Southern AgCredit

# 2020 ANNUAL REPORT

Begin. Grow. Improve. Hunt. Unwind.

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# Message from the CEO

Dear Stockholder:

On behalf of Southern AgCredit's board of directors and employees, I am pleased to share the financial condition and operating results of your association for 2020. Your team at Southern AgCredit diligently focused our efforts to provide a consistent high quality and efficient source of financing for our agriculture producers, agribusinesses and rural life entrepreneurs.

Despite unique challenges during the year, the association was able to increase its earning assets by almost $90 million with high quality loan growth. This growth occurred from our member-borrowers seeking to expand their ag operations or advance the rural way of life. Our portfolio credit quality remained strong, ending at 99.45% acceptable. Through a continued focus on operating efficiency, the association improved its capital position for future lending while also returning a record $10.4 million in patronage dividends to our stockholders!

At Southern AgCredit, we believe deeply in our purpose and the benefit our labor provides to our local communities. As we begin each day, our resounding commitment is to remain the premier financial solution for agriculture in Mississippi and Louisiana. Like the agribusinesses, agriculture producers and rural entrepreneurs that we finance, we complete our purpose regardless of the day's immediate obstacles, local disasters or global pandemics.

As you know, 2020 was filled with unforeseen challenges. Our stockholders shouldered damaging severe storms, shrinking margins and volatility in agriculture production alongside a global pandemic that continues to threaten local and national economies. Yet with every challenge, there were also opportunities to support our stockholders. Your association provided an unprecedented level of disaster relief and support to our affected borrowers through payment deferrals, loan modifications and operating loans to weather these unprecedented circumstances. Our commitment to provide stable financing for agricultural production and rural land was evident and unwavering during one of the most unique and challenging times in our history.

As you journey further into our annual report, I invite you to meet some of our borrowers, learn more about our support of rural communities and be proud of the organization for which you have ownership. Please remember, the financial numbers, performance discussions, charts and graphs presented in this report are truly representative of you and your neighbors who are the member-borrowers of Southern AgCredit.

Thank you for your business and we wish you continued success in 2021!

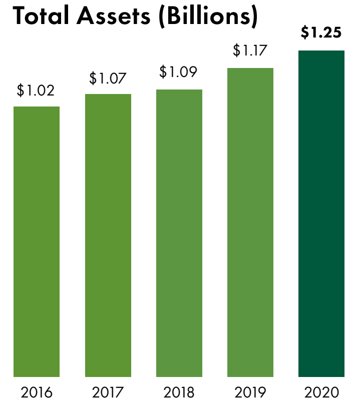
Phillip D. Morgan

**PHILLIP D. MORGAN**

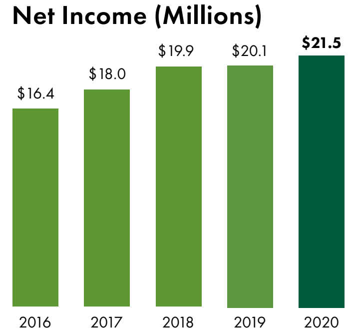
***President / Chief Executive Officer***

## FINANCIAL AND OTHER HIGHLIGHTS

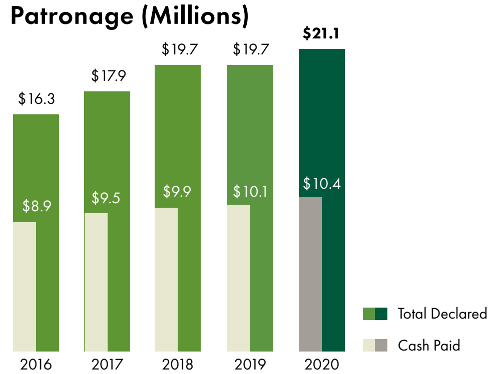
### Total Assets (Billions)



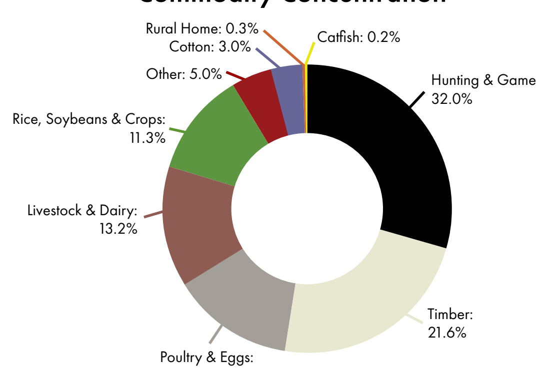

### Net Income (Millions)




### Patronage (Millions)



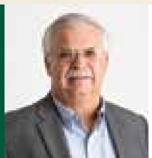

### Commodity Concentration



# 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 represent a cross section of our diverse lending territory and 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, MS

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

**REGGIE ALLEN**
Timber & Cattle Farmer
Brookhaven, MS

**JOHN "VAN" BENNETT**
Timber & Cattle Farmer
Spearsville, LA

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

**STEVEN "STEVE" DOCKENS, CPA**
Accounting & Consulting
Ocean Springs, MS

**CHARLES "ALLEN" EUBANKS**
Vegetable Farmer
Lucedale, MS

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

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

**LINDA S. STANISZEWSKI, CPA**
Retired Accounting Instructor
Hattiesburg, MS

### *Chairman Reflects on CEO Transition*

"Our commitment to the success of Southern AgCredit begins with assuring top talent in leadership. In February 2020, the board was tasked with selecting a new chief executive officer to lead the Southern AgCredit team, and we decisively appointed Phillip D. Morgan, the association's chief financial and operations officer for over 11 years. Phillip's Farm Credit career spans 21 years and includes service to the Farm Credit System while in public accounting as an internal auditor and consultant. Phillip brought a wealth of leadership and financial knowledge to the CEO position. Although no one knew what 2020 had planned for us, our board remained confident in the leadership and team of Southern AgCredit. In the face of extraordinary challenges in 2020, Phillip and the entire Southern AgCredit team achieved a year of great success and a record patronage to our stockholders."

**— KEVIN RHODES**

# SENIOR MANAGEMENT TEAM

**PHILLIP D. MORGAN**

President
Chief Executive Officer

**TED R. MURKERSON**

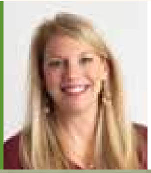
Senior Vice President
Chief Credit Officer

**KEN D. HOBART**

Senior Vice President
Chief Collateral Risk Officer

**RICHARD PALMER, CPA**

Vice President
Chief Financial Officer



**AMANDA R. HUDSON**

Vice President
Chief Information Officer

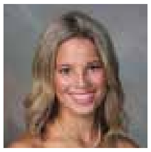
**JEFFREY M. WILLIAMS**

Vice President
General Counsel


Southern AgCredit distributes millions to our stockholders each year. In fact, we've declared more than $200 million in patronage since 1995, including cash and allocated equities. In 2020, the board of directors declared $21.1 million in patronage, returning a record $10.4 million in cash dividends and the remaining $10.7 million in allocated equities. It's our way of saying thank you to our stockholders.

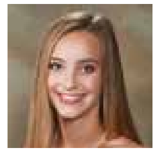
# 2020 SCHOLARSHIP WINNERS

## $2500 JIMMIE DICK CARTER



**AVA FRATESI**
Leland, MS
Mississippi State University

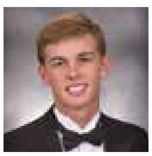
## $2500 EMERY SKELTON



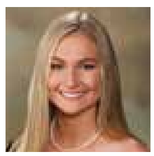
**MARY GRACE HOBART**
Hollandale, MS
Mississippi State University

These scholarships are given in honor of Mr. Emery Skelton's 18 years and Mr. Jimmie Dick Carter's 21 years of service on Southern AgCredit's board of directors.

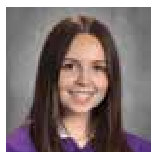
## $1000 RECIPIENTS



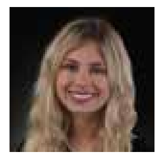
**AMIS WYATT MCMILLAN**
Biloxi, MS
Mississippi State University



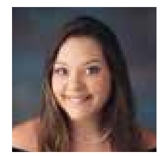
**ANNA SWAYZE HOLLINGSWORTH**
Glen Allan, MS
Mississippi State University



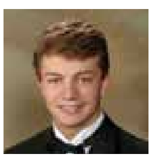
**ASHLEIGH HUGHES**
Benton, LA
Louisiana Tech University



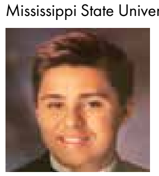
**ASHLEY HIGHT**
Elm Grove, LA
University of Alabama



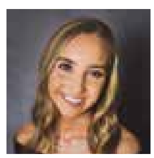
**ASHLYNN GAUTREAU**
Tylertown, MS
Southwest Mississippi Community College



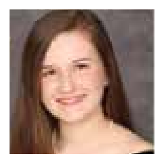
**BRANDON SCOTT HUNTER**
Glen Allan, MS
Mississippi State University



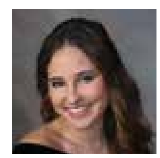
**CHRISTOPHER REED**
Brandon, MS
University of Southern Mississippi



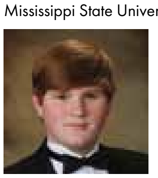
**EMILY ANN RIGNEY**
Waynesboro, MS
Pearl River Community College



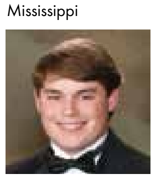
**IRELAND NULL**
Hattiesburg, MS
Mississippi State University



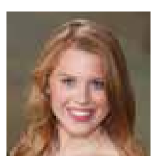
**ISABELLE MILLWOOD**
Leland, MS
University of Mississippi



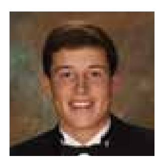
**JAMES ARMSTRONG NEILL, III**
McCarley, MS
Mississippi State University



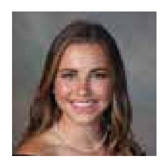
**JAMES ROBERTS**
Belzoni, MS
Mississippi State University/ MS Delta Community College



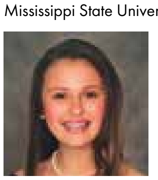
**JILLIAN ROBERTS**
Belzoni, MS
Delta State University



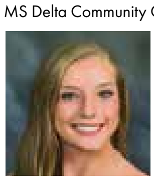
**JOHN LATHAM HILL**
Winona, MS
Northwest Mississippi Community College



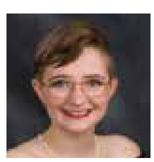
**JORDAN HAYES MIDDLETON**
Glen Allan, MS
Mississippi State University



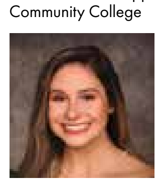
**JULIA NULL**
Hattiesburg, MS
Mississippi State University



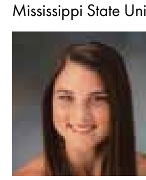
**KATELYNN GIPSON**
Decatur, MS
University of Mississippi/ East MS Community College



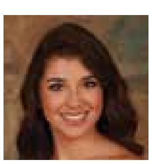
**KATIE BARNES**
Decatur, MS
Mississippi State University



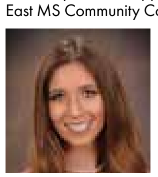
**MADISON HENDERSON**
Richton, MS
University of Southern Mississippi



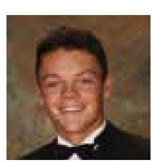
**MARY GRAYSON MARTIN**
Rolling Fork, MS
Pearl River Community College



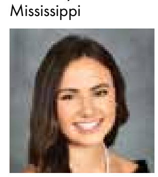
**MAURY DANIELLE MCCLELLAN**
Belzoni, MS
East Mississippi Community College



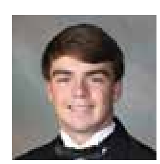
**REAGAN PRESLEY WOOLDRIDGE**
Grenada, MS
University of Mississippi



**REED ROBERTS**
Winona, MS
Mississippi State University/ MS Delta Community College



**SABRA MARIA HUBBARD**
Mt. Olive, MS
Mississippi State University/ Copiah Lincoln Community College



**THOMAS CHRISTOPHER BARR**
Glen Allan, MS
Mississippi State University

# STORM AND PANDEMIC ASSISTANCE

To say that 2020 was an unprecedented year would be putting it mildly. Our borrowers faced many obstacles during the year including a global pandemic, hurricanes and even local storms in the territories we serve. Southern AgCredit provided support for our borrowers when they needed it. We are proud to support our farmers and agribusinesses through weather-related disasters and even something as large as the COVID-19 pandemic.

Our disaster and pandemic assistance policy remains in place and includes:

- Payment deferrals
- Short-term lines of credit
- Loan restructures
- Waived fees for late payments
- Extended terms for loan repayments
- Eased loan documentation or credit-extension terms for new loans

We encourage you to continue your payments according to your loan agreement.

# SOUTHERN AGCREDIT PARTNERS WITH HISTORICALLY BLACK COLLEGES AND UNIVERSITIES

The future of agriculture is only as strong as the diverse set of voices leading our industry. To build a strong and inclusive future for agriculture, Southern AgCredit is proud to partner with and provide scholarships to Alcorn State University and Jackson State University — two Historically Black Colleges and Universities (HBCUs).

In addition, Southern AgCredit is participating in Farm Credit's Launching Leaders program. Farm Credit will award any HBCU student or recent graduate hired to intern at Farm Credit a $3,500 Launching Leaders Stipend in addition to their wages. Southern AgCredit participated in a virtual career and internship fair for students and recent graduates of HBCUs. Be on the lookout as we announce our summer internships!

# OLIVER FARMS

## *Walt & Christy Oliver*
## *Carroll & Montgomery counties, MS*

Walt Oliver was born and raised in Carroll County, Mississippi, on a farm that he now owns and operates. He and his family run Oliver Farms – a 3,000-plus-acre farm where they grow cotton, corn and peanuts.

"My daddy taught me everything I know about farming. He retired in 2008 and I picked up from there. 2009 was a hard year without having him on the farm, but I managed to get by," Walt said.

Walt's father began a relationship with Land Bank South (now Southern AgCredit) in 1976. Now, fast forward some 45 years later and the relationship between the Oliver family and Southern AgCredit is still going strong.

"They're just good people, hard workers and great farmers," said Elliott Fancher, Southern AgCredit's Greenwood branch manager and loan officer for Oliver Farms. "Not only are they our borrowers, but they're also our friends. Our kids go to the same school. We talk about business, but we also talk football and hunting."

Walt acknowledges that although his father started the financial relationship with Southern AgCredit, he knew that he wouldn't change it. "They understand farming and the demands that it has, the unpredictable weather and the volatile commodity prices. They know that every year won't be a record year and they can help us plan for that," said Walt.

Walt values the agricultural knowledge of Elliott and others at Southern AgCredit, where most of the staff grew up on farms and are even farming part-time today. "It's important to us," Walt explained. "It makes the conversations easy because they truly get it."

Southern AgCredit is proud to help fulfill the dreams of owning land, farming or just living in the country.

*He and his family run Oliver Farms – a 3,000-plus-acre farm where they grow cotton, corn and peanuts.*

# SHOEMAKE FAMILY

## *Harry & Clarice Shoemake*
## *Vancleave, MS*

The Shoemakes were tired of the big-city life and dreamed of living in the country. They decided to make their dream a reality and built a log home in the small community of Vancleave, Mississippi.

Both Harry and Clarice were born and raised in the country but migrated to the city of Laurel. Then they moved to the Biloxi area because of their business. Harry and his son, Sean, own Employee Benefits Specialists, PA. The company specializes in the design, communication and enrollment of voluntary benefits and group insurance. They started the company in 1967 and expanded in 2010 to include US Select Insurance, LLC, which writes P&C and Commercial Insurance. It's still operating today.

They began looking at land in rural areas that would be large enough for their whole family. The couple has four grandchildren, so it was very important to have lots of space. They found the perfect tract of land to build their log cabin on. Sean and his family built their home next door. Having their family as next-door neighbors is a blessing that they are thankful for. Their oldest son, Lee, and his family live in Atlanta, but Harry and Clarice are hopeful that they will relocate to Vancleave at retirement.

The Shoemakes are excited about having the whole

***"I wanted to get away from the city and back to the farm. We wanted to get back to nature, a simpler time and a slower pace."***

*— Harry Shoemake*

gang over to their new country home where they can ride four-wheelers, watch football and enjoy being together as a family. On the farm, there's always something to do.

"The more things change, the more they stay the same," commented Harry. "Life makes a circle. I started out on the farm, then moved to the city, but as I got older, I wanted to get away from the city and back to the farm. We wanted to get back to nature, a simpler time and a slower pace." The Shoemakes found that slower paced life in Vancleave.

Several years ago, a banker friend told Harry about Southern AgCredit as he wasn't familiar with Farm Credit, where farm and agricultural lending are the primary focus. When they decided to buy their tract of land, Harry and Sean knew just the right place to call for financing. They met Alex Riser, Southern AgCredit's Gulfport branch manager, who gave them the best deal on land financing.

"The Shomakes are great folks," Alex said. "I loved being able to work with them and help them with the financing of their beautiful country home."

The Shoemakes have been Southern AgCredit members since 2017.

"Southern AgCredit was a perfect fit for us," Harry said.

Southern AgCredit is proud to help families live their dream of owning a home outside the city limits.

# PRIEST FAMILY

## *Slade & Lori Priest*
## *Centreville, MS*

Slade Priest, also known as the "Hunting Land Man," is a hunting land specialist and licensed real estate agent. He's the host of several hunting television shows and podcasts. Slade was born and raised in Centreville, Mississippi, where he continues to live today along with his family – wife Lori, son Bentley, daughter Asa and a baby boy due in May. "If I could live anywhere in the country, I'd pick right here," said Slade.

When he's not selling hunting land, Slade is deer hunting, turkey hunting or spending time with family. He grew up in a family who hunted, so hunting and family go hand in hand. It's just part of who they are. "I wouldn't be the person I am today if I didn't spend every waking hour in the woods growing up," explained Slade.

Slade believes buying land is a good investment, but there's just something special about recreational land.

"Recreational land is emotional," he said. "If your son or daughter kills their first deer or turkey on that land, then those are the memories that we will hold on to and that is what makes recreational land so special." To Slade, there's much more to it than just a rate of return on his investment. There's a level of fun and excitement that you can't find just anywhere.

"My whole life I've wanted to have my own tract of land with my house on it, which would also be a place where my family could go hunting or ride four-wheelers or things like that," said Slade. "The week we moved in, I saw a doe and an eight-point buck walk through my front yard. I knew at that point, I'd made it. This was exactly what I had been looking for."

Slade attributes his strong work ethic to his parents. He's never been one to shy away from working hard to get what he wanted. Slade doesn't believe in idle time — there's always something for him to do,

whether it be filling up a feeder, making a food plot, working on hunting land maps or trying to figure out how to buy or lease more land. Now he and Lori feel that they are called to teach their children how to work hard on their land, and hopefully they will carry on the tradition. "It's building a legacy," said Slade.

Slade comes from a long line of Southern AgCredit borrowers. He grew up hearing his grandparents and parents talk about owning land and knew when it became his turn, he would also contact Southern AgCredit for his own financing needs.

"Southern AgCredit understands land and land financing. They make the process easy, fun and they just get it," said Slade.

Southern AgCredit is proud to help members just like the Priest family own land in the country.

***"I wouldn't be the person I am today if I didn't spend every waking hour in the woods growing up."***

*— Slade Priest*

## 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 12, 2021*

Kevin Rhodes

Kevin Rhodes
Chairman, Board of Directors
*March 12, 2021*

Richard Palmer, CPA

Richard Palmer, CPA
Chief Financial Officer
*March 12, 2021*

## 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, 2020. 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, 2020, 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, 2020. A review of the assessment performed was reported to the association's audit committee.

Phillip D. Morgan
Phillip D. Morgan
Chief Executive Officer
*March 12, 2021*

Richard Palmer, CPA
Richard Palmer, CPA
Chief Financial Officer
*March 12, 2021*

## REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of Linda Staniszewski, chair, Lonnie Gene Boykin, Steve Dockens, and Bryan Scott Bell, board vice chairman. In 2020, nine 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 2020.

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, 2020 (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, 2020.

Audit Committee Members

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

*March 12, 2021*

**SOUTHERN AGCREDIT, ACA**

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

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Balance Sheet Data** | | | | | |
| Assets | | | | | |
| Cash | **$ 8** | $ 25 | $ 31 | $ 27 | $ 36 |
| Investments | **3,533** | 5,496 | 6,047 | 6,675 | 10,291 |
| Loans | **1,207,849** | 1,118,167 | 1,039,235 | 1,023,299 | 969,583 |
| Less: allowance for loan losses | **1,487** | 1,205 | 1,079 | 893 | 753 |
| Net loans | **1,206,362** | 1,116,962 | 1,038,156 | 1,022,406 | 968,830 |
| Investment in and receivable from the Farm Credit Bank of Texas | **21,879** | 20,508 | 19,466 | 20,013 | 18,355 |
| Other property owned, net | **216** | 4,435 | 5,077 | 5,597 | 9,938 |
| Other assets | **18,944** | 20,377 | 18,009 | 15,151 | 13,834 |
| Total assets | **$ 1,250,942** | $ 1,167,803 | $ 1,086,786 | $ 1,069,869 | $ 1,021,284 |
| Liabilities | | | | | |
| Obligations with maturities of one year or less | **$ 19,622** | $ 19,203 | $ 17,863 | $ 18,429 | $ 17,513 |
| Obligations with maturities greater than one year | **1,047,897** | 976,374 | 906,704 | 899,778 | 860,382 |
| Total liabilities | **1,067,519** | 995,577 | 924,567 | 918,207 | 877,895 |
| Members' Equity | | | | | |
| Capital stock and participation certificates | **4,811** | 4,576 | 4,378 | 4,255 | 4,108 |
| Additional paid-in capital | **10,239** | 10,239 | 10,239 | 10,239 | 10,239 |
| Unallocated retained earnings | **168,802** | 157,725 | 147,710 | 137,716 | 129,182 |
| Accumulated other comprehensive loss | **(429)** | (314) | (108) | (548) | (140) |
| Total members' equity | **183,423** | 172,226 | 162,219 | 151,662 | 143,389 |
| Total liabilities and members' equity | **$ 1,250,942** | $ 1,167,803 | $ 1,086,786 | $ 1,069,869 | $ 1,021,284 |
| **Statement of Income Data** | | | | | |
| Net interest income | **$ 28,254** | $ 27,291 | $ 26,436 | $ 25,499 | $ 24,246 |
| (Provision for loan losses) or loan loss reversal | **(273)** | (191) | (204) | (162) | 333 |
| Income from the Farm Credit Bank of Texas | **6,414** | 5,328 | 4,804 | 4,011 | 3,919 |
| Other noninterest income | **837** | 634 | 1,011 | 328 | 161 |
| Noninterest expense | **(13,729)** | (12,956) | (12,182) | (11,639) | (12,215) |
| Net income | **$ 21,503** | $ 20,106 | $ 19,865 | $ 18,037 | $ 16,444 |
| **Key Financial Ratios for the Year** | | | | | |
| Return on average assets | **1.8%** | 1.8% | 1.8% | 1.7% | 1.7% |
| Return on average members' equity | **11.7%** | 11.6% | 13.0% | 12.5% | 12.1% |
| Net interest income as a percentage of average earning assets | **2.4%** | 2.5% | 2.6% | 2.6% | 2.6% |
| Net charge-offs (recoveries) as a percentage of average loans | **0.0%** | 0.0% | 0.0% | 0.0% | 0.0% |

## SOUTHERN AGCREDIT, ACA

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

| | **2020** | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Key Financial Ratios at Year End *** | | | | | |
| Members' equity as a percentage of total assets | **14.7%** | 14.7% | 14.9% | 14.2% | 14.0% |
| Debt as a percentage of members' equity | **582.0%** | 578.1% | 569.9% | 605.4% | 612.2% |
| Allowance for loan losses as a percentage of loans | **0.1%** | 0.1% | 0.1% | 0.1% | 0.1% |
| Common equity tier 1 ratio | **14.5%** | 14.4% | 14.8% | 14.5% | n/a |
| Tier 1 capital ratio | **14.5%** | 14.4% | 14.8% | 14.5% | n/a |
| Total capital ratio | **14.6%** | 14.6% | 14.9% | 14.6% | n/a |
| Permanent capital ratio | **14.5%** | 14.5% | 14.8% | 14.5% | 14.3% |
| Tier 1 leverage ratio | **14.0%** | 13.9% | 14.1% | 13.7% | n/a |
| UREE leverage ratio | **10.6%** | 10.6% | 10.9% | 10.6% | n/a |
| Total surplus ratio | **n/a** | n/a | n/a | n/a | 13.9% |
| Core surplus ratio | **n/a** | n/a | n/a | n/a | 13.9% |
| **Net Income Distribution** | | | | | |
| Cash dividends paid | **$ 10,091** | $ 9,871 | $ 9,502 | $ 8,883 | $ 8,016 |
| Patronage dividends declared | **10,427** | 10,091 | 9,871 | 9,502 | 8,883 |

*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, 2020. 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, 2020, 2019 and 2018, 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;
- cybersecurity 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:**

Despite many challenges associated with the COVID-19 Pandemic, 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 transactions 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, 2020, there were no heightened or unusual concerns regarding financed commodities or economic conditions.

**Significant Events:**

In December 2020, the association's board of directors declared a patronage in the amount of $21,092,833 to stockholders, including $10,426,868 to be paid in cash, and $10,665,965 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 2021. The 2020 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 2016-2019 also included cash disbursements and allocated equities retained by the association. Borrowers received total cash returns in the amounts of $10,090,899, $9,870,816, $9,502,359, and $8,883,457 in 2019, 2018, 2017 and 2016, respectively.

In December 2020, the association received a direct loan patronage of $5,598,728 from the bank, representing 56 basis points on the average daily balance of the association's direct loan with the bank. During 2020, the association received $436,079 in patronage payments from the bank, based on the association's stock investment in the bank. Also, the association received a capital markets patronage of $379,071 from the bank, representing 100 basis points on the association's average balance of participations in the bank's patronage pool program. Total patronage received in 2019, 2018, 2017 and 2016 was $5,328,329, $4,803,531, $4,010,801, and $3,918,861, respectively.

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.

**COVID Discussion:**

The United States has been operating under a presidentially declared emergency since March 13, 2020, due to the Coronavirus Disease 2019 (also referred to as COVID-19). While normal working conditions changed with the implementation of a more remote working environment, the association has continued to fulfill its mission to support agricultural and rural communities by providing access to reliable and consistent credit. As of December 31, 2020, there have been no observable delinquencies or credit metrics impacting the credit quality of our portfolio related to COVID-19. In addition, current high-risk accounting guidelines and troubled debt restructure practices have been relaxed. This allowed the opportunity to provide deferral of payment to borrowers affected by COVID-19 to allow for an opportunity for conditions causing the repayment concern to be resolved prior to a recognized deterioration in the quality of the loan. We will continue to monitor our loan portfolio overall and will stay particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, food processing, timber and beef cattle. During our analysis of our allowance for loan losses, we did take into consideration the possible negative effects of COVID-19. As a result, management increased general reserves based on appropriate stress testing methodologies during the first quarter. No material additional adjustment has been deemed necessary during the subsequent months related to COVID-19. Capital levels remain strong and will support further adversity and continued loan demand.

**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 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 2018-2020 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 stabilized in 2020; while due to the pandemic, exports decreased, resulting in lower prices. The outlook for 2021 indicates poultry production will grow slightly and domestic demand is predicted to strengthen. The association expects a limited expansion of poultry production in our lending territory. Livestock production and demand within the association's territory was consistent through the end of 2020. The 2020 outlook for livestock indicates domestic demand is dependent on the state of the U.S. economy. Exports are expected to improve in 2021.

The composition of the association's loan portfolio, including principal less funds held of $1,207,848,750, $1,118,166,820 and $1,039,235,244 as of December 31, 2020, 2019 and 2018, 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 2020, 2019 and 2018, the association was participating in loans with other lenders. As of December 31, 2020, 2019 and 2018, these participations totaled $107,335,782, $89,979,266 and $62,468,292, or 9.0 percent, 8.0 percent and 6.0 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the district of $136,487, $413,295 and $454,771, or less than .1 percent of loans each year, respectively. The association has also sold participations of $40,355,913, $40,659,844 and $64,618,710 as of December 31, 2020, 2019 and 2018, 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 $13,959,080, $15,899,082, and $16,340,773 as of December 31, 2020, 2019 and 2018, 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 $3,533,263 at December 31, 2020. 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:

| | **2020** | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| | **Amount** | **%** | Amount | % | Amount | % |
| Nonaccrual | **$ 4,047,501** | **87.1%** | $ 3,971,684 | 45.1% | $ 2,598,873 | 31.9% |
| Formally restructured | **386,829** | **8.3%** | 408,402 | 4.6% | 472,784 | 5.8% |
| Other property owned, net | **215,532** | **4.6%** | 4,435,392 | 50.3% | 5,076,652 | 62.3% |
| Total | **$ 4,649,862** | **100.0%** | $ 8,815,478 | 100.0% | $ 8,148,309 | 100.0% |

At December 31, 2020, 2019 and 2018, loans that were considered impaired were $4,434,330, $4,380,086 and $3,071,657, representing 0.4 percent, 0.4 percent and 0.3 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The slight increase in nonaccrual loan volume for the 12 months ended December 31, 2020, is primarily due to the transfer of small loans for various agriculture purposes either transferred to nonaccrual or removed from nonaccrual, resulting in a net increase in the balance at year end. Three of the loans transferred to nonaccrual in the current year resulted in a specific allowance for year end.

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.

Acquired property as of December 31, 2020, consists of three unrelated properties. The decrease in acquired property for the 12 months ended December 31, 2020, is due to the sale of properties in South Mississippi. These loans were 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 2006and 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 and $524,966 in years 2019 and 2018, 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 with the final sale occurring in the current year.

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:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Allowance for loan losses | **$ 1,486,911** | $ 1,204,690 | $ 1,079,319 |
| Allowance for loan losses to total loans | **0.1%** | 0.1% | 0.1% |
| Allowance for loan losses to nonaccrual loans | **36.7%** | 30.3% | 41.5% |
| Allowance for loan losses to impaired loans | **33.5%** | 27.5% | 35.1% |
| 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 $1,486,911, $1,204,690 and $1,079,319 at December 31, 2020, 2019 and 2018, 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 assessment of the evaluation criteria referenced above as of year end.

**Results of Operations:**

The association's net income for the year ended December 31, 2020, was $21,503,529 as compared to $20,106,081 for the year ended December 31, 2019, reflecting an increase of $1,397,448, or 7.0 percent. The association's net income for the year ended December 31, 2018 was $19,864,834. Net income increased $241,247, or 1.2 percent, in 2019 versus 2018.

Net interest income for 2020, 2019 and 2018 was $28,253,910, $27,290,666 and $26,436,499, respectively, reflecting increases of $963,244, or 3.5 percent, for 2020 versus 2019 and $854,167, or 3.2 percent, for 2019 versus 2018. 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:

| | **2020** | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| | **Average Balance** | **Interest** | Average Balance | Interest | Average Balance | Interest |
| Loans | **$ 1,151,442,716** | **$ 51,864,863** | $ 1,081,195,292 | $ 54,297,974 | $ 1,028,788,066 | $ 49,434,098 |
| Investments | **4,073,518** | **178,562** | 5,653,940 | 285,566 | 6,236,385 | 295,453 |
| Total interest-earning assets | **1,155,516,234** | **52,043,425** | 1,086,849,232 | 54,583,540 | 1,035,024,451 | 49,729,551 |
| Interest-bearing liabilities | **991,563,905** | **23,789,515** | 933,018,355 | 27,292,874 | 887,606,500 | 23,293,052 |
| Impact of capital | **$ 163,952,329** | | $ 153,830,877 | | $ 147,417,951 | |
| Net interest income | | **$ 28,253,910** | | $ 27,290,666 | | $ 26,436,499 |

| | **2020 Average Yield** | 2019 Average Yield | 2018 Average Yield |
|---|---|---|---|
| Yield on loans | **4.50%** | 5.02% | 4.81% |
| Yield on investments | **4.38%** | 5.05% | 4.74% |
| Total yield on interest-earning assets | **4.50%** | 5.02% | 4.80% |
| Cost of interest-bearing liabilities | **2.40%** | 2.93% | 2.62% |
| Interest rate spread | **2.10%** | 2.09% | 2.18% |

| | **2020 vs. 2019** | | | 2019 vs. 2018 | | |
|---|---|---|---|---|---|---|
| | **Increase (decrease) due to** | | | Increase (decrease) due to | | |
| | **Volume** | **Rate** | **Total** | Volume | Rate | Total |
| Interest income - loans | **$ 3,527,826** | **$ (5,960,937)** | **$ (2,433,111)** | $ 2,518,220 | $ 2,345,656 | $ 4,863,876 |
| Interest income - investments | **(79,822)** | **(27,182)** | **(107,004)** | (27,594) | 17,707 | (9,887) |
| Total interest income | **3,448,004** | **(5,988,119)** | **(2,540,115)** | 2,490,626 | 2,363,363 | 4,853,989 |
| Interest expense | **1,712,574** | **(5,215,933)** | **(3,503,359)** | 1,191,743 | 2,808,079 | 3,999,822 |
| Net interest income | **$ 1,735,430** | **$ (772,186)** | **$ 963,244** | $ 1,298,882 | $ (444,715) | $ 854,167 |

Interest income for 2020 decreased by $2,540,115, or 4.7 percent, compared to 2019, primarily due to declines in yields on earning assets and offset by an increase in average loan volume. Interest expense for 2020 decreased by $3,503,359, or 12.8 percent, compared to 2019 due to a decrease in interest rates offset by an increase in average debt volume. The interest rate spread increased by 1 basis point to 2.10 percent in 2020 from 2.09 percent in 2019, primarily due to the ability of increased offering rates along with decreased cost of funds. 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.

Noninterest income for 2020 increased by $1,288,689, or 21.6 percent, compared to 2019, due primarily to an increase in patronage income and loan fees. 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 FSCIC insurance refund.

Provisions for loan losses increased by $81,541, or 42.6 percent, compared to 2019, due primarily to the addition of an allowance pool deemed necessary by the uncertainty related to the global pandemic.

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 $772,944, or 6.0 percent for 2020 compared to 2019 due primarily to increased expenses related to employee salary and benefits, costs related to investment in technology and software licenses and an increase in the premium rate on the insurance fund. 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. 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.

For the year ended December 31, 2020, December 31, 2019, and December 31, 2018, the association's return on average assets was 1.8 percent, respectively. For the year ended December 31, 2020, the association's return on average members' equity was 11.7 percent, as compared to 11.6 percent and 13.0 percent for the years ended December 31, 2019 and 2018, respectively.

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 $1,032,140,583, $958,141,466 and $888,231,951 as of December 31, 2020, 2019 and 2018, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 1.90 percent, 2.80 percent and 2.82 percent at December 31, 2020, 2019 and 2018, 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 the decrease accrued interest payable since December 31, 2019, is due to loan growth and decrease in cost of funds. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $159,864,428, $144,213,390 and $136,267,570 at December 31, 2020, 2019 and 2018, respectively. The maximum amount the association may borrow from the bank as of December 31, 2020, was $1,204,660,804 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, 2023, 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 2021. 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 $183,422,813, $172,226,126 and $162,218,972 at December 31, 2020, 2019 and 2018, 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 | Regulatory Minimums with Buffer* | As of December 31, 2020 |
|---|---|---|---|
| Common equity tier 1 ratio | 4.50% | 7.00% | 14.51% |
| Tier 1 capital ratio | 6.00% | 8.50% | 14.51% |
| Total capital ratio | 8.00% | 10.50% | 14.64% |
| Permanent capital ratio | 7.00% | 7.00% | 14.53% |
| | | | |
| Non-risk-adjusted: | | | |
| Tier 1 leverage ratio** | 4.00% | 5.00% | 14.02% |
| UREE leverage ratio | 1.50% | 1.50% | 10.60% |

**Significant Recent Accounting Pronouncements:**

Refer to Note 2 – "Summary of Significant Accounting Policies" in this annual report for disclosures of recent accounting pronouncements that may impact the association's consolidated financial position and results of operations and for critical accounting policies.

**Regulatory Matters:**

At December 31, 2020, the association was not under any written agreements with the Farm Credit Administration.

On February 13, 2020, the Farm Credit Administration board approved a final rule to modify eligibility criteria that outside directors must meet to serve on the boards of System institutions. The final rule strengthens the independence of System institution boards by expanding the list of persons who are excluded from serving as outside directors. It finalizes a proposed rule that was published in the Federal Register on August 24, 2018. The final rule differs from the proposed rule in the following respects:

- Limits the application of the immediate family member criteria to only the outside director's institution, that institution's Funding Bank, or any affiliated organization in which that institution has an ownership interest;
- Changes the term "borrower" by inserting the word "current" in the definition to clarify that the eligibility criteria do not include former borrowers; and
- Changes the definition of "controlling interest" to increase the equity percentage from 5 percent to 10 percent.

On March 17, 2020, the Farm Credit Administration published a news release encouraging Farm Credit System institutions to work with System borrowers whose operations have been affected by COVID-19 and the measures taken to prevent its spread. System institutions can help alleviate stress for borrowers affected by COVID-19 in several ways:

- Extending the terms of loan repayments;
- Restructuring borrowers' debt obligations; and
- Easing some loan documentation or credit-extension terms for new loans to certain borrowers.

The agency also offered temporary relief from certain regulatory and reporting requirements to System institutions affected by the pandemic.

On March 27, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions about their role in ensuring critical infrastructure services and functions during the COVID-19 pandemic.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provided relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs), and if certain criteria are met, these loan modifications may not need to be classified as TDRs. System entities, including the bank, have adopted this relief for qualifying loan modifications. In response to the CARES Act, the Farm Credit Administration issued guidance allowing for temporary relief from accounting and disclosure requirements for TDRs. This TDR guidance applied to modifications made beginning March 1, 2020, and terminated on December 31, 2020.

On April 3, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on the Paycheck Protection Program for small businesses affected by the COVID-19 pandemic. This memorandum was superseded and replaced by an information memorandum on the same subject, which the FCA posted on April 7, 2020, together with the FCA's brief supplement explaining that the statutory borrower stock requirement does not apply to loans made under the Paycheck Protection Program. The April 7, 2020, informational memorandum was subsequently superseded and replaced by an updated informational memorandum, which the FCA posted on June 18, 2020, and again superseded and replaced by an updated informational memorandum, which the FCA posted on July 15, 2020. The supplement to the informational memorandum was also updated.

On August 25, 2020, the FCA published a Final Rule in the Federal Register on Criteria to Reinstate Nonaccrual Loans. The final rule objectives are to:

- Enhance the usefulness of high-risk loan categories;
- Replace the subjective measure of ''reasonable doubt'' used for reinstating loans to accrual status with a measurable standard;
- Improve the timely recognition of a change in a loan's status; and
- Update existing terminology and make other grammatical changes.

This regulation became effective on October 21, 2020.

On September 10, 2020, the FCA published a proposed rule in the Federal Register outlining amendments and clarifications to the tier 1/tier 2 regulatory capital framework. The comment period ended on November 9, 2020.

On September 28, 2020, the FCA published a final rule in the Federal Register on Amortization Limits repealing the regulatory requirement that production credit associations (PCAs) amortize their loans in 15 years or less, while requiring System associations to address amortization through their credit underwriting standards and internal controls. This regulation became effective on November 19, 2020.

**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 104 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 AgCredit, ACA

We have audited the accompanying consolidated financial statements of Southern AgCredit, ACA and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020, December 31, 2019, and December 31, 2018, 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 AgCredit, ACA and its subsidiaries as of December 31, 2020, December 31, 2019, and December 31, 2018, 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 12, 2021

PricewaterhouseCoopers LLP, 835 West 6th Street, Suite 1600 Austin, TX 78703
T: (512) 477 1300, F: (512) 477 8681, www.pwc.com/us

**SOUTHERN AGCREDIT, ACA**

**CONSOLIDATED BALANCE SHEET**

| | December 31, | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| **Assets** | | | |
| Cash | **$ 7,778** | $ 25,095 | $ 30,691 |
| Investments | **3,533,263** | 5,495,707 | 6,046,842 |
| Loans | **1,207,848,750** | 1,118,166,820 | 1,039,235,244 |
| Less: allowance for loan losses | **1,486,911** | 1,204,690 | 1,079,319 |
| Net loans | **1,206,361,839** | **1,116,962,130** | **1,038,155,925** |
| Accrued interest receivable | **8,900,978** | 9,997,578 | 9,074,131 |
| Investment in and receivable from the Farm Credit Bank of Texas: | | | |
| Capital stock | **19,711,030** | 18,533,000 | 17,725,455 |
| Other | **2,167,795** | 1,974,729 | 1,740,666 |
| Other property owned, net | **215,532** | 4,435,392 | 5,076,652 |
| Premises and equipment | **9,082,733** | 9,233,855 | 7,904,333 |
| Other assets | **960,965** | 1,145,872 | 1,030,945 |
| Total assets | **$ 1,250,941,913** | $ 1,167,803,358 | $ 1,086,785,640 |
| **Liabilities** | | | |
| Note payable to the Farm Credit Bank of Texas | **$ 1,032,140,583** | $ 958,141,466 | $ 888,231,951 |
| Guaranteed obligations to government entities | **13,959,080** | 15,899,082 | 16,340,773 |
| Advance conditional payments | **149,917** | 148,249 | 1,995 |
| Accrued interest payable | **1,729,707** | 2,336,230 | 2,147,612 |
| Drafts outstanding | **71,456** | 598,395 | 132,941 |
| Patronage distributions payable | **10,426,868** | 10,090,899 | 9,870,816 |
| Other liabilities | **9,041,489** | 8,362,911 | 7,840,580 |
| Total liabilities | **1,067,519,100** | 995,577,232 | 924,566,668 |
| **Members' Equity** | | | |
| Capital stock and participation certificates | **4,811,195** | 4,575,675 | 4,377,950 |
| Additional paid-in capital | **10,238,891** | 10,238,891 | 10,238,891 |
| Unallocated retained earnings | **168,801,991** | 157,725,330 | 147,710,148 |
| Accumulated other comprehensive loss | **(429,264)** | (313,770) | (108,017) |
| Total members' equity | **183,422,813** | 172,226,126 | 162,218,972 |
| Total liabilities and members' equity | **$ 1,250,941,913** | $ 1,167,803,358 | $ 1,086,785,640 |

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

**SOUTHERN AGCREDIT, ACA**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| **Interest Income** | | | |
| Loans | **$ 51,864,863** | $ 54,297,974 | $ 49,434,098 |
| Investments | **178,562** | 285,566 | 295,453 |
| Total interest income | **52,043,425** | 54,583,540 | 49,729,551 |
| **Interest Expense** | | | |
| Note payable to the Farm Credit Bank of Texas | **23,789,433** | 27,292,874 | 23,292,792 |
| Advance conditional payments | **82** | - | 260 |
| Total interest expense | **23,789,515** | 27,292,874 | 23,293,052 |
| Net interest income | **28,253,910** | 27,290,666 | 26,436,499 |
| Provision for loan losses | **272,791** | 191,250 | 204,495 |
| Net interest income after provision for losses | **27,981,119** | 27,099,416 | 26,232,004 |
| **Noninterest Income** | | | |
| Patronage income from other Farm Credit Institution | **6,413,878** | 5,328,329 | 4,803,531 |
| Loan fees | **535,250** | 379,105 | 373,523 |
| Financially related services income | **4,287** | 3,073 | 29,779 |
| Other noninterest income | **297,765** | 251,984 | 607,934 |
| Total noninterest income | **7,251,180** | 5,962,491 | 5,814,767 |
| **Noninterest Expenses** | | | |
| Salaries and employee benefits | **7,175,141** | 6,485,081 | 6,359,059 |
| Occupancy and equipment | **1,266,972** | 975,315 | 632,500 |
| Insurance Fund premiums | **823,819** | 725,233 | 679,484 |
| Other components of net periodic postretirement benefit cost | **165,456** | 191,132 | 192,384 |
| Other noninterest expense | **4,297,382** | 4,579,065 | 4,318,510 |
| Total noninterest expenses | **13,728,770** | 12,955,826 | 12,181,937 |
| Income before income taxes | **21,503,529** | 20,106,081 | 19,864,834 |
| Benefit from income taxes | **-** | - | - |
| **NET INCOME** | **21,503,529** | 20,106,081 | 19,864,834 |
| Other comprehensive income: | | | |
| Change in postretirement benefit plans | **(115,494)** | (205,753) | 440,429 |
| Income tax expense related to items of other comprehensive income | **-** | - | - |
| Other comprehensive income, net of tax | **(115,494)** | (205,753) | 440,429 |
| **COMPREHENSIVE INCOME** | **$ 21,388,035** | $ 19,900,328 | $ 20,305,263 |

*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, 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 |
| Comprehensive income | - | - | 21,503,529 | (115,494) | 21,388,035 |
| Capital stock/participation certificates issued | 1,037,730 | | | | 1,037,730 |
| Capital stock/participation certificates and allocated retained earnings retired | (802,210) | | | | (802,210) |
| Patronage dividends: | | | | | |
| Cash | | | (10,426,868) | | (10,426,868) |
| **Balance at December 31, 2020** | **$ 4,811,195** | **$ 10,238,891** | **$ 168,801,991** | **$ (429,264)** | **$ 183,422,813** |

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

## SOUTHERN AGCREDIT, ACA

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| **Cash flows from operating activities:** | | | |
| Net income | **$ 21,503,529** | $ 20,106,081 | $ 19,864,834 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | **272,790** | 191,250 | 204,495 |
| Provision for other property owned | **31,970** | 644,400 | 524,966 |
| Loss on sale of other property owned, net | **480,127** | 29,284 | - |
| Depreciation and amortization | **1,579,942** | 1,279,125 | 833,524 |
| Accretion of net discounts on acquired assets | **(27,515)** | (27,515) | (27,515) |
| Gain on sale of premises and equipment, net | **(200)** | (88,241) | (122) |
| Decrease (increase) in accrued interest receivable | **1,096,600** | (923,447) | (711,306) |
| Decrease (increase) in other receivables from the Farm Credit Bank of Texas | **(193,066)** | (234,063) | 1,129,863 |
| Decrease (increase) in other assets | **184,907** | (114,927) | (205,846) |
| (Decrease) increase in accrued interest payable | **(606,523)** | 188,618 | 391,951 |
| Increase in other liabilities | **572,515** | 310,339 | 2,458 |
| Net cash provided by operating activities | **24,895,076** | 21,360,904 | 22,007,302 |
| **Cash flows from investing activities:** | | | |
| Increase in loans, net | **(90,912,817)** | (80,145,631) | (16,498,031) |
| Purchase of investment in the Farm Credit Bank of Texas | **(1,178,030)** | (807,545) | (583,415) |
| Investment securities held-to-maturity | | | |
| Proceeds from maturities, calls and prepayments | **1,962,444** | 551,135 | 627,964 |
| Purchases of premises and equipment | **(363,418)** | (1,961,485) | (2,215,728) |
| Proceeds from sales of premises and equipment | **200** | 344,919 | 26,307 |
| Proceeds from sales of other property owned | **3,900,763** | 245,666 | - |
| Net cash used in investing activities | **(86,590,858)** | (81,772,941) | (18,642,903) |

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

## SOUTHERN AGCREDIT, ACA

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| **Cash flows from financing activities:** | | | |
| Net draws on note payable to the Farm Credit Bank of Texas | **73,999,117** | 69,909,515 | 6,782,076 |
| Decrease in guaranteed obligations to government entities | **(1,940,002)** | (441,691) | (233,203) |
| Increase (decrease) in drafts outstanding | **(526,939)** | 465,454 | (453,183) |
| Increase (decrease) in advance conditional payments | **1,668** | 146,254 | (76,658) |
| Issuance of capital stock and participation certificates | **1,037,730** | 790,450 | 633,635 |
| Retirement of capital stock and participation certificates | **(802,210)** | (592,725) | (510,755) |
| Cash dividends paid | | | |
| Patronage distributions paid | **(10,090,899)** | (9,870,816) | (9,502,359) |
| Net cash provided by (used in) financing activities | **61,678,465** | 60,406,441 | (3,360,447) |
| Net (decrease) increase in cash | **(17,317)** | (5,596) | 3,952 |
| Cash at the beginning of the year | **25,095** | 30,691 | 26,739 |
| Cash at the end of the year | **$ 7,778** | $ 25,095 | $ 30,691 |
| **Supplemental schedule of noncash investing and financing activities:** | | | |
| Loans transferred to other property owned | **193,000** | 278,090 | 4,500 |
| Loans charged off | **-** | 59,640 | - |
| Patronage distributions declared | **10,426,868** | 10,090,899 | 9,870,816 |
| **Supplemental cash information:** | | | |
| Cash paid during the year for: | | | |
| Interest | **$ 24,395,956** | $ 27,292,873 | $ 22,901,101 |

*The accompanying notes are an integral part of these 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 that 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.

B. 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, 2020, 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, 2020, 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.

C. 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:

***Basis of Presentation and Consolidation***
The consolidated financial statements (the "financial statements") of the association have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). In consolidation, all significant intercompany accounts and transactions are eliminated and all material wholly owned and majority owned subsidiaries are consolidated unless GAAP requires otherwise.

***Use of Estimates***
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses; the valuation of deferred tax assets; the determination of fair value of financial instruments and subsequent impairment analysis.

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 March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs. System entities have adopted this relief for qualifying loan modifications.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. New contracts entered into before December 31, 2021 will either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate. These actions are necessary to facilitate an orderly transition.

In December 2019, the 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 judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the institution adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the institution's financial condition or results of operations; nor did the guidance impact the presentation of taxes for prior periods in the 2020 year-end financial statements.

In August 2018, the 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 became 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. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the association’s financial condition or 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. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance did not impact the association’s financial condition or its results of operations, but did 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 became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was 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 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 was to become 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, for those institutions qualifying for the delay, 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, with planned adoption for interim and reporting periods beginning after December 15, 2022.

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 non-accretable 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 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. Long-lived assets are reviewed for impairment whenever events or circumstances indicate the carrying amount of an asset group may not be recoverable.

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 defned 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, 2020, 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 $66,761, $71,308 and $59,060 for the years ended December 31, 2020, 2019 and 2018 respectively. For the DB plan, the association recognized pension costs of $347,186, $338,390 and $293,110 for the years ended December 31, 2020, 2019 and 2018, 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 $235,065, $232,924 and $207,561 for the years ended December 31, 2020, 2019 and 2018, respectively.

In addition to the DB plan, the DC plan and the Farm Credit Benefits Alliance 401(k) plans 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, 2020** | | | | |
|---|---|---|---|---|
| **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** | **Weighted Average Yield** |
| **$ 3,533,263** | **$ 43,393** | **$ -** | **$ 3,576,656** | **3.95 %** |

| 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 % |

## NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

| | **2020** | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| Loan Type | **Amount** | **%** | Amount | % | Amount | % |
| Real estate mortgage | **$ 1,012,252,339** | **83.8%** | $ 953,325,033 | 85.3% | $ 911,436,406 | 87.7% |
| Production and intermediate term | **103,465,293** | **8.6%** | 83,545,214 | 7.5% | 71,454,037 | 6.9% |
| Agribusiness: | | | | | | |
| Loans to cooperatives | **4,846,974** | **0.4%** | 2,613,188 | 0.2% | 2,287,400 | 0.2% |
| Processing and marketing | **40,381,454** | **3.3%** | 46,371,318 | 4.1% | 35,133,760 | 3.4% |
| Farm-related business | **6,805,634** | **0.6%** | 636,358 | 0.1% | 276,141 | 0.0% |
| Communication | **22,680,883** | **1.9%** | 16,205,478 | 1.4% | 3,849,662 | 0.4% |
| Energy | **13,002,863** | **1.1%** | 13,040,412 | 1.2% | 12,119,153 | 1.2% |
| Water and waste water | **1,736,657** | **0.1%** | - | 0.0% | - | 0.0% |
| Rural residential real estate | **2,676,653** | **0.2%** | 2,429,819 | 0.2% | 2,678,685 | 0.2% |
| Total | **$ 1,207,848,750** | **100.0%** | $ 1,118,166,820 | 100.0% | $ 1,039,235,244 | 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, 2020:

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|---|---|---|---|---|---|---|
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | $ 8,837,754 | $ 3,706,172 | $ 136,487 | $ - | $ 8,974,241 | $ 3,706,172 |
| Production and intermediate term | 9,435,196 | 36,649,741 | - | - | 9,435,196 | 36,649,741 |
| Agribusiness | 51,505,943 | - | - | - | 51,505,943 | - |
| Communication | 22,680,883 | - | - | - | 22,680,883 | - |
| Energy | 13,002,863 | - | - | - | 13,002,863 | - |
| Water and waste water | 1,736,657 | - | - | - | 1,736,657 | - |
| Total | $107,199,296 | $ 40,355,913 | $ 136,487 | $ - | $107,335,783 | $ 40,355,913 |

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 $13,959,080, $15,899,082 and $16,340,773 as of December 31, 2020, December 31, 2019, and December 31, 2018, respectively.

Geographic Distribution:

| State | **2020** | 2019 | 2018 |
|---|---|---|---|
| Mississippi | **87.6%** | 89.8% | 90.0% |
| Louisiana | **7.1%** | 6.6% | 6.3% |
| Other | **5.3%** | 3.6% | 3.7% |

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.

| | **2020** | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| Operation/Commodity | **Amount** | **%** | Amount | % | Amount | % |
| Hunting, trapping and game propagation | **$ 380,277,433** | **31.5%** | $ 323,380,136 | 28.9% | $ 263,914,361 | 25.4% |
| Timber | **275,784,353** | **22.8%** | 260,513,468 | 23.3% | 276,726,391 | 26.6% |
| Poultry and eggs | **152,517,311** | **12.6%** | 160,351,456 | 14.3% | 165,069,535 | 15.9% |
| Livestock, except dairy and poultry | **152,157,628** | **12.6%** | 127,128,747 | 11.4% | 110,819,980 | 10.7% |
| Cash grains | **111,511,437** | **9.2%** | 99,844,021 | 8.9% | 97,998,380 | 9.4% |
| Field crops except cash grains | **35,518,652** | **2.9%** | 42,932,649 | 3.8% | 41,791,645 | 4.0% |
| Other | **33,091,519** | **2.7%** | 41,600,795 | 3.7% | 33,367,087 | 3.2% |
| General farms, primarily crops | **18,838,315** | **1.6%** | 20,828,964 | 1.9% | 22,889,763 | 2.2% |
| Food and kindred products | **15,617,405** | **1.3%** | 15,939,054 | 1.4% | 14,538,949 | 1.4% |
| Cable and Other Pay Television Services | **19,531,834** | **1.6%** | 12,607,118 | 1.1% | - | 0.0% |
| Electric services | **13,002,863** | **1.1%** | 13,040,412 | 1.2% | 12,119,153 | 1.2% |
| Total | **$ 1,207,848,750** | **100.0%** | $ 1,118,166,820 | 100.0% | $ 1,039,235,244 | 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, 2020, 2019 and 2018, loans totaling $74,176,193, $74,921,958 and $76,651,926, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $118,961, $106,493 and $95,633 in 2020, 2019 and 2018, respectively, and are included in "other noninterest expense."

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

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

| | **December 31, 2020** | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **Nonaccrual loans:** | | | |
| Real estate mortgage | **$ 4,000,295** | $ 3,809,382 | $ 1,798,190 |
| Production and intermediate term | **47,206** | 162,302 | 800,683 |
| Total nonaccrual loans | **4,047,501** | 3,971,684 | 2,598,873 |
| **Accruing restructured loans:** | | | |
| Real estate mortgage | **311,271** | 330,260 | 392,792 |
| Production and intermediate term | **75,558** | 78,142 | 79,992 |
| Total accruing restructured loans | **386,829** | 408,402 | 472,784 |
| Total nonperforming loans | **4,434,330** | 4,380,086 | 3,071,657 |
| Other property owned | **215,532** | 4,435,392 | 5,076,652 |
| Total nonperforming assets | **$ 4,649,862** | $ 8,815,478 | $ 8,148,309 |

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:

| | **2020** | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| Real estate mortgage | | | | | | |
| Acceptable | **97.80** | % | 97.49 | % | 98.44 | % |
| OAEM | **1.55** | | 1.78 | | 1.04 | |
| Substandard/doubtful | **0.65** | | 0.73 | | 0.52 | |
| | **100.00** | | 100.00 | | 100.00 | |
| Production and intermediate term | | | | | | |
| Acceptable | **97.99** | | 96.60 | | 98.77 | |
| OAEM | **1.96** | | 2.61 | | 0.11 | |
| Substandard/doubtful | **0.05** | | 0.79 | | 1.12 | |
| | **100.00** | | 100.01 | | 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 | **93.64** | | 93.33 | | 100.00 | |
| OAEM | **6.36** | | 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 | |
| Water and waste water | | | | | | |
| Acceptable | **100.00** | | - | | - | |
| OAEM | **-** | | - | | - | |
| Substandard/doubtful | **-** | | - | | - | |
| | **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 | **97.77** | | 97.33 | | 98.54 | |
| OAEM | **1.68** | | 1.99 | | 0.92 | |
| Substandard/doubtful | **0.55** | | 0.68 | | 0.54 | |
| | **100.00** | % | 100.00 | % | 100.00 | % |

The following tables provide an aging analysis of past due loans (including accrued interest) as of December 31, 2020, 2019 and 2018:

| **December 31, 2020:** | **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** | **$ 5,602,929** | **$ 2,085,121** | **$ 7,688,050** | **$ 1,012,736,864** | **$ 1,020,424,914** |
| **Production and intermediate term** | **346,832** | **-** | **346,832** | **103,698,146** | **104,044,978** |
| **Loans to cooperatives** | **-** | **-** | **-** | **4,848,724** | **4,848,724** |
| **Processing and marketing** | **-** | **-** | **-** | **40,460,278** | **40,460,278** |
| **Farm-related business** | **-** | **-** | **-** | **6,813,134** | **6,813,134** |
| **Communication** | **-** | **-** | **-** | **22,682,157** | **22,682,157** |
| **Energy** | **-** | **-** | **-** | **13,008,773** | **13,008,773** |
| **Water and waste water** | **-** | **-** | **-** | **1,736,760** | **1,736,760** |
| **Rural residential real estate** | **-** | **-** | **-** | **2,685,463** | **2,685,463** |
| **Total** | **$ 5,949,761** | **$ 2,085,121** | **$ 8,034,882** | **$ 1,208,670,299** | **$ 1,216,705,181** |

| 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 | - | - | - | 2,613,769.00 | 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 |
| Water and waste water | - | - | - | - | - |
| 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 |
| Water and waste water | - | - | - | - | - |
| 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 |

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, 2020, the total recorded investment of troubled debt restructured loans was $970,438, including $583,609 classified as nonaccrual and $386,829 classified as accrual, with no specific allowance for loan losses. As of December 31, 2020, 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, 2020, 2019 and 2018. 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, 2020:** | **Pre-modification Outstanding Recorded Investment** | **Post-modification Outstanding Recorded Investment** |
|---|---|---|
| **Troubled debt restructurings:** | | |
| **Real estate mortgage** | **$ 289,843** | **$ 288,862** |
| **Production and intermediate term** | **-** | **-** |
| **Total** | **$ 289,843** | **$ 288,862** |

| 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 |

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, 2020.

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 presents information regarding loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months of that year and for which there was a payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

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, 2020** | December 31, 2019 | December 31, 2018 |
| Troubled debt restructurings: | | | |
| Real estate mortgage | **$ 894,880** | $ 660,254 | $ 746,393 |
| Production and intermediate term | **75,558** | 78,142 | 79,992 |
| Total | **$ 970,438** | $ 738,396 | $ 826,385 |

| | TDRs in Nonaccrual Status* | | |
|---|---|---|---|
| | **December 31, 2020** | December 31, 2019 | December 31, 2018 |
| Troubled debt restructurings: | | | |
| Real estate mortgage | **$ 583,609** | $ 329,994 | $ 353,600 |
| Production and intermediate term | **-** | - | - |
| Total | **$ 583,609** | $ 329,994 | $ 353,600 |

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

Additional impaired loan information is as follows:

| | Recorded Investment at 12/31/2020 | Unpaid Principal Balance[a] | Related Allowance | Average Impaired Loans | Interest Income Recognized |
|---|---|---|---|---|---|
| **Impaired loans with a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 1,751,619 | $ 1,751,619 | $ 170,242 | $ 1,208,850 | $ - |
| Production and intermediate term | - | - | - | - | - |
| Total | $ 1,751,619 | $ 1,751,619 | $ 170,242 | $ 1,208,850 | $ - |
| **Impaired loans with no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 2,558,605 | $ 2,561,279 | $ - | $ 2,934,740 | $ 36,248 |
| Production and intermediate term | 122,257 | 122,852 | - | 106,802 | 18,111 |
| Total | $ 2,680,862 | $ 2,684,131 | $ - | $ 3,041,542 | $ 54,359 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 4,310,224 | $ 4,312,898 | $ 170,242 | $ 4,143,590 | $ 36,248 |
| Production and intermediate term | 122,257 | 122,852 | - | 106,802 | 18,111 |
| Total | $ 4,432,481 | $ 4,435,750 | $ 170,242 | $ 4,250,392 | $ 54,359 |

| | 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 |

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

| | 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.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2020, 2019 and 2018.

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

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Interest income which would have been recognized under the original terms | **$ 309,853** | $ 392,612 | $ 281,108 |
| Less: interest income recognized | **(54,359)** | (234,629) | (180,418) |
| Foregone interest income | **$ 255,494** | $ 157,983 | $ 100,690 |

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

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Communication | Energy | Water and Waste Water | Rural Residential Real Estate | Total |
|---|---|---|---|---|---|---|---|---|
| **Allowance for Credit Losses:** | | | | | | | | |
| Balance at December 31, 2019 | $ 917,520 | $ 138,406 | $ 120,734 | $ 13,909 | $ 11,650 | $ - | $ 2,471 | $ 1,204,690 |
| Charge-offs | - | - | - | - | - | - | - | - |
| Recoveries | - | - | - | - | - | - | - | - |
| Provision for loan losses | 223,709 | (6,101) | 48,047 | 1,376 | 2,615 | 2,600 | 545 | 272,791 |
| Other | - | 5,975 | 4,767 | 11 | (1,323) | - | - | 9,430 |
| Balance at December 31, 2020 | $ 1,141,229 | $ 138,280 | $ 173,548 | $ 15,296 | $ 12,942 | $ 2,600 | $ 3,016 | $ 1,486,911 |
| Ending Balance: individually evaluated for impairment | $ 170,242 | $ - | $ - | $ - | $ - | $ - | $ - | $ 170,242 |
| Ending Balance: collectively evaluated for impairment | $ 970,987 | $ 138,280 | $ 173,548 | $ 15,296 | $ 12,942 | $ 2,600 | $ 3,016 | $ 1,316,669 |
| **Recorded Investment in Loans Outstanding:** | | | | | | | | |
| Ending Balance at December 31, 2020 | $ 1,020,424,914 | $ 104,044,978 | $ 52,122,136 | $ 22,682,157 | $ 13,008,773 | $ 1,736,760 | $ 2,685,463 | $ 1,216,705,181 |
| Ending balance for loans individually evaluated for impairment | $ 4,311,567 | $ 122,764 | $ - | $ - | $ - | $ - | $ - | $ 4,434,331 |
| Ending balance for loans collectively evaluated for impairment | $ 1,016,113,347 | $ 103,922,214 | $ 52,122,136 | $ 22,682,157 | $ 13,008,773 | $ 1,736,760 | $ 2,685,463 | $ 1,212,270,850 |

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Communication | Energy | Water and Waste Water | 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 | Water and Waste Water | 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 |

## 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 5.48 percent, 5.53 percent and 5.60 percent of the issued stock of the bank as of December 31, 2020, 2019 and 2018. As of those dates, the bank's assets totaled $28.2 billion, $25.7 billion and $24.5 billion and members' equity totaled $2.0 billion, $1.8 billion and $1.8 billion. The bank's earnings were $251.1 million, $203.0 million and $190.5 million during 2020, 2019 and 2018.

## NOTE 6 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Land and improvements | **$ 2,597,694** | $ 2,597,694 | $ 2,487,694 |
| Building and improvements | **6,550,419** | 6,522,424 | 4,782,055 |
| Furniture and equipment | **798,156** | 760,043 | 642,131 |
| Computer equipment and software | **1,159,007** | 1,008,352 | 409,224 |
| Automobiles | **43,285** | 43,285 | 43,285 |
| Construction in progress | **66,938** | - | 1,140,389 |
| | **11,215,499** | 10,931,798 | 9,504,778 |
| Accumulated depreciation | **(2,132,766)** | (1,697,943) | (1,600,445) |
| Total | **$ 9,082,733** | $ 9,233,855 | $ 7,904,333 |

The association leases office space in Brookhaven. The association also has various leases for postage machines. Lease expense was $35,957, $76,424 and $76,345 for 2020, 2019 and 2018, respectively. Minimum annual lease payments for the next five years are as follows:

| | Operating |
|---|---|
| 2021 | $ 36,749 |
| 2022 | 33,846 |
| 2023 | 8,209 |
| 2024 | 1,540 |
| 2025 | - |
| Thereafter | - |
| Total lease payments | $ 80,344 |

## NOTE 7 — OTHER PROPERTY OWNED, NET:

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

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Gain (loss) on sale, net | **$ (480,127)** | $ (29,284) | $ - |
| Operating income (expense), net | **(21,882)** | (14,466) | (14,060) |
| Net gain (loss) on other property owned | **$ (502,009)** | $ (43,750) | $ (14,060) |

The 2020, 2019 and 2018 net operating expenses include property taxes for the property that sold in the last quarter of 2020. The 2020 and 2019 loss on sale is related to a partial sale and the final sale on the aforementioned property.

## NOTE 8 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

| | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Captive insurance receivable | **$** | **435,065** | $ | 390,401 | $ | 401,754 |
| Accounts receivable | | **10,114** | | 248,256 | | 271,308 |
| Prepaid and other assets | | **515,785** | | 507,215 | | 357,883 |
| Total | **$** | **960,964** | $ | 1,145,872 | $ | 1,030,945 |

Other liabilities comprised the following at December 31:

| | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Accumulated postretirement benefit obligation | **$** | **3,788,322** | $ | 3,644,630 | $ | 3,402,081 |
| Payroll and benefits payable | | **3,423,407** | | 3,194,741 | | 3,131,064 |
| Accounts payable | | **1,829,760** | | 1,523,540 | | 1,307,435 |
| Total | **$** | **9,041,489** | $ | 8,362,911 | $ | 7,840,580 |

## 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, 2023, 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, 2020, 2019 and 2018, was $1,032,140,573 at 1.90 percent $958,141,466 at 2.80 percent and $888,231,951 at 2.82 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, 2020, 2019 and 2018, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2020, was $1,204,660,804, 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, 2020, 2019 and 2018, 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, 2020, 2019 and 2018, 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.

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Class A stock | **955,560** | 908,030 | 868,570 |
| Participation certificates | **6,679** | 7,105 | 7,020 |
| Total | **962,239** | 915,135 | 875,590 |

*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 2020, 2019 and 2018, respectively:

| Date Declared | Date Paid | Patronage |
|---|---|---|
| **December 2020** | **February 2021** | **$10,426,868** |
| December 2019 | February 2020 | 10,090,899 |
| December 2018 | February 2019 | 9,870,816 |

*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, 2020, 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, 2020:

| Risk-adjusted: | Regulatory Minimums | Regulatory Minimums with Buffer* | As of December 31, 2020 |
|---|---|---|---|
| Common equity tier 1 ratio | 4.50% | 7.00% | 14.51% |
| Tier 1 capital ratio | 6.00% | 8.50% | 14.51% |
| Total capital ratio | 8.00% | 10.50% | 14.64% |
| Permanent capital ratio | 7.00% | 7.00% | 14.53% |
| Non-risk-adjusted: | | | |
| Tier 1 leverage ratio** | 4.00% | 5.00% | 14.02% |
| UREE leverage ratio | 1.50% | 1.50% | 10.60% |

*The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.

**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 are 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, 2020:

| | Common equity tier 1 ratio | Tier 1 capital ratio | Total capital ratio | Permanent capital ratio |
|---|---|---|---|---|
| Numerator: | | | | |
| Unallocated retained earnings | **91,215,165** | **91,215,165** | **91,215,165** | **91,215,165** |
| Paid-in capital | **10,238,891** | **10,238,891** | **10,238,891** | **10,238,891** |
| Common Cooperative Equities: | | | | |
| Statutory minimum purchased borrower stock | **4,778,355** | **4,778,355** | **4,778,355** | **4,778,355** |
| 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 | **52,972,842** | **52,972,842** | **52,972,842** | **52,972,842** |
| Nonqualified allocated equities not subject to retirement | **28,866,055** | **28,866,055** | **28,866,055** | **28,866,055** |
| 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* | | | **1,516,411** | |
| Regulatory Adjustments and Deductions: | | | | |
| Amount of allocated investments in other System institutions | **(18,546,089)** | **(18,546,089)** | **(18,546,089)** | **(18,546,089)** |
| Other regulatory required deductions | **-** | **-** | **-** | **-** |
| | 169,525,219 | 169,525,219 | 171,041,630 | 169,525,219 |
| Denominator: | | | | |
| Risk-adjusted assets excluding allowance | **1,186,491,660** | **1,186,491,660** | **1,186,491,660** | **1,186,491,660** |
| Regulatory Adjustments and Deductions: | | | | |
| Regulatory deductions included in total capital | **(18,546,089)** | **(18,546,089)** | **(18,546,089)** | **(18,546,089)** |
| Allowance for loan losses | | | | **(1,444,272)** |
| | 1,167,945,571 | 1,167,945,571 | 1,167,945,571 | 1,166,501,299 |

*Capped at 1.25% 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, 2020:

| | Tier 1 leverage ratio | UREE leverage ratio |
|---|---|---|
| Numerator: | | |
| Unallocated retained earnings | **91,215,165** | **91,215,165** |
| Paid-in capital | **10,238,891** | **10,238,891** |
| Common Cooperative Equities: | | |
| Statutory minimum purchased borrower stock | **4,778,355** | **-** |
| 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 | **52,972,842** | **-** |
| Nonqualified allocated equities not subject to retirement | **28,866,055** | **28,866,055** |
| 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 | **(18,546,089)** | **(2,148,365)** |
| Other regulatory required deductions | **-** | **-** |
| | **169,525,219** | **128,171,746** |
| Denominator: | | |
| Total Assets | **1,232,612,491** | **1,232,612,491** |
| Regulatory Adjustments and Deductions: | | |
| Regulatory deductions included in tier 1 capital | **(23,599,786)** | **(23,599,786)** |
| | 1,209,012,705 | 1,209,012,705 |

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:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Accumulated other comprehensive income (loss) at January 1 | **$(313,770)** | $(108,017) | $ (548,446) |
| Actuarial gains (losses) | **(106,012)** | (192,254) | 353,776 |
| Prior service (cost) credit | **-** | - | 101,779 |
| Amortization of prior service (credit) costs included in salaries and employee benefits | **(13,498)** | (13,499) | (15,126) |
| Amortization of actuarial (gain) loss included in salaries and employee benefits | **4,016** | - | - |
| Income tax expense related to items of other comprehensive income | **-** | - | - |
| Other comprehensive income (loss), net of tax | **(115,494)** | (205,753) | 440,429 |
| Accumulated other comprehensive income at December 31 | **$(429,264)** | $(313,770) | $ (108,017) |

**NOTE 11 — INCOME TAXES:**

There has been no provision for (benefit from) income taxes for the years ended December 2020, 2019, and 2018.

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:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Federal tax at statutory rate | **$ 4,515,741** | $ 4,222,277 | $ 4,171,615 |
| State tax, net | **-** | - | - |
| Effect of nontaxable FLCA subsidiary | **(4,314,404)** | (4,070,410) | (4,097,897) |
| Patronage distributions | **(215,516)** | (169,553) | (101,453) |
| Change in valuation allowance | **(7,499)** | (724) | (1,513) |
| Other | **21,678** | 18,410 | 29,248 |
| 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:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Deferred Tax Assets | | | |
| Allowance for loan losses | **$ 42,048** | $ 44,374 | $ 33,863 |
| Premiums on direct note | **305** | 915 | 1,526 |
| Loan discount | **(21)** | (21) | (21) |
| Loss carryforwards | **456,816** | 456,816 | 456,815 |
| Gross deferred tax assets | **499,148** | 502,084 | 492,183 |
| Deferred tax asset valuation allowance | **(427,057)** | (434,557) | (435,280) |
| Deferred Tax Liabilities | | | |
| Loan fees net of deferred tax cost | **(72,091)** | (67,527) | (56,903) |
| Gross deferred tax liabilities | **(72,091)** | (67,527) | (56,903) |
| Net deferred tax asset (liability) | **$ -** | $ - | $ - |

As of December 31, 2020, 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, 2020, 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 $427,057, $434,557 and $435,280 during 2020, 2019 and 2018, 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, 2020, 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 2017 and forward.

## 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 I 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 $235,065, $232,924 and $207,561 were made to this plan for the years ended December 31, 2020, 2019 and 2018. There were no payments made from the supplemental 401(k) plan to active employees during 2020, 2019 and 2018.

The DB plan is non-contributory 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, 2020.

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, 2020, 2019 and 2018:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Funded status of plan | **62.6** % | 66.2 % | 68.0 % |
| Association's contribution | **$ 66,761** | $ 71,308 | $ 59,060 |
| Percentage of association's contribution to total contributions | **1.1** % | 0.9 % | 0.6 % |

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 64.3 percent, 68.0 percent and 70.1 percent at December 31, 2020, 2019 and 2018, 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 | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Change in Accumulated Postretirement Benefit Obligation** | | | |
| Accumulated postretirement benefit obligation, beginning of year | **$ 3,644,630** | $ 3,402,081 | $ 3,817,780 |
| Service cost | **42,078** | 33,267 | 42,680 |
| Interest cost | **123,380** | 157,865 | 149,693 |
| Plan participants' contributions | **30,012** | 31,444 | 32,531 |
| Plan amendments | **-** | - | (101,779) |
| Special termination benefits | **-** | - | - |
| Actuarial loss (gain) | **106,012** | 192,254 | (353,776) |
| Benefits paid | **(157,790)** | (172,281) | (185,048) |
| Accumulated postretirement benefit obligation, end of year | **$ 3,788,322** | $ 3,644,630 | $ 3,402,081 |
| **Change in Plan Assets** | | | |
| Plan assets at fair value, beginning of year | **$ -** | $ - | $ - |
| Actual return on plan assets | **-** | - | - |
| Association contributions | **127,778** | 140,837 | 152,517 |
| Plan participants' contributions | **30,012** | 31,444 | 32,531 |
| Benefits paid | **(157,790)** | (172,281) | (185,048) |
| Plan assets at fair value, end of year | **$ -** | $ - | $ - |
| Funded status of the plan | **$ (3,788,322)** | $ (3,644,630) | $ (3,402,081) |
| **Amounts Recognized on the Balance Sheets** | | | |
| Other liabilities | **$ (3,788,322)** | $ (3,644,630) | $ (3,402,081) |
| **Amounts Recognized in Accumulated Other Comprehensive Income** | | | |
| Net actuarial loss (gain) | **$ 504,046** | $ 402,050 | $ 209,796 |
| Prior service cost (credit) | **(74,782)** | (88,280) | (101,779) |
| Net transition obligation (asset) | **-** | - | - |
| Total | **$ 429,264** | $ 313,770 | $ 108,017 |
| **Weighted-Average Assumptions Used to Determine Obligations at Year End** | | | |
| Measurement date | **12/31/2020** | 12/31/2019 | 12/31/2018 |
| Discount rate | **2.80%** | 3.45% | 4.75% |
| Health care cost trend rate assumed for next year (pre-/post-65) - medical | **6.9%/6.40%** | 6.90%/6.40% | 7.30%/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** | 2028/2029 | 2026/2027 |

| **Total Cost** | **2020** | 2019 | 2018 |
|---|---|---|---|
| Service cost | **$ 44,189** | $ 42,078 | $ 42,680 |
| Interest cost | **104,063** | 123,380 | 149,693 |
| Expected return on plan assets | **-** | - | - |
| Amortization of: | | | |
| Unrecognized net transition obligation (asset) | **-** | - | - |
| Unrecognized prior service cost | **(749)** | (9,482) | (15,126) |
| Unrecognized net loss (gain) | **-** | - | - |
| Net postretirement benefit cost | **$ 147,503** | $ 155,976 | $ 177,247 |
| 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) | **$ 106,012** | $ 192,254 | $ (353,776) |
| Amortization of net actuarial loss (gain) | **(4,016)** | - | - |
| Prior service cost (credit) | **-** | - | (101,779) |
| Amortization of prior service cost | **13,498** | 13,499 | 15,126 |
| Recognition of prior service cost | **-** | - | - |
| Amortization of transition liability (asset) | **-** | - | - |
| Total recognized in other comprehensive income | **$ 115,494** | $ 205,753 | $ (440,429) |
| **AOCI Amounts Expected to be Amortized Into Expense in 2021** | | | |
| Unrecognized net transition obligation (asset) | **$ -** | $ - | $ - |
| Unrecognized prior service cost | **(13,498)** | (13,498) | (13,499) |
| Unrecognized net loss (gain) | **12,749** | 4,016 | - |
| Total | **$ (749)** | $ (9,482) | $ (13,499) |
| **Weighted-Average Assumptions Used to Determine Benefit Cost** | | | |
| 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) - medical | **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 |

**Expected Future Cash Flows**

| **Expected Benefit Payments (net of employee contributions)** | |
|---|---|
| Fiscal 2021 | **$ 144,600** |
| Fiscal 2022 | **157,236** |
| Fiscal 2023 | **158,628** |
| Fiscal 2024 | **150,393** |
| Fiscal 2025 | **150,826** |
| Fiscal 2026–2030 | **863,271** |
| **Expected Contributions** | |
| Fiscal 2021 | **$ 144,600** |

**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, 2020, 2019 and 2018 for the association amounted to $14,183,648, $15,475,410 and $16,392,471. During 2020, $8,923,609 of new loans were made, and repayments totaled $7,113,175. In the opinion of management, no such loans outstanding at December 31, 2020, 2019 and 2018 involved more than a normal risk of collectability.

Expenses included in purchased services may include 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 $1,063,933, $1,001,341 and $1,025,966 in 2020, 2019 and 2018, respectively.

The association received patronage payments from the bank totaling $6,413,878, $5,328,329 and $4,803,531 during 2020, 2019 and 2018, 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, 2020, 2019 and 2018 for each of the fair value hierarchy values are summarized below:

| **December 31, 2020** | **Fair Value Measurement Using** | | | **Total Fair** |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Value** |
| Assets held in nonqualified benefit trusts | **$ 278,728** | **$ -** | **$ -** | **$ 278,728** |

| 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 |

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, 2020, 2019 and 2018:

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

| **December 31, 2020** | **Fair Value Measurement Using** | | | **Total Fair** |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Value** |
| Assets: | | | | |
| Loans | **$ -** | **$ -** | **$1,581,449** | **$1,581,449** |
| Other property owned | **-** | **-** | **211,030** | **211,030** |

| 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 |

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, 2020** | | | | |
|---|---|---|---|---|---|
| | | **Fair Value Measurement Using** | | | |
| | **Total Carrying Amount** | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** |
| Assets: | | | | | |
| Cash | **$ 7,778** | **$ 7,778** | **$ -** | **$ -** | **$ 7,778** |
| Mission-related and other investments held to maturity | **3,533,263** | **-** | **-** | **3,576,656** | **3,576,656** |
| Net loans | **1,204,780,390** | **-** | **-** | **1,219,393,019** | **1,219,393,019** |
| Total Assets | **$ 1,208,321,431** | **$ 7,778** | **$ -** | **$ 1,222,969,675** | **$ 1,222,977,453** |
| Liabilities: | | | | | |
| Guaranteed obligations to government entities | **$ 13,959,080** | **$ -** | **$ -** | **$ 14,127,958** | **$ 14,127,958** |
| Note payable to Farm Credit Bank of Texas | **1,032,140,583** | **-** | **-** | **1,044,627,484** | **1,044,627,484** |
| Total Liabilities | **$ 1,046,099,663** | **$ -** | **$ -** | **$ 1,058,755,442** | **$ 1,058,755,442** |

| | 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 |

*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<br>Probability of default<br>Loss severity |
| Loans | Discounted cash flow | Prepayment forecasts<br>Probability of default<br>Loss severity |
| Note payable to bank | Discounted cash flow | Benchmark yield curve<br>Derived yield spread<br>Own credit risk |
| Guaranteed obligations to government entities | Carrying value | Prepayment rates<br>Probability of default<br>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, 2020, $69,555,642 of commitments and $318,241 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:

| | **2020** | | | | |
|---|---|---|---|---|---|
| | **First** | **Second** | **Third** | **Fourth** | **Total** |
| **Net interest income** | **$ 6,934** | **$ 6,886** | **$ 7,073** | **$ 7,361** | **$ 28,254** |
| **(Provision for) reversal of loan losses** | **(254)** | **(60)** | **77** | **(36)** | **(273)** |
| **Noninterest income (expense), net** | **(1,399)** | **(1,398)** | **(1,690)** | **(1,990)** | **(6,477)** |
| **Net income** | **$ 5,281** | **$ 5,428** | **$ 5,460** | **$ 5,335** | **$ 21,504** |

| | 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 |

## NOTE 17 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through March 12, 2021, 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

The 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 buildings in Ruston and Shreveport free of debt. The association leases a Mississippi office building in Brookhaven.

### 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 11 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, 2020, 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 | 2022 |
| Bryan "Scott" Bell | Vice Chairman | 2012 | 2021 |
| Reggie Allen | Director | 2013 | 2023 |
| John "Van" Bennett | Director | 2010 | 2022 |
| Lonnie "Gene" Boykin | Director | 2014 | 2023 |
| Steven "Steve" Dockens, CPA | Director (Director-Elected) | 2019 | 2022 |
| Charles "Allen" Eubanks | Director | 2013 | 2021 |
| Thomas C. "T.C." Hall | Director | 2010 | 2023 |
| Larry W. Killebrew | Director | 2010 | 2022 |
| Linda S. Staniszewski, CPA | Director (Director-Elected) | 2005 | 2023 |
| 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 | - |
| Jeffrey M. Williams | General Counsel | 2021 | - |
| Joe H. Hayman** | Immediate Past Chief Executive Officer | 2008 | - |
| L. Paul Landry, II | Director of Portfolio Risk & Compliance | 2011 | - |
| Amanda R. Hudson | Chief Information Officer | 2006 | - |
| Clayton Davis | Regional Vice President | 2006 | - |
| Brent Barry | Regional Vice President | 2003 | - |
| James G. Nicholas | Regional Vice President | 2011 | - |
| Justin C. Morris | Branch Manager | 2011 | - |
| Cooper Stringer | Branch Manager | 2011 | - |
| Elliott Fancher | Branch Manager | 2006 | - |
| Austin Bean | Branch Manager | 2010 | - |
| Alex Riser | Branch Manager | 2015 | - |
| Devin Davis | Branch Manager | 2015 | - |

* 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**, owns KDR Farms, Inc., a 300-acre farming operation consisting of a small beef cattle operation, 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**, 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 and he grazes cattle with other association stockholders. Mr. Bell serves on the Farm Credit Bank of Texas' Tenth District Farm Credit Council. He graduated from Mississippi State University with a degree in poultry science. Mr. Bell 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**, 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, which 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**, 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, former member of the 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, former member of the 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**, 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**, is a certified public accountant who has worked in public accounting for 39 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 graduated from the University of South Alabama with a bachelor's degree in business administration with an emphasis in accounting. 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**, 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. He started Eubanks Produce, Inc. 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**, 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. He owns an interest in Hall Family Enterprises, 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**, 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 48 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.

**Linda S. Staniszewski of Hattiesburg, Mississippi**, 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 graduated from the University of Southern Mississippi with a bachelor's degree in business administration and a master's degree in professional accountancy. 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,** 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 degree in professional accountancy. Mr. Morgan began his career in public accounting providing audit and consulting services to commercial and primarily Farm Credit System institutions throughout the U.S. Mr. Morgan is a certified public accountant and 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 board member 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 cattle operation.

**Ted R. Murkerson, Chief Credit Officer, of Brandon, Mississippi,** 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 currently serves as an active member of the Farm Credit Chief Credit Officer Workgroup. 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 graduated from Troy State University with a 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**, joined the association in February 2020. He was previously with First South Farm Credit, ACA for 14 years. He graduated from Mississippi State University with a Bachelor of Art and from the University of Mississippi with a Master of Business Administration. 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 two children and attend Pinelake Church. He is a native of Clarkson, Mississippi.

**Ken D. Hobart, Chief Collateral Risk Officer, of Hollandale, Mississippi**, 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.

**Jeffrey M. Williams, General Counsel, effective January 1, 2021, of Pearl, Mississippi,** attended Mississippi State University from 1988 until 1990. At Mississippi State, he was an active member of Pi Kappa Alpha Fraternity and the University Alumni Delegates. In 1990, he was nominated and accepted into the United States Air Force Academy in Colorado Springs, Colorado. He graduated and was commissioned as a Second Lieutenant in the United States Air Force in 1994 and served in the active duty Air Force from 1994 until 1998 as an Intelligence Officer in the Air Force Special Operations Command. From 1998 to 2001, he worked in the same capacity as a member of the United States Air Force Reserves. In 2001, Jeff joined the Mississippi Air National Guard, where he has attained the rank of Lieutenant Colonel and continues to his service. During his time in the United States Air Force, he completed Air War College, Air Command and Staff College and Squadron Officer School. In 1998, he also enrolled in the University of Mississippi School of Law, and in 2001, he received his Juris Doctorate degree, cum laude. Upon graduation from law school, he was admitted to the Mississippi Bar and began working as a law clerk for Federal District Court Judge Charles W. Pickering, Sr. He served in this capacity until 2003, at which time he joined Wells, Moore, Simmons & Hubbard until the firm dissolved in 2011. He then started the law firm of Hubbard, Mitchell, Williams & Strain, PLLC, which he remained a member of until accepting the General Counsel position at Southern AgCredit. He is a former member of the Board of the Mustard Seed, a non-profit, located in Rankin County, Mississippi. He is also a current member of American Legion Post 1776, located in Cleveland, Mississippi, which is a charitable gaming organization, as well as the Capital Area Bar Association. Jeff is married, and they have two sons.

**Joe H. Hayman, Immediate Past Chief Executive Officer, resigned February 21, 2020, of Fort Worth, Texas**, 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 Lone Star AgCredit 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, Director of Portfolio Risk & Compliance, of Flowood, Mississippi**, 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.

**Amanda R. Hudson, Chief Information Officer, of Madison, Mississippi**, joined the association in December 2006. She graduated Mississippi State University with a Bachelor of Science degree in food science and industry and a master's degree in agribusiness management. Mrs. Hudson is a member of numerous organizations, including Pearl River/Stone County Mississippi Forestry Association, where she acts as treasurer. She has served on the Steering Committee for FCC Services Forum for Ag Lending Conference and graduated from the inaugural class of MSU Extension Thad Cochran Agricultural Leadership Program.

**Clayton Davis, Regional Vice President, of Greenville, Mississippi**, 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.

**Brent Barry, Regional Vice President, of Hattiesburg, Mississippi**, 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.

**Justin C. Morris, M.S., Vice President Lending/Branch Manager, of Shreveport, Louisiana**, 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 13th year in the Farm Credit System and 10th year at Southern AgCredit, ACA. He graduated from Southern Arkansas University with a bachelor's degree and from the University of Arkansas with a master's degree. He is a member of numerous organizations, including Farm Bureau, Ducks Unlimited, National Wild Turkey Federation, Quality Deer Management Association, the Louisiana Cattlemen's Association, the Louisiana Cotton and Grain Association and North Louisiana Financial Planners Association, and in 2020, 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.

**James G. Nicholas, Regional Vice President, of Ridgeland, Mississippi**, 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 10 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 family reside in Jackson, Mississippi, and are members of First Presbyterian Church. His father and uncles are association stockholders.

**Cooper Stringer, Branch Manager, of Newton, Mississippi**, 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 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.

**Elliott Fancher, Branch Manager, of Greenwood, Mississippi**, 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 and 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.

**Austin L. Bean, Branch Manager, of Brookhaven, Mississippi**, began his Farm Credit career in 2010 with First South Farm Credit, ACA. In 2013, he joined Southern AgCredit, ACA. He graduated from Mississippi State University with a Bachelor of Business Administration in risk management, insurance, and financial planning and from Mississippi College with a Master of Business Administration. 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 two daughters and reside in Gillsburg, Mississippi, where they are members of Gillsburg Baptist Church. His parents, grandfather and aunt are association stockholders.

**Alex Riser, Branch Manager of Gulfport, Mississippi,** 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.

**Devin Davis, Branch Manager, of Ruston, Louisiana**, 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 a daughter. They currently reside in Ruston, Louisiana, and are members of the First Baptist Church of Ruston.

## 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 2020 was paid at the IRS-approved rate of 56.0 cents per mile. A copy of the travel policy is available to stockholders of the association upon request.

| Director | Number of Days Served Associated With: Board Meetings | Other Official Activities | Total Compensation in 2020 |
|---|---|---|---|
| Reggie Allen | 10 | 10 | $ 22,750 |
| Bryan "Scott" Bell | 10 | 31 | $ 27,750 |
| John "Van" Bennett | 10 | 13 | $ 23,500 |
| Lonnie "Gene" Boykin | 10 | 16 | $ 24,250 |
| Steven "Steve" Dockens, CPA | 10 | 15 | $ 24,000 |
| Charles "Allen" Eubanks | 8 | 9 | $ 22,250 |
| Thomas C. "T.C." Hall | 10 | 9 | $ 22,500 |
| Larry W. Killebrew | 10 | 9 | $ 22,500 |
| Kevin Rhodes | 10 | 32 | $ 39,750 |
| Linda S. Staniszewski, CPA | 10 | 16 | $ 36,250 |
| | | | $ 265,500 |

The aggregate compensation paid to directors in 2020, 2019 and 2018 was $265,500, $275,250 and $234,750, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2020:

| Director | Audit | Compensation | Governance | Other Meetings and Committees, if Any |
|---|---|---|---|---|
| Reggie Allen | - | 750 | - | 3,750 |
| Bryan "Scott" Bell | 2,250 | - | 1,750 | 4,250 |
| John "Van" Bennett | - | - | 1,750 | 2,500 |
| Lonnie "Gene" Boykin | 2,250 | - | - | 4,000 |
| Steven "Steve" Dockens, CPA | 2,250 | - | - | 1,000 |
| Charles "Allen" Eubanks | - | - | 1,750 | 2,000 |
| Thomas C. "T.C." Hall | - | 750 | - | 2,500 |
| Larry W. Killebrew | - | 750 | - | 2,500 |
| Kevin Rhodes | 2,250 | 750 | 1,750 | 5,250 |
| Linda S. Staniszewski, CPA | 2,250 | - | - | 5,500 |
| | $ 11,250 | $ 3,000 | $ 7,000 | $ 33,250 |

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $24,892, $68,623 and $45,885 in 2020, 2019 and 2018, 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 2020, 2019 and 2018. 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 |
|---|---|---|---|---|---|---|
| Phillip D. Morgan CEO | **2020** | **$ 286,700** | **$ 141,177** | | **$ 10,370** | **$ 438,247** |
| | | | | | | |
| Joe H. Hayman CEO* | **2020** | **$ 56,149** | **$ -** | **$ -** | **$ 1,952** | **$ 58,101** |
| | 2019 | 365,014 | 176,461 | - | 11,592 | 553,067 |
| | 2018 | 350,013 | 186,054 | - | 11,667 | 547,734 |
| * Resigned 2/21/20 | | | | | | |
| | | | | | | |
| 5 | **2020** | **$ 816,829** | **$ 400,123** | **$ 420,978** | **$ 49,179** | **$1,687,109** |
| 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 |

(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 applicable to the CEO for the year ended December 31, 2020:

| Name | Plan Name | Number of Years Credited Service | Present Value of Accumulated Benefit | Payments During 2020 |
|---|---|---|---|---|
| Aggregate Number of Senior Officers & other highly compensated employees 1 | Farm Credit Bank of Texas Pension Plan | 23.57 | 1,608,673 | - |

**Pension Benefits Table Narrative Disclosure**

One senior officer of the association participates 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 2020 at the IRS-approved rate of 56.0 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation exceeding $5,000 in 2020, 2019 and 2018.

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 2020 audit of the association's consolidated financial statements amounted to $76,955 compared to $51,645 for the 2019 audit. In 2020, $900 incurred was for nonaudit services.

## FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PriceWatershouseCooper dated March 12, 2021, 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 2017 USDA Census of Agriculture for the association territory indicates that 8.6 percent of farm operators are "young," 28.5 percent are "beginning" and 90.8 percent of the farms are "small." The association's 2021 goals for YBS lending are:

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

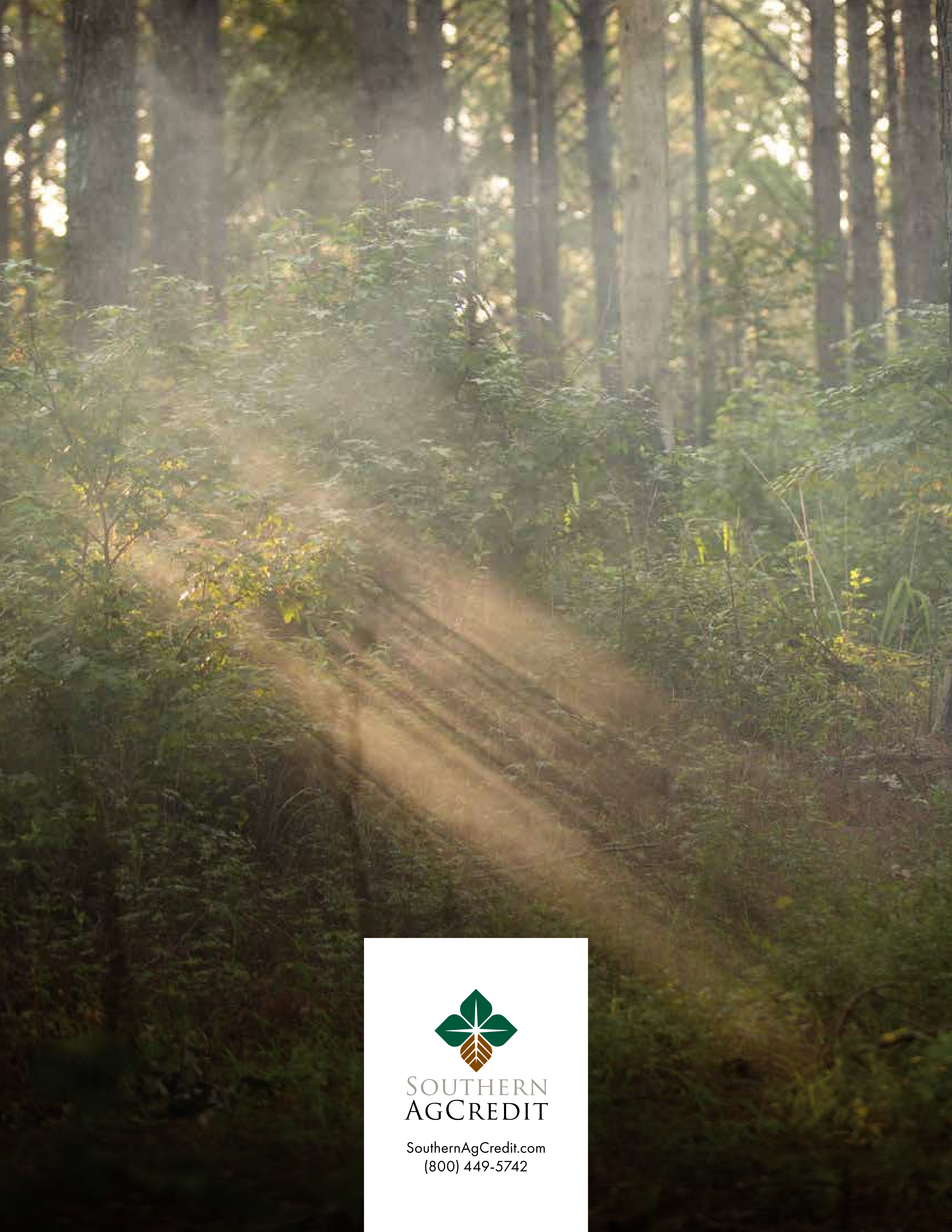
The association's YBS loans, as a percentage of total loans outstanding on December 31, 2018, 2019 and 2020, respectively, are reflected in the table below for the past three years.

| | 2018 | | 2019 | | 2020 | |
|---|---|---|---|---|---|---|
| | % of Total Loans | % of Loan Volume | % of Total Loans | % of Loan Volume | % of Total Loans | % of Loan Volume |
| **Young** | 23.15% | 16.02% | 23.66% | 16.52% | 24.01% | 16.75% |
| **Beginning** | 52.08% | 42.34% | 53.11% | 41.71% | 54.63% | 41.83% |
| **Small** | 73.57% | 54.22% | 73.96% | 56.12% | 75.44% | 55.72% |

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.

| | 2018 | | 2019 | | 2020 | |
|---|---|---|---|---|---|---|
| | % of Total Loans | % of Loan Volume | % of Total Loans | % of Loan Volume | % of Total Loans | % of Loan Volume |
| **Young** | 20.49% | 15.83% | 24.73% | 16.36% | 24.22% | 17.09% |
| **Beginning** | 46.62% | 32.62% | 52.79% | 38.06% | 57.55% | 42.50% |
| **Small** | 67.12% | 43.62% | 73.80% | 57.11% | 79.50% | 56.94% |

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.



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