided by the association on patronage stock distributions from the bank prior to January 1, 1993, the adoption date of the FASB guidance on income taxes. Management’s intent is (1) to permanently invest these and other undistributed earnings in the bank, thereby indefinitely postponing their conversion to cash, or (2) to pass through any distribution related to pre-1993 earnings to association borrowers through qualified patronage allocations.

The association has not provided deferred income taxes on amounts allocated to the association which relate to the bank’s post-1992 earnings to the extent that such earnings will be passed through to association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the bank’s post-1992 unallocated earnings. The bank currently has no plans to distribute unallocated bank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the association level.

L. Patronage Refunds From the Farm Credit Bank of Texas: The association records patronage refunds from the bank on an accrual basis.

M. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and the supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

The fair value disclosures are presented in Note 14, "Fair Value Measurements."

N. Off-Balance-Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 — INVESTMENTS:

The association may hold mission-related and other investments. In January 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:

December 31, 2019				
Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
$5,495,707	**$ 22,353**	**$ -**	**$5,518,060**	**4.89 %**

December 31, 2018				
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
$ 6,046,842	$ -	$ 84,019	$ 5,962,823	4.95 %

December 31, 2017				
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
$ 6,674,806	$ -	$ 172,661	$ 6,502,145	4.40 %

NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

	2019		2018		2017	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 953,325,033**	**85.3%**	$ 911,436,406	87.7%	$ 902,008,489	88.1%
Production and intermediate term	**83,545,214**	**7.5%**	71,454,037	6.9%	69,807,416	6.8%
Agribusiness:						
Loans to cooperatives	**2,613,188**	**0.2%**	2,287,400	0.2%	3,346,691	0.3%
Processing and marketing	**46,371,318**	**4.1%**	35,133,760	3.4%	28,541,849	2.8%
Farm-related business	**636,358**	**0.1%**	276,141	0.0%	748,698	0.1%
Communication	**16,205,478**	**1.4%**	3,849,662	0.4%	3,862,552	0.4%
Energy	**13,040,412**	**1.2%**	12,119,153	1.2%	12,072,909	1.2%
Rural residential real estate	**2,429,819**	**0.2%**	2,678,685	0.2%	2,910,298	0.3%
Total	**$1,118,166,820**	**100.0%**	$ 1,039,235,244	100.0%	$ 1,023,298,902	100.0%

The association may purchase or sell 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 participations purchased and sold as of December 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	$ 8,100,373	$ 7,454,237	$ 368,221	$ -	$ 8,468,594	$ 7,454,237
Production and intermediate term	3,235,202	33,205,607	45,075	-	3,280,277	33,205,607
Agribusiness	48,984,506	-	-	-	48,984,506	-
Communication	16,205,478	-	-	-	16,205,478	-
Energy	13,040,412	-	-	-	13,040,412	-
Total	$ 89,565,971	$ 40,659,844	$ 413,296	$ -	$ 89,979,267	$ 40,659,844

The association also utilizes the Mississippi Development Authority's Agribusiness Enterprise Loan Program (ABE), which is designed to provide a percentage of low-cost state financing combined with private financial lending institutions' loan proceeds to encourage loans to the agribusiness industry in the state. ABE loans totaled $15,899,082, $16,340,773 and $16,573,976 as of December 31, 2019, December 31, 2018 and December 31, 2017, respectively.

Geographic Distribution:

State	**2019**	2018	2017
Mississippi	**89.8%**	90.0%	88.5%
Louisiana	**6.6%**	6.3%	7.0%
Other	**3.6%**	3.7%	4.5%

The association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the association's lending activities is collateralized, and the association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the association's credit risk exposure is considered in the determination of the allowance for loan losses.

	2019			2018			2017		
Operation/Commodity		**Amount**	**%**		Amount	%		Amount	%
Hunting, trapping and game propagation	**$**	**323,380,136**	**28.9%**	$	263,914,361	25.4%	$	239,818,049	23.4%
Timber		**260,513,468**	**23.3%**		276,726,391	26.6%		293,268,572	28.7%
Poultry and eggs		**160,351,456**	**14.3%**		165,069,535	15.9%		163,919,584	16.0%
Livestock, except dairy and poultry		**127,128,747**	**11.4%**		110,819,980	10.7%		111,479,257	10.9%
Cash grains		**99,844,021**	**8.9%**		97,998,380	9.4%		91,115,436	8.9%
Field crops except cash grains		**42,932,649**	**3.8%**		41,791,645	4.0%		41,082,771	4.0%
Other		**41,600,795**	**3.7%**		33,367,087	3.2%		33,250,005	3.2%
General farms, primarily crops		**20,828,964**	**1.9%**		22,889,763	2.2%		23,913,059	2.3%
Food and kindred products		**15,939,054**	**1.4%**		14,538,949	1.4%		13,379,260	1.3%
Electric services		**13,040,412**	**1.2%**		12,119,153	1.2%		12,072,909	1.2%
Cable and Other Pay Television Services		**12,607,118**	**1.1%**		-	0.0%		-	0.0%
Total	**$**	**1,118,166,820**	**100.0%**	$	1,039,235,244	100.0%	$	1,023,298,902	100.0%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (or 97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the association in the collateral, may result in the loan-to-value ratios in excess of the regulatory maximum.

To mitigate the risk of loan losses, the association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the bank. The agreements, which will remain in place until the loans are paid in full, give the association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2019, 2018 and 2017, loans totaling $74,921,958, $76,651,926 and $80,154,381, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $106,493, $95,633 and $103,162 in 2019, 2018 and 2017, respectively, and are included in "other noninterest expense."

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

		December 31, 2019		December 31, 2018		December 31, 2017
Nonaccrual loans:						
Real estate mortgage	**$**	**3,809,382**	$	1,798,190	$	2,581,318
Production and intermediate term		**162,302**		800,683		702,444
Total nonaccrual loans		**3,971,684**		2,598,873		3,283,762
Accruing restructured loans:						
Real estate mortgage		**330,260**		392,792		455,491
Production and intermediate term		**78,142**		79,992		80,028
Total accruing restructured loans		**408,402**		472,784		535,519
Total nonperforming loans		**4,380,086**		3,071,657		3,819,281
Other property owned		**4,435,392**		5,076,652		5,597,118
Total nonperforming assets	**$**	**8,815,478**	$	8,148,309	$	9,416,399

One credit quality indicator utilized by the bank and the association is the Farm Credit Administration's 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 classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2019		2018		2017	
Real estate mortgage						
Acceptable	**97.49**	%	98.44	%	98.18	%
OAEM	**1.78**		1.04		1.18	
Substandard/doubtful	**0.73**		0.52		0.64	
	100.00		100.00		100.00	
Production and intermediate term						
Acceptable	**96.60**		98.77		98.31	
OAEM	**2.61**		0.11		0.13	
Substandard/doubtful	**0.79**		1.12		1.56	
	100.00		100.00		100.00	
Loans to cooperatives						
Acceptable	**100.00**		100.00		100.00	
OAEM	**-**		-		-	
Substandard/doubtful	**-**		-		-	
	100.00		100.00		100.00	
Processing and marketing						
Acceptable	**93.33**		100.00		100.00	
OAEM	**6.67**		-		-	
Substandard/doubtful	**-**		-		-	
	100.00		100.00		100.00	
Farm-related business						
Acceptable	**100.00**		100.00		100.00	
OAEM	**-**		-		-	
Substandard/doubtful	**-**		-		-	
	100.00		100.00		100.00	
Communication						
Acceptable	**100.00**		100.00		100.00	
OAEM	**-**		-		-	
Substandard/doubtful	**-**		-		-	
	100.00		100.00		100.00	
Energy						
Acceptable	**100.00**		100.00		100.00	
OAEM	**-**		-		-	
Substandard/doubtful	**-**		-		-	
	100.00		100.00		100.00	
Rural residential real estate						
Acceptable	**100.00**		100.00		100.00	
OAEM	**-**		-		-	
Substandard/doubtful	**-**		-		-	
	100.00		100.00		100.00	
Total Loans						
Acceptable	**97.33**		98.54		98.28	
OAEM	**1.99**		0.92		1.05	
Substandard/doubtful	**0.68**		0.54		0.67	
	100.00	%	100.00	%	100.00	%

The following tables provide an aging analysis of past due loans (including accrued interest) as of December 31, 2019, 2018 and 2017:

December 31, 2019:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or less than 30 Days Past Due**	**Total Loans**
Real estate mortgage	**$ 3,229,948**	**$ 2,152,663**	**$ 5,382,611**	**$ 956,692,347**	**$ 962,074,958**
Production and intermediate term	**475,026**	**-**	**475,026**	**84,051,652**	**84,526,678**
Loans to cooperatives	**-**	**-**	**-**	**2,613,769**	**2,613,769**
Processing and marketing	**-**	**-**	**-**	**46,484,186**	**46,484,186**
Farm-related business	**-**	**-**	**-**	**636,986**	**636,986**
Communication	**-**	**-**	**-**	**16,217,194**	**16,217,194**
Energy	**-**	**-**	**-**	**13,045,865**	**13,045,865**
Rural residential real estate	**-**	**-**	**-**	**2,437,449**	**2,437,449**
Total	**$ 3,704,974**	**$ 2,152,663**	**$ 5,857,637**	**$ 1,122,179,448**	**$ 1,128,037,085**

December 31, 2018:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total 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	$ 4,661,284	$ 1,339,201	$ 6,000,485	$ 1,042,180,319	$ 1,048,180,804

December 31, 2017:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans
Real estate mortgage	$ 7,291,228	$ 768,612	$ 8,059,840	$ 901,186,020	$ 909,245,860
Production and intermediate term	12,324	-	12,324	70,579,134	70,591,458
Loans to cooperatives	-	-	-	3,347,965	3,347,965
Processing and marketing	-	-	-	28,567,925	28,567,925
Farm-related business	-	-	-	749,582	749,582
Communication	-	-	-	3,872,601	3,872,601
Energy	-	-	-	12,247,322	12,247,322
Rural residential real estate	-	-	-	2,919,330	2,919,330
Total	$ 7,303,552	$ 768,612	$ 8,072,164	$ 1,023,469,879	$ 1,031,542,043

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 December 31, 2019, the total recorded investment of troubled debt restructured loans was $738,396, including $329,994 classified as nonaccrual and $408,402 classified as accrual, with no specific allowance for loan losses. As of December 31, 2019, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the years ended December 31, 2019, 2018 and 2017. The pre-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

December 31, 2019:	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
Troubled debt restructurings:		
Real estate mortgage	**$ -**	**$ -**
Production and intermediate term	**-**	**-**
Total	**$ -**	**$ -**

December 31, 2018:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 353,539	$ 353,600
Production and intermediate term	79,904	79,766
Total	$ 433,443	$ 433,366

December 31, 2017:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 443,320	$ 432,027
Production and intermediate term	-	-
Total	$ 443,320	$ 432,027

During 2019, there were no troubled debt restructures which subsequently defaulted.

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). There were no charge-offs recorded at the modification date for the year ending December 31, 2019.

The predominant form of concession granted for troubled debt restructuring includes extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the association assesses 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:

	Loans Modified as TDRs		
	December 31, 2019	December 31, 2018	December 31, 2017
Troubled debt restructurings:			
Real estate mortgage	**$ 660,254**	$ 746,393	$ 648,135
Production and intermediate term	**78,142**	79,992	80,028
Total	**$ 738,396**	$ 826,385	$ 728,163

	TDRs in Nonaccrual Status*		
	December 31, 2019	December 31, 2018	December 31, 2017
Troubled debt restructurings:			
Real estate mortgage	**$ 329,994**	$ 353,600	$ 192,643
Production and intermediate term	**-**	-	-
Total	**$ 329,994**	$ 353,600	$ 192,643

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

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2019	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 856,525	$ 856,525	$ 28,912	$ 682,031	$ -
Production and intermediate term	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	$ 856,525	$ 856,525	$ 28,912	$ 682,031	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,283,117	$ 3,282,778	$ -	$ 2,735,764	$ 189,377
Production and intermediate term	240,444	240,457	-	235,027	44,897
Rural residential real estate	-	-	-	-	355
Total	$ 3,523,561	$ 3,523,235	$ -	$ 2,970,791	$ 234,629
Total impaired loans:					
Real estate mortgage	$ 4,139,642	$ 4,139,303	$ 28,912	$ 3,417,795	$ 189,377
Production and intermediate term	240,444	240,457	-	235,027	44,897
Rural residential real estate	-	-	-	-	355
Total	$ 4,380,086	$ 4,379,760	$ 28,912	$ 3,652,822	$ 234,629

	Recorded Investment at 12/31/2018	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 103,122	$ 103,122	$ 24,208	$ 109,209	$ -
Total	$ 103,122	$ 103,122	$ 24,208	$ 109,209	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,087,860	$ 2,086,614	$ -	$ 1,789,134	$ 159,085
Production and intermediate term	880,675	880,983	-	609,866	21,333
Total	$ 2,968,535	$ 2,967,597	$ -	$ 2,399,000	$ 180,418
Total impaired loans:					
Real estate mortgage	$ 2,190,982	$ 2,189,736	$ 24,208	$ 1,898,343	$ 159,085
Production and intermediate term	880,675	880,983	-	609,866	21,333
Total	$ 3,071,657	$ 3,070,719	$ 24,208	$ 2,508,209	$ 180,418

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	Recorded Investment at 12/31/2017	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 114,944	$ 114,944	$ 23,262	$ 120,665	$ -
Total	$ 114,944	$ 114,944	$ 23,262	$ 120,665	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,921,865	$ 2,913,580	$ -	$ 2,554,465	$ 34,870
Production and intermediate term	782,472	782,154	-	565,824	49,164
Total	$ 3,704,337	$ 3,695,734	$ -	$ 3,120,289	$ 84,034
Total impaired loans:					
Real estate mortgage	$ 3,036,809	$ 3,028,524	$ 23,262	$ 2,675,130	$ 34,870
Production and intermediate term	782,472	782,154	-	565,824	49,164
Total	$ 3,819,281	$ 3,810,678	$ 23,262	$ 3,240,954	$ 84,034

[a] Unpaid principal balance represents the recorded principal balance of the loan.

[a] Unpaid principal balance represents the recorded principal balance of the loan.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2019, 2018 and 2017.

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	2019	2018	2017
Interest income which would have been recognized under the original terms	**$ 392,612**	$ 281,108	$ 217,588
Less: interest income recognized	**(234,629)**	(180,418)	(84,034)
Foregone interest income	**$ 157,983**	$ 100,690	$ 133,554

A summary of the changes in the allowance for credit losses and the ending balance of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2018	$ 917,475	$ 96,408	$ 45,418	$ 8,140	$ 9,469	$ 2,409	$ 1,079,319
Charge-offs	(59,640)	-	-	-	-	-	(59,640)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	59,581	55,543	70,743	6,013	(691)	62	191,251
Other	104	(13,545)	4,573	(244)	2,872	-	(6,240)
Balance at December 31, 2019	$ 917,520	$ 138,406	$ 120,734	$ 13,909	$ 11,650	$ 2,471	$ 1,204,690
Ending Balance: individually evaluated for impairment	$ 28,912	$ -	$ -	$ -	$ -	$ -	$ 28,912
Ending Balance: collectively evaluated for impairment	$ 888,608	$ 138,406	$ 120,733	$ 13,909	$ 11,650	$ 2,471	$ 1,175,777
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2019	$ 962,074,958	$ 84,526,678	$ 49,734,941	$ 16,217,194	$13,045,865	$ 2,437,449	$1,128,037,085
Ending balance for loans individually evaluated for impairment	$ 4,139,642	$ 240,444	$ -	$ -	$ -	$ -	$ 4,380,086
Ending balance for loans collectively evaluated for impairment	$ 957,935,316	$ 84,286,234	$ 49,734,941	$ 16,217,194	$13,045,865	$ 2,437,449	$1,123,656,999

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
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	157,696	14,144	33,334	(942)	461	(198)	204,495
Other	22	6,264	(23,990)	113	(326)	-	(17,917)
Balance at December 31, 2018	$ 917,475	$ 96,408	$ 45,418	$ 8,140	$ 9,469	$ 2,409	$ 1,079,319
Ending Balance: individually evaluated for impairment	$ 24,208	$ -	$ -	$ -	$ -	$ -	$ 24,208
Ending Balance: collectively evaluated for impairment	$ 893,267	$ 96,408	$ 45,418	$ 8,140	$ 9,469	$ 2,409	$ 1,055,111
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2018	$ 919,331,457	$ 72,295,953	$ 37,725,885	$ 3,850,420	$12,289,411	$ 2,687,678	$1,048,180,804
Ending balance for loans individually evaluated for impairment	$ 2,190,982	$ 880,675	$ -	$ -	$ -	$ -	$ 3,071,657
Ending balance for loans collectively evaluated for impairment	$ 917,140,475	$ 71,415,278	$ 37,725,885	$ 3,850,420	$12,289,411	$ 2,687,678	$1,045,109,147

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2016	$ 621,167	$ 69,216	$ 24,537	$ 21,864	$ 12,278	$ 3,895	$ 752,957
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	138,543	16,241	18,232	(14,112)	4,517	(1,328)	162,093
Other	47	(9,457)	(6,695)	1,217	(7,461)	40	(22,309)
Balance at December 31, 2017	$ 759,757	$ 76,000	$ 36,074	$ 8,969	$ 9,334	$ 2,607	$ 892,741
Ending Balance: individually evaluated for impairment	$ 23,262	$ -	$ -	$ -	$ -	$ -	$ 23,262
Ending Balance: collectively evaluated for impairment	$ 736,495	$ 76,000	$ 36,074	$ 8,969	$ 9,334	$ 2,607	$ 869,479
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2017	$ 909,245,860	$ 70,591,458	$ 32,665,472	$ 3,872,601	$12,247,322	$ 2,919,330	$1,031,542,043
Ending balance for loans individually evaluated for impairment	$ 3,036,810	$ 782,114	$ -	$ -	$ -	$ -	$ 3,818,924
Ending balance for loans collectively evaluated for impairment	$ 906,209,050	$ 69,809,344	$ 32,665,472	$ 3,872,601	$12,247,322	$ 2,919,330	$1,027,723,119

NOTE 5 — INVESTMENT IN THE FARM CREDIT BANK OF TEXAS:

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. Estimating the fair value of the association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The association owned 5.53 percent, 5.60 percent and 5.64 percent of the issued stock of the bank as of December 31, 2019, 2018 and 2017. As of those dates, the bank's assets totaled $25.7 billion, $24.5 billion and $22.8 billion and members' equity totaled $1.8 billion, $1.8 billion and $1.7 billion. The bank's earnings were $203.0 million, $190.5 million and $196.0 million during 2019, 2018 and 2017.

NOTE 6 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2019	2018	2017
Land and improvements	**$ 2,597,694**	$ 2,487,694	$ 2,368,694
Building and improvements	**6,522,424**	4,782,055	4,028,032
Furniture and equipment	**760,043**	642,131	624,779
Computer equipment and software	**1,008,352**	409,224	307,436
Automobiles	**43,285**	43,285	77,172
Construction in progress	**-**	1,140,389	23,810
	10,931,798	9,504,778	7,429,923
Accumulated depreciation	**(1,697,943)**	(1,600,445)	(1,466,313)
Total	**$ 9,233,855**	$ 7,904,333	$ 5,963,610

The association leases office space in Brookhaven and Ruston. The association also has various leases for postage machines. Lease expense was $76,424, $76,345 and $86,214 for 2019, 2018 and 2017, respectively. Minimum annual lease payments for the next five years are as follows:

		Operating
2020	$	35,840
2021		35,741
2022		32,838
2023		7,201
2024		210
Thereafter		-
Total lease payments	$	111,830

NOTE 7 — OTHER PROPERTY OWNED, NET:

Net gain (loss) on other property owned, net consists of the following for the years ended December 31:

		2019		2018		2017
Gain (loss) on sale, net	**$**	**(29,284)**	$	-	$	194,381
Operating income (expense), net		**(14,466)**		(14,060)		(61,741)
Net gain (loss) on other property owned	**$**	**(43,750)**	$	(14,060)	$	132,640

The 2018 and 2019 net operating expenses include property taxes for the remaining property that was acquired in 2010 and 2011. The 2019 loss on sale is related to a partial sale on the aforementioned property. The 2017 net operating expenses are primarily related to the costs of the repair and maintenance to a property acquired in the second quarter of 2016. The gain on the sale in 2017 was primarily recognized on the disposal of aforementioned property acquired in 2016.

NOTE 8 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

		2019		2018		2017
Captive insurance receivable	**$**	**390,401**	$	401,754	$	413,744
Accounts receivable		**248,256**		271,308		29,915
Prepaid and other assets		**507,215**		357,883		381,440
Total	**$**	**1,145,872**	$	1,030,945	$	825,099

Other liabilities comprised the following at December 31:

		2019		2018		2017
Accumulated postretirement benefit obligation	**$**	**3,644,630**	$	3,402,081	$	3,817,780
Payroll and benefits payable		**3,194,741**		3,131,064		2,854,736
Accounts payable		**1,523,540**		1,307,435		1,588,118
Total	**$**	**8,362,911**	$	7,840,580	$	8,260,634

NOTE 9 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset/liability management process. The association's indebtedness to the bank represents borrowings by the association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the association's assets, and is governed by a general financing agreement. The interest rate on the direct loan is based upon the bank's cost of funding the loans the association has outstanding to its borrowers. 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.

The total amount and the weighted average interest rate of the association's direct loan from the bank at December 31, 2019, 2018 and 2017, was $958,141,466 at 2.80 percent, $888,231,951 at 2.82 percent and $881,449,875 at 2.32 percent, respectively.

Under the Act, the association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. The bank and FCA regulations have established limitations on the association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2019, 2018 and 2017, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2019, was $1,115,437,056, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2019, 2018 and 2017, the association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 10 — MEMBERS' EQUITY:

A description of the association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

Capital Stock

Protection of certain borrower equity is provided under the Act that requires the association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

In accordance with the Act and the association's capitalization bylaws, each borrower is required to invest in the association as a condition of borrowing. The investment in Class A capital stock (for farm loans) or participation certificates (for rural home and farm-related business loans) is equal to 2 percent of the loan amount, up to a maximum amount of $1,000. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the association may increase the percentage of stock requirement for each borrower up to a maximum of 11 percent of the loan amount.

Each owner of Class A and capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the association capital bylaws require the conversion of any borrower's outstanding Class A to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the association's board of directors. At December 31, 2019, 2018 and 2017, the association had no Class C stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A, Class C capital stock and participation certificates. In the event of liquidation of the association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the association's obligations to external parties and to the bank would be distributed to the association's stockholders.

At December 31, the association had the following shares of Class A capital stock, Class B stock and participation certificates outstanding at a par value of $5 per share:

	2019	2018	2017
Class A stock	**908,030**	868,570	843,244
Participation certificates	**7,105**	7,020	7,770
Total	**915,135**	875,590	851,014

Dividends and Patronage

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2019, 2018 and 2017, respectively:

Date Declared	**Date Paid**	**Patronage**
December 2019	**February 2020**	**$10,090,899**
December 2018	February 2019	9,870,816
December 2017	February 2018	9,502,359

Regulatory Capital Requirements

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the banks and associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past. As of December 31, 2019, the association is not prohibited from retiring stock or distributing earnings; furthermore, neither the board nor senior management knows of any such prohibitions that may apply during the subsequent fiscal year.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2019:

Risk-adjusted:	**Regulatory Minimums**	**Conservation Buffer***	**Total**	**As of December 31, 2019**
Common equity tier 1 ratio	4.50%	2.50%	7.00%	14.44%
Tier 1 capital ratio	6.00%	2.50%	8.50%	14.44%
Total capital ratio	8.00%	2.50%	10.50%	14.55%
Permanent capital ratio	7.00%	0.00%	7.00%	14.46%
Non-risk-adjusted:				
Tier 1 leverage ratio**	4.00%	1.00%	5.00%	13.85%
UREE leverage ratio	1.50%	0.00%	1.50%	10.55%

*The 2.5 percent capital conservation buffer for the risk-adjusted ratios will be phased in over a three year period ending on December 31, 2019.

**Must include the regulatory minimum requirement for the URE and UREE Leverage ratio

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The components of the association's risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2019:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	90,042,823	90,042,823	90,042,823	90,042,823
Paid-in capital	10,238,891	10,238,891	10,238,891	10,238,891
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,555,608	4,555,608	4,555,608	4,555,608
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	48,982,351	48,982,351	48,982,351	48,982,351
Nonqualified allocated equities not subject to retirement	23,230,691	23,230,691	23,230,691	23,230,691
Non-cumulative perpetual preferred stock		-	-	-
Other preferred stock subject to certain limitations			-	-
Subordinated debt subject to certain limitations				
Allowance for loan losses and reserve for credit losses subject to certain limitations*			1,251,411	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(17,734,428)	(17,734,428)	(17,734,428)	(17,734,428)
Other regulatory required deductions	-	-	-	-
	159,315,936	159,315,936	160,567,347	159,315,936
Denominator:				
Risk-adjusted assets excluding allowance	1,120,973,898	1,120,973,898	1,120,973,898	1,120,973,898
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(17,734,428)	(17,734,428)	(17,734,428)	(17,734,428)
Allowance for loan losses				(1,182,153)
	1,103,239,470	1,103,239,470	1,103,239,470	1,102,057,317

*Capped at 1.25 percent of risk-adjusted assets

The components of the association's non-risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2019:

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	90,042,823	90,042,823
Paid-in capital	10,238,891	10,238,891
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	4,555,608	-
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	48,982,351	-
Nonqualified allocated equities not subject to retirement	23,230,691	23,230,691
Non-cumulative perpetual preferred stock	-	
Other preferred stock subject to certain limitations		
Subordinated debt subject to certain limitations		
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	(17,734,428)	(2,148,365)
Other regulatory required deductions	-	-
	159,315,936	121,364,040
Denominator:		
Total Assets	1,171,998,366	1,171,998,366
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(21,814,877)	(21,814,877)
	1,150,183,489	1,150,183,489

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 standard. The Plan monitors projected dividends, patronage distribution equity retirements and other actions that may decrease the association's permanent capital, in addition to factors that must be considered in meeting the operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for loan losses to absorb potential loss within the loan and the 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 and other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive income (loss) and the location on the income statement for the year ended December 31:

	2019	2018	2017
Accumulated other comprehensive income (loss) at January 1	**$(108,017)**	$(548,446)	$(140,142)
Actuarial gains(losses)	**(192,254)**	353,776	(362,846)
Prior service (cost) credit	**-**	101,779	(45,458)
Amortization of prior service (credit) costs included in salaries and employee benefits	**-**	-	-
Amortization of actuarial (gain) loss included in salaries and employee benefits	**(13,499)**	(15,126)	-
Income tax expense related to items of other comprehensive income	**-**	-	-
Other comprehensive income (loss), net of tax	**(205,753)**	440,429	(408,304)
Accumulated other comprehensive income at December 31	**$ (313,770)**	$ (108,017)	$ (548,446)

NOTE 11 — INCOME TAXES:

There has been no provision for (benefit from) income taxes for the years ended December 2019, 2018 or 2017.

The provision for (benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	2019	2018	2017
Federal tax at statutory rate	**$ 4,222,277**	$ 4,171,615	$ 6,312,801
State tax, net	**-**	-	-
Effect of nontaxable FLCA subsidiary	**(4,070,410)**	(4,097,897)	(6,240,830)
Tax rate change for deferred tax asset	**-**	-	291,195
Patronage distributions	**(169,553)**	(101,453)	(87,942)
Change in valuation allowance	**(724)**	(1,513)	(263,763)
Adjustment to net operating loss per tax return	**-**	-	(34,021)
Other	**18,410**	29,248	22,560
Provision for (benefit from) income taxes	**$ -**	$ -	$ -

Deferred tax assets and liabilities in accordance with accounting guidance, "Accounting for Income Taxes," are comprised of the following at December 31:

		2019		2018		2017
Deferred Tax Assets						
Allowance for loan losses	**$**	**44,374**	$	33,863	$	26,045
Premium on direct note		**915**		1,526		2,136
Loan discount		**(21)**		(21)		(21)
Loss carryforwards		**456,816**		456,815		456,815
Gross deferred tax assets		**502,084**		492,183		484,975
Deferred tax asset valuation allowance		**(434,557)**		(435,280)		(436,793)
Deferred Tax Liabilities						
Loan fees net of deferred tax cost		**(67,527)**		(56,903)		(48,182)
Gross deferred tax liabilities		**(67,527)**		(56,903)		(48,182)
Net deferred tax asset (liability)	**$**	**-**	$	-	$	-

As of December 31, 2019, the association has a net operating loss carryforward of $2,175,313 available to offset against future taxable income that will begin to expire in 2030. The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. At December 31, 2019, non-patronage income is expected to be 0 percent of total taxable basis. The expected future tax rates are based upon enacted tax laws.

The ACA is required to maintain an investment in the bank of 2 percent of the average direct note. This investment can be held by both the PCA and FLCA. A deferred tax liability is established for the PCA for any excess investment in the bank over that allocated to the 2 percent investment requirement.

The association recorded valuation allowances of $434,557, $435,280 and $436,793 during 2019, 2018 and 2017, respectively. The association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year, and the association has no unrecognized tax benefits at December 31, 2019, for which liabilities have been established. The association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2016 and forward.

The enactment of federal tax legislation in late December 2017, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning January 2018. In accordance with GAAP, the change to the lower corporate tax rate led to a revaluation of our deferred tax liabilities and deferred tax assets in the period of enactment (2017). As a full valuation allowance is recorded, there was no income tax expense recognized in the income statement as a result of the revaluation of net deferred tax assets.

NOTE 12 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the association participate in either the defined benefit retirement plan (DB plan) or the defined contributions plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. These plans are described more fully in section J of Note 2, "Summary of Significant Accounting Policies." The structure of the district's DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon district combination only. The association records current contributions to the DB plan as an expense in the current year.

The CEO and certain executive or highly-compensated employees in the association are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (Supplemental 401(k) Plan). This plan allows district employers to elect to participate in any or all of the following benefits:

- Restored Employer Contributions – to allow "make-up" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year
- Elective Deferrals – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan
- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule

The association elected to participate in the Supplemental 401 (k) Plan. Contributions of $232,924, $207,561 and $194,406 were made to this plan for the years ended December 31, 2019, 2018 and 2017. There were no payments made from the supplemental 401(k) plan to active employees during 2019, 2018 and 2017.

The DB plan is noncontributory and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan's funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by a percentage approved by the plan sponsor. The plan sponsor is the board of the Farm Credit Bank of Texas. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2019.

The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
c. If the association chooses to stop participating in some of its multi-employer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan, the association's contributions, and the percentage of association contribution to total plan contributions for the years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
Funded status of plan	**66.2%**	68.0%	69.7%
Association's contribution	**$ 71,308**	$ 59,060	$ 191,558
Percentage of association's contribution to total contributions	**0.9%**	0.6%	1.7%

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 68.0 percent, 70.1 percent and 73.4 percent at December 31, 2019, 2018 and 2017, respectively.

Other Postretirement Benefits: In addition to pension benefits, the association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities.

The following table reflects the benefit obligation, cost and actuarial assumptions for the association's other postretirement benefits:

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	**2019**	2018	2017
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 3,402,081**	$ 3,817,780	$ 3,408,451
Service cost	**33,267**	42,680	33,968
Interest cost	**157,865**	149,693	153,472
Plan participants' contributions	**31,444**	32,531	50,155
Plan amendments	**-**	(101,779)	-
Special termination benefits	**-**	-	-
Actuarial loss (gain)	**192,254**	(353,776)	362,846
Benefits paid	**(172,281)**	(185,048)	(191,112)
Accumulated postretirement benefit obligation, end of year	**$ 3,644,630**	$ 3,402,081	$ 3,817,780
Change in Plan Assets			
Plan assets at fair value, beginning of year	**$ -**	$ -	$ -
Actual return on plan assets	**-**	-	-
Association contributions	**140,837**	152,517	140,957
Plan participants' contributions	**31,444**	32,531	50,155
Benefits paid	**(172,281)**	(185,048)	(191,112)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (3,644,630)**	$ (3,402,081)	$ (3,817,780)
Amounts Recognized in Statement of Financial Position			
Other liabilities	**$ (3,644,630)**	$ (3,402,081)	$ (3,817,780)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	**$ 402,050**	$ 209,796	$ 582,538
Prior service cost (credit)	**(88,280)**	(101,779)	(34,092)
Net transition obligation (asset)	**-**	-	-
Total	**$ 313,770**	$ 108,017	$ 548,446
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2019**	12/31/2018	12/31/2017
Discount rate	**3.45%**	4.75%	4.00%
Health care cost trend rate assumed for next year (pre-/post-65)	**6.90%/6.40%**	7.30%/6.90%	7.70%/6.90%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2028/2029**	2026/2027	2026/2026

Total Cost	**2019**	2018	2017
Service cost	**$ 42,078**	$ 42,680	$ 33,968
Interest cost	**123,380**	149,693	153,472
Expected return on plan assets	**-**	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	**-**	-	-
Unrecognized prior service cost	**(9,482)**	(15,126)	(45,458)
Unrecognized net loss (gain)	**-**	-	-
Net postretirement benefit cost	**$ 155,976**	$ 177,247	$ 141,982
Accounting for settlements/curtailments/special termination benefits	**$ -**	$ -	$ -
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	**$ 192,254**	$ (353,776)	$ 362,846
Amortization of net actuarial loss (gain)	**-**	-	-
Prior service cost (credit)	**-**	(101,779)	-
Amortization of prior service cost	**-**	-	-
Recognition of prior service cost	**13,499**	15,126	45,458
Amortization of transition liability (asset)	**-**	-	-
Total recognized in other comprehensive income	**$ 205,753**	$ (440,429)	$ 408,304
AOCI Amounts Expected to be Amortized Into Expense in 2020			
Unrecognized net transition obligation (asset)	**$ -**	$ -	$ -
Unrecognized prior service cost	**(13,498)**	(13,499)	(34,092)
Unrecognized net loss (gain)	**4,016**	-	19,566
Total	**$ (9,482)**	$ (13,499)	$ (14,526)
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	**12/31/2018**	12/31/2017	12/31/2016
Discount rate	**4.75%**	4.00%	4.60%
Health care cost trend rate assumed for next year (pre-/post-65)	**7.30%/6.90%**	7.70%/6.90%	6.75%/6.50%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2026/2027**	2026/2026	2024

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2020	**$ 137,964**
Fiscal 2021	**150,723**
Fiscal 2022	**163,866**
Fiscal 2023	**165,016**
Fiscal 2024	**156,087**
Fiscal 2025–2029	**856,781**
Expected Contributions	
Fiscal 2020	**$ 137,964**

NOTE 13 — RELATED PARTY TRANSACTIONS:

Directors of the association, except for any director-elected directors, are required to be borrowers/stockholders of the association. Also, in the ordinary course of business, the association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors, or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons at December 31, 2019, 2018 and 2017 for the association amounted to $15,475,410, $16,392,471 and $13,535,104. During 2019, 7,218,293 of new loans were made, and repayments totaled $7,693,444. In the opinion of management, no such loans outstanding at December 31, 2019, 2018 and 2017 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the bank and passed through to the associations, such as FCSIC expenses. The bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled $1,001,341, $1,025,966 and $1,354,154 in 2019, 2018 and 2017, respectively.

The association received patronage payments from the other Farm Credit institutions totaling $5,328,329, $4,803,531 and $4,010,801 during 2019, 2018 and 2017, respectively.

NOTE 14 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," for additional information.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2019, 2018 and 2017 for each of the fair value hierarchy values are summarized below:

December 31, 2019	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets held in nonqualified benefit trusts	**$262,244**	**$ -**	**$ -**	**$ 262,244**

December 31, 2018	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets held in nonqualified benefit trusts	$ 214,200	$ -	$ -	$ 214,200

December 31, 2017	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets held in nonqualified benefit trusts	$ 239,159	$ -	$ -	$ 239,159

The tables below represent reconciliations of all Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31, 2019, 2018 and 2017:

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

December 31, 2019	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$ 827,613**	**$ 827,613**
Other property owned	**-**	**-**	**4,380,890**	**4,380,890**

December 31, 2018	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 78,914	$ 78,914
Other property owned	-	-	5,076,652	5,076,652

December 31, 2017	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 91,682	$ 91,682
Other property owned	-	-	5,597,118	5,597,118

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the consolidated balance sheets for each of the fair value hierarchy values are summarized as follows:

	December 31, 2019 Fair Value Measurement Using				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 25,095**	**$ 25,095**	**$ -**	**$ -**	**$ 25,095**
Mission-related and other investments held-to-maturity	**5,495,707**	**-**	**-**	**5,518,060**	**5,518,060**
Net loans	**1,116,134,517**	**-**	**-**	**1,118,202,948**	**1,118,202,948**
Total Assets	**$ 1,121,655,319**	**$ 25,095**	**$ -**	**$ 1,123,721,008**	**$ 1,123,746,103**
Liabilities:					
Guaranteed obligations to government entities	**$ 15,899,082**	**$ -**	**$ -**	**$ 15,928,492**	**$ 15,928,492**
Note payable to Farm Credit Bank of Texas	**958,141,466**	**-**	**-**	**959,913,875**	**959,913,875**
Total Liabilities	**$ 974,040,548**	**$ -**	**$ -**	**$ 975,842,367**	**$ 975,842,367**

	December 31, 2018				
	Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 30,691	$ 30,691	$ -	$ -	$ 30,691
Mission-related and other investments held-to-maturity	6,046,842	-	-	5,962,823	5,962,823
Net loans	1,038,155,925	-	-	1,012,613,728	1,012,613,728
Total Assets	$ 1,044,233,458	$ 30,691	$ -	$ 1,018,576,551	$ 1,018,607,242
Liabilities:					
Guaranteed obligations to government entities	$ 16,340,773	$ -	$ -	$ 15,939,151	$ 15,939,151
Note payable to Farm Credit Bank of Texas	888,231,951	-	-	866,401,094	866,401,094
Total Liabilities	$ 904,572,724	$ -	$ -	$ 882,340,245	$ 882,340,245

	December 31, 2017				
	Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 26,739	$ 26,739	$ -	$ -	$ 26,739
Mission-related and other investments held-to-maturity	6,674,806	-	-	6,502,145	6,502,145
Net loans	1,022,406,161	-	-	995,651,381	995,651,381
Total Assets	$ 1,029,107,706	$ 26,739	$ -	$ 1,002,153,526	$ 1,002,180,265
Liabilities:					
Guaranteed obligations to government entities	$ 16,573,976	$ -	$ -	$ 16,140,639	$ 16,140,639
Note payable to Farm Credit Bank of Texas	881,449,875	-	-	858,403,825	858,403,825
Total Liabilities	$ 898,023,851	$ -	$ -	$ 874,544,464	$ 874,544,464

Sensitivity to Changes in Significant Unobservable Inputs

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to 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.

Information about Other Financial Instrument Fair Value Measurements:

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Mission-related and other investments held-to-maturity	Discounted cash flow	Prepayment rates Probability of default Loss severity
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Note payable to bank	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk
Guaranteed obligations to government entities	Discounted cash flow	Prepayment rates Probability of default Loss severity

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," accounting 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. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following represent a brief summary of the valuation techniques used by the association for assets and liabilities:

Investments

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 pricing models that utilize observable inputs, 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 certain mortgage-backed and asset-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 asset-based 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

For certain loans evaluated for impairment under 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, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

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

NOTE 15 — COMMITMENTS AND CONTINGENCIES:

In addition to those commitments and contingencies discussed in Note 2, "Summary of Significant Accounting Policies," the association is involved in various legal proceedings in the ordinary 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 December 31, 2019, $70,623,152 of commitments and $307,585 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 consolidated balance sheets 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 16 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 (in thousands) follow:

	2019				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 6,711**	**$ 6,751**	**$ 6,917**	**$ 6,911**	**$ 27,290**
(Provision for) reversal of loan losses	**33**	**(133)**	**(46)**	**(45)**	**(191)**
Noninterest income (expense), net	**(1,476)**	**(1,628)**	**(2,376)**	**(1,513)**	**(6,993)**
Net income	**$ 5,268**	**$ 4,990**	**$ 4,495**	**$ 5,353**	**$ 20,106**

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,607	$ 6,552	$ 6,723	$ 6,554	$ 26,436
(Provision for) reversal of loan losses	(129)	(16)	(28)	(31)	(204)
Noninterest income (expense), net	(1,074)	(1,496)	(1,481)	(2,316)	(6,367)
Net income	$ 5,404	$ 5,040	$ 5,214	$ 4,207	$ 19,865

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,280	$ 6,392	$ 6,454	$ 6,373	$ 25,499
(Provision for) reversal of loan losses	(61)	(95)	18	(24)	(162)
Noninterest income (expense), net	(1,773)	(1,703)	(1,621)	(2,204)	(7,301)
Net income	$ 4,446	$ 4,594	$ 4,851	$ 4,145	$ 18,036

NOTE 17 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through March 10, 2020 which is the date the financial statements were issued or available to be issued and has determined that there were no other events requiring disclosure.

DISCLOSURE INFORMATION AND INDEX

(Unaudited)

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report.

The descriptions of significant developments that had or could have a material impact on earnings, interest rates to borrowers, patronage, or dividends and acquisitions or dispositions of material assets, changes in the reporting entity, changes in patronage policies or practices and financial assistance provided by or to the association through loss sharing or capital preservation agreements or from any other source, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

Southern AgCredit, ACA (association) serves its 50-county territory in the state of Mississippi and its 11-parish territory in the state of Louisiana through its main administrative and lending office at 402 West Parkway Place, Ridgeland, Mississippi 39157. Additionally, there are nine branch lending offices located throughout the territory. The association owns the Mississippi office buildings in Gulfport, Greenville, Greenwood, Hattiesburg, Newton and Ridgeland, and the Louisiana office building in Shreveport and Ruston free of debt. The association leases a Mississippi office building in Brookhaven and a Louisiana office in Ruston.

LEGAL PROCEEDINGS

In the ordinary course of business, the association is involved in various legal proceedings. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the consolidated financial statements of the association.

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 10 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 9, "Note Payable to the Bank," Note 12, "Employee Benefit Plans," and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 15 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (bank), as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the bank may materially affect the stockholders' investment in the association.

The annual and quarterly stockholder reports of the Farm Credit Bank of Texas (bank) 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 78720-2590 or calling (512) 465-1881. Copies of the bank annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports are also available on its website at *www.farmcreditbank.com*. The association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Southern AgCredit ACA, 402 West Parkway Place, Ridgeland, MS 39157 or calling (601) 499-2820. Copies of the association's quarterly stockholder reports can also be requested by e-mailing *dlsouthernagcreditadmin@farmcreditbank.com*. The association's annual stockholder report is available on its website at *www.southernagcredit.com* 75 days after the fiscal year end. Copies of the association's annual stockholder report can also be requested 90 days after the fiscal year end.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2019, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to stockholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis," which precedes the consolidated financial statements in this annual report, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The association's member-elected and director-elected board of directors and senior officers are as follows:

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Kevin Rhodes	Chairman	1998	2019
Bryan "Scott" Bell	Vice Chairman	2012	2021
Reggie Allen	Director	2013	2020
John "Van" Bennett	Director	2010	2019
Lonnie "Gene" Boykin	Director	2014	2020
Steven "Steve" Dockens, CPA	Director (Director-Elected)	2019	2022
Charles "Allen" Eubanks	Director	2013	2021
Thomas C. "T.C." Hall	Director	2010	2020
Larry W. Killebrew	Director	2010	2019
Emery D. Skelton	Director (Director-Elected)	2001	2019
Linda S. Staniszewski, CPA	Director (Director-Elected)	2005	2020
Phillip D. Morgan*	Chief Executive Officer	2008	-
Ted R. Murkerson	Chief Credit Officer	2008	-
Richard Palmer, CPA	Chief Financial Officer	2020	-
Ken D. Hobart	Chief Collateral Risk Officer	1989	-
Joe H. Hayman**	Immediate Past Chief Executive Officer	2008	-
L. Paul Landry, II	Senior Quality Assurance Analyst	2011	-
Brent Barry	Regional Vice President	2003	-
Clayton Davis	Regional Vice President	2006	-
James G. Nicholas	Regional Vice President	2011	-
Amanda R. Hudson	Vice President of Loan Operations	2006	-
Austin Bean	Branch Manager	2010	-
Devin Davis	Branch Manager	2015	-
Elliott Fancher	Branch Manager	2006	-
Justin C. Morris	Branch Manager	2011	-
Alex Riser	Branch Manager	2015	-
Cooper Stringer	Branch Manager	2011	-

Note: Emery D. Skelton was replaced by Steven "Steve" Dockens, CPA through director election.
* Phillip D. Morgan was appointed chief executive officer by the Board of Directors on February 24, 2020.
**Joe H. Hayman resigned from the association on February 21, 2020.
A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

Kevin Rhodes of Pelahatchie, Mississippi, age 57, owns KDR Farms, Inc., a 300-acre farming operation consisting of 80 head of beef cattle, two six-house poultry farms in Rankin County and a five-house poultry farm in Scott County. He is a contract grower with Koch Foods of Mississippi and has been in the poultry business for over 35 years. He graduated from Mississippi State University with a degree in agricultural business. He is married and his brothers and a son and their spouses are all stockholders of Southern AgCredit. Mr. Rhodes serves on the Farm Credit Bank of Texas' Stockholder's Advisory Committee and Tenth District Nominating Committee and previously served on the Tenth District Farm Credit Council. He serves as a director on the Rankin County Farm Bureau and is president of the ACL Water Association. He is a life-long member of Shiloh United Methodist Church, where he and his wife serve on various committees.

Bryan "Scott" Bell of Lena, Mississippi, age 47, is the owner/operator of Bell Livestock, Inc. and serves on the board of directors of Bell Farms, Inc. Both corporations are cattle, poultry, and row crop in Scott and Leake counties, Mississippi. He is a contract grower with Koch Foods of Mississippi and has been in farming for over 20 years. He farms with his father and brother who are also stockholders of Southern AgCredit along with their spouses. Mr. Bell grazes cattle with other association stockholders. Mr. Bell serves on the Farm Credit Bank of Texas' Tenth District Farm Credit Council. Mr. Bell received a degree in poultry science from Mississippi State University. He is a member of First Baptist Church of Carthage, Mississippi, where he currently serves on the finance committee. He is married with two children.

Reggie Allen of Brookhaven, Mississippi, age 68, owns 500 acres in Lincoln County consisting of 400 acres of timber and 100 acres of open pastureland for beef cattle. He also owns an interest in Allen Properties, LLC that manages commercial and residential rental properties in the Brookhaven area. Mr. Allen majored in business and accounting at Co-Lin Junior College and the University of Southern Mississippi. He is married with two children and six grandchildren. His daughter and her spouse are also stockholders of the association. He is a member of Jackson Street United Methodist Church, where he and his wife have served on various committees.

John "Van" Bennett of Spearsville, Louisiana, age 69, and his family own a 300-acre cattle and timber farm that he and his wife operate under Rainbow Hill Farms. Mr. Bennett graduated from Louisiana Tech University in 1972 with a B.S. in agriculture education. He retired from Louisiana Ag Credit in 2006 after 30 years of service. Mr. Bennett's daughter and several other relatives are stockholders of Southern AgCredit. Mr. Bennett and his wife own and operate the agriculture publication Ag Trader USA. Advertisers in the publication include Southern AgCredit, Louisiana Land Bank, First South Farm Credit and Farm Credit Services of Western Arkansas. Also, many members of Southern AgCredit, Louisiana Land Bank, First South Farm Credit and Farm Credit of Western Arkansas subscribe to and advertise with Ag Trader USA. Mr. Bennett serves on several boards including Union Cattlemen's Association, Louisiana Department of Agriculture and Forestry Animal Health Board, Union Parish 4-H Foundation Board, Union Parish Farm Bureau Board, Louisiana Farm Bureau Poultry and Livestock Advisory Board, Louisiana Department of Agriculture and Forestry Poultry Task Force, LSU Ag Center Hill Farm Poultry Advisory Board, and Union Youth Livestock Board. He is a member of Antioch Church of Christ in Spearsville.

Lonnie "Gene" Boykin of Rolling Fork, Mississippi, age 65, farms soybeans, corn, timber and wildlife in Issaquena and Sharkey counties as a partner in B&R Farms with his wife, son and daughter-in-law who are also stockholders. He owns an interest in Peckerwood Farms, Big Slough Hunting Club, B&R Farms and B&G Farms. He serves on the board of trustees of Sharkey-Issaquena Community Hospital. He is a deacon at the First Baptist Church of Rolling Fork. He is married with two children and seven grandchildren. He is a past commissioner for the Issaquena County Soil and Water Conservation District and past director of the Issaquena Farm Bureau. He is a graduate of Delta State University with a degree in business administration.

Steven "Steve" Dockens of Ocean Springs, Mississippi, age 62, is a certified public accountant who has worked in public accounting for 38 years. Mr. Dockens has been employed with the accounting firm of Alexander, Van Loon, Sloan, Levens & Favre in Gulfport, Mississippi, since 2001 and is currently a senior audit manager and Quality Control Director. He led a team of auditors in 2005 to complete the initial Sarbanes-Oxley documentation for the Farm Credit Bank of Texas. Subsequent to that time, and until Mr. Dockens was appointed to the board of directors for Southern AgCredit, he worked with several Farm Credit Bank of Texas associations. He is an active member of professional organizations such as the American Institute of Certified Public Accountants and the Mississippi Society of Certified Public Accountants. He holds a bachelor's degree in business administration with an emphasis in accounting from the University of South Alabama. Mr. Dockens is the treasurer and a board member for Samaritan Ministry of Jackson County, a local food pantry. He is an active member, past president, and past secretary of the Gulfport Kiwanis Club. He is also an elder in the Community of Christ in Ocean Springs, Mississippi.

Charles "Allen" Eubanks of Lucedale, Mississippi, age 49, is the owner/operator, along with his wife, Janice, of Eubanks Produce, Inc., Melon Acres, LLC, Eubanks Land Company, LLC, Double AJ Packers, LLC, and Charlie's U-Pik, LLC. His company was started in 1992 upon graduation from Mississippi State University, where he majored in agribusiness. He is on the board of directors of George County Co-op and the Alabama Watermelon Association. He is married with four children. He is an active member of Watermark Congregational Methodist Church in Lucedale.

Thomas C. "T.C." Hall of Gloster, Louisiana, age 66, owns a 600-acre farm that includes a commercial beef cattle operation and 92 acres of pine timber. Mr. Hall is married and was previously elected to serve on the board and as board chairman of Louisiana AgCredit, ACA. He is a former dairy farmer who also manages a family-owned property corporation that includes the development of a residential subdivision and the leasing of family row crop property, some of which to possible association stockholders. He owns an interest in Hall Family Enterprises, LLC and Pearl Street Ventures, LLC. Mr. Hall also serves as board member for the DeSoto Parish Farm Bureau and the Keatchie Water System.

Larry W. Killebrew of Lexington, Mississippi, age 67, is the owner/manager of Larry Killebrew Farms, a 3,000-acre farming operation consisting of row crops - cotton, corn and soybeans - and cattle. He and his wife have been farming for 47 years and have a son and other relatives who are also association stockholders. He serves as a director for Holmes County Gin and is a board member of Black Creek Drainage District. He is a member of Farmers Grain Terminal, Holmes County Soil and Water Conservation District, Holmes County Farm Bureau, and Mississippi Corn Promotion Board. He is a deacon at Oregon Memorial Church in Lexington, Mississippi.

Emery D. Skelton of Winterville, Mississippi, age 77, is a retired row crop farmer. He has served for 29 years as a director of Federal Land Bank of South Mississippi, Land Bank South and Southern AgCredit. He serves on the board of directors of Delta Electric Power Association. He is married with three sons and two of his sons and their spouses are stockholders of the association. Mr. Skelton is active in numerous civic clubs and professional organizations and is an elder in his Presbyterian church. He graduated from Greenville High School, and has a B.S. in agriculture and an M.S in entomology from Mississippi State University.

Linda Staniszewski of Hattiesburg, Mississippi, age 75, is a certified public accountant who retired from the University of Southern Mississippi in 2002, where she served for many years as an accounting instructor. Mrs. Staniszewski is a member of several professional and academic organizations: the American Institute of Certified Public Accountants, Mississippi Society of Certified Public Accountants, and the Southeast Chapter of Mississippi Society of CPAs. She holds a bachelor's degree in business administration and a master's degree in professional accountancy from the University of Southern Mississippi. She is an active member of the Episcopal Church of Ascension in Hattiesburg, Mississippi.

Phillip D. Morgan, Chief Executive Officer, effective February 24, 2020, of Flora, Mississippi, age 46, joined the association in September 2008. He is a graduate of the University of Southern Mississippi with a bachelor of science in business administration and a master's in professional accountancy. Mr. Morgan was previously in public accounting providing audit and consulting services to commercial and primarily Farm Credit System institutions throughout the U.S. Mr. Morgan is a member of numerous professional organizations including state and national public accounting and information technology societies. He is also a stockholder and board member of two recreational land management organizations in which stockholders of the association may also have ownership. He is also a member/owner and president of his neighborhood homeowners association in which other members may be stockholders of Southern AgCredit. Mr. Morgan is a native of Mt. Olive, Mississippi, where his family continues their farming operation.

Ted R. Murkerson, Chief Credit Officer, of Brandon, Mississippi, age 52, began his Farm Credit career in 1992 working for Northwest Florida Farm Credit and later joined Southwest Georgia Farm Credit both within the AgFirst District. He was formerly employed as a relationship manager at the Farm Credit Bank of Texas. Mr. Murkerson serves as a member of the Association Advisory Committee aiding the Farm Credit Bank of Texas in constructing the new FarmView Platform. In addition, he has served on a number of steering committees for FCC Services designed to aid in the advancement of new and existing employees. Mr. Murkerson joined the association in June 2008. He is a member of Pinelake Church. He is a graduate of Troy State University where he received bachelor's and master's degrees in business administration. He is a native of Bainbridge, Georgia, and continues to be active in the family farm operation.

Richard Palmer, CPA, Chief Financial Officer, of Madison, Mississippi, age 43, joined the association in February 2020. He was previously with First South Farm Credit, ACA for 14 years. He is a graduate of both Mississippi State University and the University of Mississippi, with a bachelor of arts and a master's in business administration, respectively. Mr. Palmer is a member of numerous professional organizations including state and national public accounting societies. He is also president of a neighborhood homeowners association in which other members may be stockholders of Southern AgCredit. He and his wife have one child and attend Pinelake Church. He is a native of Clarkson, Mississippi.

Ken D. Hobart, Chief Collateral Risk Officer, of Hollandale, Mississippi, age 56, began working for Farm Credit in 1985 and this association in 1989. He is a graduate of Mississippi State University with a B.S. degree in ag economics. He is a State Certified General Real Estate Appraiser, licensed in Mississippi, Louisiana and Arkansas and a member of the American Society of Farm Managers and Rural Appraisers. He is married and a member of First Baptist Church in Greenville, Mississippi. His father is a stockholder of the association.

Joe H. Hayman, Immediate Past Chief Executive Officer, resigned February 21, 2020, of Fort Worth, Texas, age 48, has been with the Farm Credit System since 1994. He has worked in various capacities within the System, formerly serving as the chief operating officer at Texas AgFinance, FCS, and most recently as chief executive officer at Southern AgCredit, ACA, for 12 years, until joining the association in February 2020. He is a graduate of Texas A&M University with a degree in agricultural economics and is a past member of the TAMU College of Agriculture and Life Sciences Development Council. He serves as a member of the Farm Credit System President's Planning Committee (PPC) and is a member of the PPC's Business Practices Committee. He is a former member of the Dixie National Livestock Show & Rodeo Sale of Champions Committee, former board member of the Mississippi 4-H Foundation and former member of the Thad Cochran Agricultural Leadership Advisory Council. He and his wife are both stockholders of Southern AgCredit, ACA, and they have five children.

L. Paul Landry, II, Senior Quality Assurance Analyst, of Flowood, Mississippi, age 44, joined the association in September 2011. He was previously in public accounting, providing consulting services primarily to Farm Credit System institutions. He is a graduate of the University of Louisiana at Monroe with a B.A. in criminal justice and Mississippi College with a B.S.B.A. in accounting. He is a native of West Monroe, Louisiana, and is a member of Cathedral of Saint Peter the Apostle in Jackson, Mississippi.

Brent Barry, Regional Vice President, of Hattiesburg, Mississippi, age 40, is a 2002 graduate of Mississippi State University with a degree in forest management. He has been with Farm Credit since May 2003. He and his wife have three children. They are members of Temple Baptist Church in Hattiesburg, Mississippi. He and his mom are stockholders of the association.

Clayton Davis, Regional Vice President, of Greenville, Mississippi, age 37, began his Farm Credit career with the association in January 2006. He, his father, brothers and uncles are stockholders of the association. He is a graduate of Mississippi State University with a bachelor's degree in business administration. He and his wife have two children and reside in Avon, Mississippi, where they own a small farm. They are members of First Baptist Church of Greenville.

James G. Nicholas, Regional Vice President, of Ridgeland, Mississippi, age 31, began his Farm Credit career as an intern with Mississippi Land Bank while at Mississippi State University. He was hired in 2011 as a loan officer and now has over nine years of experience in the Farm Credit System. He is a graduate of Mississippi State University with a bachelor's degree in real estate and finance. He is a board member of the MS River Landowners Alliance and is a member of numerous organizations, including Ducks Unlimited, QDMA, and National Wild Turkey Federation. He and his wife reside in Jackson, Mississippi, and are members of First Presbyterian Church. His brother, father and uncles are association stockholders.

Amanda R. Hudson, Vice President of Loan Operations, of Wiggins, Mississippi, age 36, joined the association in December 2006. She is a graduate of Mississippi State University with a bachelor of science degree in food science and industry and a master's in agribusiness management. Mrs. Hudson is a member of numerous organizations including Pearl River/Stone County Mississippi Forestry Association, where she acts as treasurer, Cattlemen's Associations, and the MSU Extension Thad Cochran Agricultural Leadership Program. She and her husband, Matt, attend Big Level Baptist Church and reside in Wiggins, Mississippi. He owns and operates a farm supply store, a cattle farm, and a row crop operation. Her husband and her brother-in-law are association stockholders.

Austin L. Bean, Branch Manager, of Brookhaven, Mississippi, age 34, began his Farm Credit career in 2010 with First South Farm Credit, ACA. In 2013, he joined Southern AgCredit, ACA. He has a bachelor of business administration degree in risk management, insurance, and financial planning from Mississippi State University and a master of business administration degree from Mississippi College. He is a board member for the Lincoln County Forestry Association and Lincoln County Cattlemen's Association. He is also a member of numerous other organizations, including the Southwest Mississippi Board of Realtors and Mississippi Forestry Association. He also serves as associate pastor of education and young adults at Gillsburg Baptist Church. He and his wife have one daughter and reside in Gillsburg, Mississippi where they are members of Gillsburg Baptist Church. His parents, grandfather, and aunt are association stockholders.

Devin Davis, Branch Manager, of Ruston, Louisiana, age 32, is a 2011 graduate of Henderson State University with a degree in communications. He worked at a commercial bank for four years before joining Southern AgCredit, ACA in 2015. He is a board member of the Louisiana Poultry Federation, a board member of the Louisiana Agricultural Finance Authority through Louisiana's Ag Commissioner, Mike Strain's office, a graduate of Leadership Lincoln through the Lincoln Parish Chamber of Commerce, a member of the North Louisiana Agri-Business Council, and remains active in the poultry and cattle industry of Northern Louisiana. He and his wife have one son and are expecting a daughter in June of 2020. They currently reside in Ruston, Louisiana and are members of the First Baptist Church of Ruston.

Elliott Fancher, Branch Manager, of Greenwood, Mississippi, age 39, began his Farm Credit career in September of 2006. He is a graduate of Mississippi State University with a bachelor's degree in animal science with a minor in agricultural business. He is a member of several organizations including Mississippi Cattlemen's Association, National Wild Turkey Federation, Ducks Unlimited, Greenwood Chamber of Commerce, Greenwood Farmers Club and he currently serves on the board of directors for Leflore County Farm Bureau. He and his wife have two children and are members of Duck Hill Baptist Church. His parents are stockholders of the association.

Justin C. Morris, M.S., Vice President Lending/Branch Manager, of Shreveport, Louisiana, age 36, began his Farm Credit career working for the Farm Credit Administration as a bank examiner. In 2011, he joined Southern AgCredit, ACA. This is his 12th year in the Farm Credit System. He has a bachelor of science degree from Southern Arkansas University and a master of science degree from the University of Arkansas. He is a member of numerous organizations including Ducks Unlimited, National Wild Turkey Federation, Quality Deer Management Association, the Louisiana Cattlemen's Association, the Louisiana Cotton and Grain Association, North Louisiana Financial Planners Association, and in 2019 he served on the board of directors for the Louisiana Council of Farmer Cooperatives, Caddo Parish 4-H Foundation, the Dead Duck Club, and the Cypress Bayou Corporation. He and his family reside in Benton, Louisiana.

Alex Riser, Branch Manager of Gulfport, Mississippi, age 32, attended and played baseball at Belhaven University. After two conference championships and a College World Series appearance, he received his MBA from Belhaven University. He worked as a real estate broker for seven years prior to joining the association in 2015. He is a member of several wildlife conservation groups including QDMA, NWTF, Ducks Unlimited and Delta Waterfowl. As an active conservationist, he has completed his training in QDMA's Deer Steward I Course in Deer Research and Management and intends to complete Deer Steward II Course in Herd Management, Habitat Management, Hunter Management and Herd Monitoring in 2018. He and his wife Allison have one son and reside in Pearl River County and are members of New Palestine Baptist Church. His father is a current association stockholder.

Cooper Stringer, Branch Manager, of Newton, Mississippi, age 33, is a 2008 graduate of the University of Alabama with a degree in finance. He has been with Farm Credit since October 2011. He is a board member of the Newton Chamber of Commerce and is a member of numerous organizations such as Ducks Unlimited, Whitetails Unlimited, QDMA, National Wild Turkey Federation, and Mississippi Poultry Association. He is a native of Newton, Mississippi, and is a member of St. Patrick Catholic Church in Meridian, Mississippi.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the association in the form of an honorarium at the rate of $1,500 per month, the board chairman at the rate of $2,500 per month, and the Audit Committee chairman at the rate of $2,500 per month. In addition, directors were compensated for their service to the association in the form of an honorarium at the rate of $250 per day for director meetings and committee meetings, and a rate of $250 if committee meetings were the same day as scheduled board meetings. Directors were also reimbursed for certain expenses incurred while representing the association in an official capacity. Mileage for attending official meetings during 2019 was paid at the IRS-approved rate of 58.0 cents per mile. A copy of the travel policy is available to stockholders of the association upon request.

	Number of Days Served Associated With		
Director	**Board Meetings**	**Other Official Activities**	**Total Compensation in 2019**
Reggie Allen	10	16	$ 23,750
Bryan "Scott" Bell	10	30	$ 28,000
John "Van" Bennett	10	14	$ 24,250
Lonnie "Gene" Boykin	10	25	$ 26,750
Steven "Steve" Dockens, CPA	6	9	$ 14,250
Charles "Allen" Eubanks	9	12	$ 23,250
Thomas C. "T.C." Hall	10	11	$ 23,250
Larry W. Killebrew	9	11	$ 23,000
Kevin Rhodes	10	35	$ 39,500
Emery D. Skelton	3	3	$ 9,000
Linda Staniszewski, CPA	10	31	$ 40,250
			$ 275,250

The aggregate compensation paid to directors in 2019, 2018 and 2017 was $275,250, $234,750 and $228,500, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2019:

	Committee			
Director	**Audit**	**Compensation**	**Governance**	**Other Meetings and Committees, if Any**
Reggie Allen	-	250	-	3,750
Bryan "Scott" Bell	2,250	-	1,000	4,250
John "Van" Bennett	-	-	1,000	2,500
Lonnie "Gene" Boykin	2,250	-	-	4,000
Steven "Steve" Dockens, CPA	1,250	-	-	1,000
Charles "Allen" Eubanks	-	-	1,000	2,000
Thomas C. "T.C." Hall	-	250	-	2,500
Larry W. Killebrew	-	250	-	2,500
Kevin Rhodes	2,250	250	1,000	5,250
Emery D. Skelton	-	-	-	750
Linda Staniszewski, CPA	2,250	-	-	5,500
	$ 10,250	$ 1,000	$ 4,000	$ 34,000

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $68,623, $45,885 and $53,591 in 2019, 2018 and 2017, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

Overview

The association strives to be a progressive employer and desires to attract and retain superior employees to provide quality service at a profit for the benefit of all stockholders. The board of directors believes market-based salaries coupled with pay for performance or incentive compensation programs are critical to the success of the association, and are comparable with and promote the institutions goals and business strategies, and its chartered mission within the Farm Credit System. It is the desire of the board to provide a comprehensive plan that rewards profitability while ensuring the safety and soundness of the institution over a long period of time. Annually, the Compensation Committee and board obtain market data for similar financial institutions and approve the salary plan for all employees. This includes establishing salary ranges based on each employee's level of responsibility and job description. Base salaries for all employees, including the CEO and senior officers, are determined based upon position, performance and market compensation data.

Chief Executive Officer (CEO) Compensation Policy

Compensation for the CEO and other senior officers includes a base salary and participation in the association's Employee Incentive Plan (EIP). The CEO and senior officers of the association also participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan ("the Plan"). The Plan is a defined contribution plan and is sponsored and maintained by the AgFirst/FCBT Plan Sponsor Committee for the benefit of the participating employers in the AgFirst Farm Credit Bank/Farm Credit Bank of Texas Agreement Regarding Employee Benefit Plans (the "Administrative Agreement") and their eligible employees. One of the purposes of the Plan is to allow a means for participating employers to restore benefits lost due to limitations under the Internal Revenue Code as it relates to the association's existing Pension Plan. The CEO does not participate in the defined benefit retirement plan described in Note 12 to the consolidated financial statements, "Employee Benefit Plans."

Summary Compensation Table

The following table summarizes the compensation paid to the CEO and all senior officers of the association during 2019, 2018 and 2017. This may include other non-senior officers if their total compensation is within the top five highest paid employees. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Individual or number in group (a)	Year	Salary (b)	Bonus (c)	Change in Pension Value (d)	Other (e)	Total
Joe H. Hayman, CEO	**2019**	**$ 365,014**	**$ 176,461**	**$ -**	**$ 11,592**	**$ 553,067**
	2018	350,013	186,054	-	11,667	547,734
	2017	340,000	171,744	-	11,608	523,352
5	**2019**	**$ 838,897**	**$ 441,332**	**$ 385,187**	**$ 51,657**	**$1,717,073**
5	2018	810,311	467,144	(52,090)	50,347	1,275,712
5	2017	791,619	408,577	197,028	43,996	1,441,220

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.
(b) Gross salary, including retention plan compensation for certain senior officers.
(c) Bonuses paid within the first 30 days of the subsequent calendar year.
(d) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.
(e) Amounts in the "Other" column include contribution to supplemental 401 (k) and defined contribution plans, allowance and automobile program, HSA contributions, and group life insurance provided by employer.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate are available and will be disclosed to shareholders of the institution upon request.

Pension Benefits Table

The following table presents the total annual benefit provided from the defined benefit pension plan for the year ended December 31, 2019:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2019
Aggregate Number of Senior Officers & Other Highly Compensated Employees 1	Farm Credit Bank of Texas Pension Plan	22.51	$ 1,187,695	$ -

Pension Benefits Table Narrative Disclosure

One senior officer of the association participate in the Farm Credit Bank of Texas Pension Plan (the "Pension Plan"), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation, and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 ("FAC60"). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation items and (ii) "Years of Benefit Service" (not to exceed 35 The present value of the senior officers' accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 65. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the senior officer is married on the date the annuity begins, that the spouse is exactly two years younger than the senior officer and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

Other

Employees assigned association automobiles reimburse the association for personal miles at a board-established rate. Employees who use their personal automobiles for business purposes were reimbursed during 2019 at the IRS-approved rate of 58.0 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation exceeding $5,000 in 2019, 2018 and 2017.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting association business. A copy of the association's travel policy is available to shareholders upon request.

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 13 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

None of the association's officers or directors has been involved in legal proceedings that are material to an evaluation of the ability of any person who served as director or senior officer on January 1, 2020, or at any time during that last five years.

RELATIONSHIP WITH INDEPENDENT AUDITOR

Audit fees related to the 2019 audit of the association's consolidated financial statements amounted to $51,645 compared to $66,560 for the 2018 audit. In 2019, $900 incurred were for nonaudit services.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PriceWaterhouseCoopers dated March 10, 2020, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. Our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the association or its members.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

The association is committed to meeting the needs of Young, Beginning and Small farmers and ranchers and producers or harvesters of aquatic products (YBS), and recognizes the need to support these operators to ensure a strong agricultural community for the future. Support of YBS lending activities is a priority in the association. Additional employee time and other resources are combined with the most liberal application of the association's underwriting standards possible to meet the credit needs of YBS farmers and ranchers. In addition, the association actively supports other programs, events, scholarships and educational activities that benefit young people who will become the agricultural providers of tomorrow.

The association sets minimum standards and monitors its YBS performance on a regular basis. These results are also compared to the demographics of the territory it serves as reflected in the USDA Census of Agriculture.

Definitions for "young," "beginning" and "small" farmers and ranchers used by the association are:

- Young: Age 35 or younger as of the loan date
- Beginning: 10 years or less of farming, ranching or aquatic experience as of the loan date
- Small: Less than $250,000 in annual gross sales of agricultural products

The 2012 USDA Census of Agriculture for the association territory indicates that 6.5 percent of farm operators are "young," 21.9 percent are "beginning" and 89.8 percent of the farms are "small." The association's 2020 goals for YBS lending are:

YBS Class	Percentage of Total Loans	Percentage of Loan Volume
Young	>20%	>15%
Beginning	>45%	>45%
Small	>75%	>60%

The association's YBS loans, as a percentage of total loans outstanding on December 31, 2017, 2018 and 2019, respectively, are reflected in the table below for the past three years.

	2017		2018		2019	
	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume
Young	22.94%	16.39%	23.15%	16.02%	23.66%	16.52%
Beginning	50.10%	42.67%	52.08%	42.34%	53.11%	41.71%
Small	73.67%	55.78%	73.57%	54.22%	73.96%	56.12%

The association's YBS loans, as a percentage of all loans closed each year, are reflected in the table below for the past three years.

	2017		2018		2019	
	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume
Young	21.15%	14.57%	20.49%	15.83%	24.73%	16.36%
Beginning	44.73%	33.98%	46.62%	32.62%	52.79%	38.06%
Small	67.50%	47.60%	67.12%	43.62%	73.80%	57.11%

The association continues to provide credit to YBS farmers and ranchers at high levels as reflected by the above comparative data. Emphasis on this area of the association's lending business will continue to be a priority.

Southern AgCredit, ACA
402 West Parkway Place
Ridgeland, MS 39157

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