



YOUR MONEY.
YOUR CO-OP.
SOME DON'T GET IT, BUT WE DO.



2019 ANNUAL REPORT





9.8 million

AMOUNT OF PATRONAGE BEING PAID OUT TO OUR BORROWER-STOCKHOLDERS
BASED ON OUR 2019 FINANCIAL GOALS THAT WERE ACHIEVED



ALABAMA AG CREDIT'S
NET INCOME FOR 2019

19,115,

PERCENT CREDIT
QUALITY

98.59%

KEEPING YOUR
\$ SAFE

\$539M

Loan volume for our top
commodity in 2019 —
TIMBER.

*Did you know Alabama
reached a record 42.2 billion
cubic feet of standing timber?*



\$131M

Loan volume for the
third-highest commodity
in 2019— **POULTRY.**

*Did you know America
consumes more chicken
than any other country?*

WE FINANCE LOANS
OF ALL SIZES. OUR
AVERAGE LOAN SIZE IS

192K

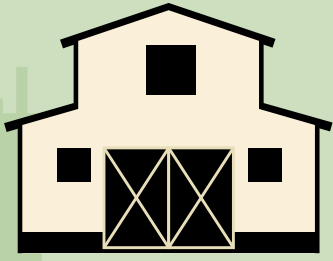
\$135M

Loan volume for our second
highest commodity
in 2019 — **CATTLE.**

*Did you know it takes 2-3 years
to bring beef from farm to fork?*

51%

OF OUR BORROWERS
ARE BEGINNING FARMERS
WITH AN OPERATION
<10 YEARS OLD



18,368

NUMBER OF FARMS IN THE 40 COUNTIES THAT WE SERVE. *Did you know that 2 million farms dot America's rural landscape?*



Number of years Farm Credit has served rural communities

421

2,245,687

Number of people living in the counties that we serve



33,485

Square miles that our territory covers through the lower 40 counties in Alabama



\$1 BILLION

TOTAL LOANS AT THE END OF 2019. THIS WAS A GROWTH OVER LAST YEAR'S TOTAL LOAN VOLUME BY \$66.3M

10%

RETURN ON SHAREHOLDERS EQUITY

80

No. of AAC Team Members



\$248K

AMOUNT OF DONATIONS AND SPONSORSHIPS GIVEN TO SUPPORT AGRICULTURE & RURAL COMMUNITIES



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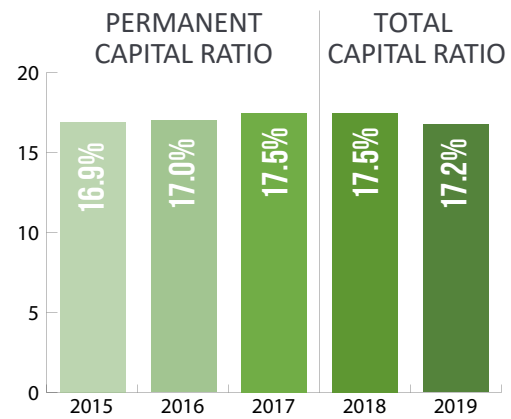
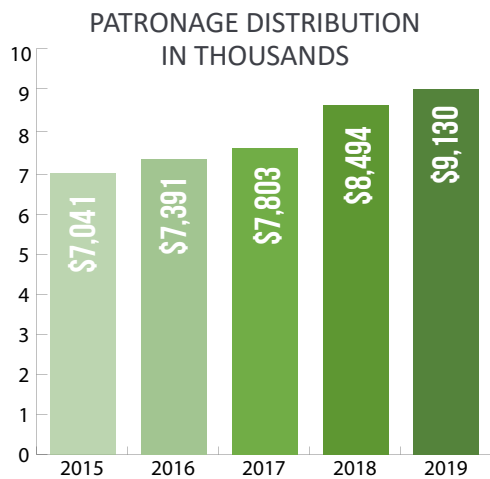
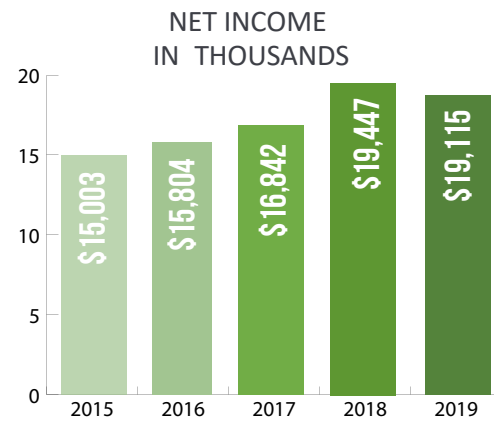
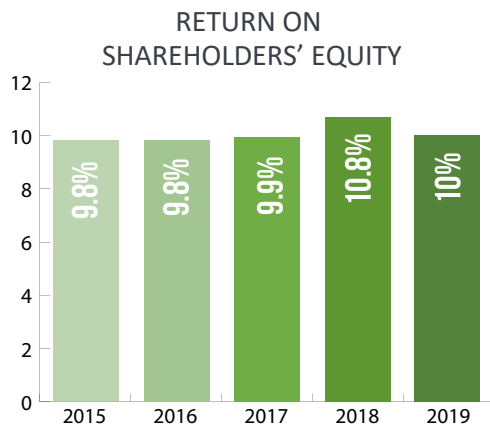
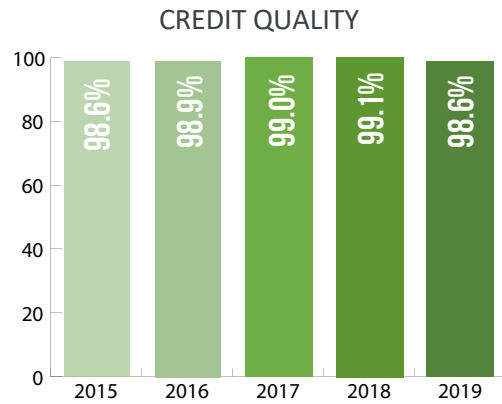
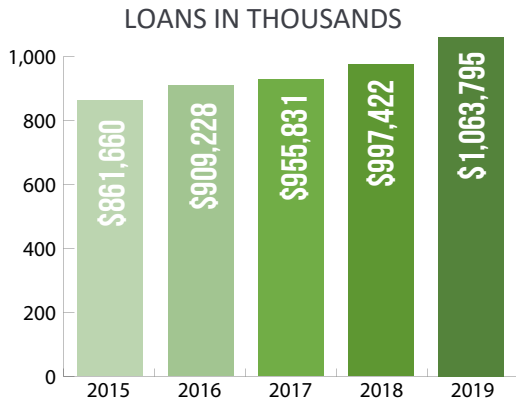
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Report of Audit Committee

financial data





Larry Gibson



Douglas Thiessen

a message from our leadership

On behalf of so many people, we are proud to present the 2019 Annual Report for Alabama Ag Credit. Great results like those presented in this report don't just happen. To generate them, we need borrowers who see us as a valuable resource as well as employees and board members who are focused on serving those in agriculture and rural Alabama. There are constant challenges throughout our industry that must be met every day, but fulfilling our mission is worth all the effort.

Those involved in agriculture know that having a reliable lender who understands the ups and downs of ag operations is critical to their success. Our employees and board members live in the communities we serve. We are active in organizations and groups across the state that promote the general welfare of agriculture and rural communities.

We advocate these positions with elected officials who sometimes need to be reminded of the vital role our producers and local economies play for the benefit of so many. And, we financially support our members by returning profits to them. The record \$9.8 million in cash being returned to members in March 2020 will help so many pay bills or buy other products, which in turn supports local economies.

You can see that our cooperative model works for those who choose to use it. We thank all of you who do use Alabama Ag Credit and ask you to tell others about us. In doing so, you will help us continue to be that valuable resource for so many in 2020 and well beyond.

With great appreciation,

Larry Gibson
Chairman of the Board

Douglas Thiessen
President/Chief Executive Officer


REPORT OF MANAGEMENT

The consolidated financial statements of Alabama Ag Credit, 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.

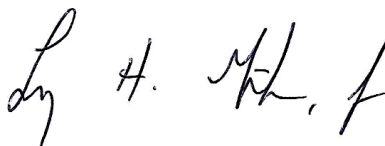
To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (Bank) and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions 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 overall responsibility for the Association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously.

The undersigned certify that we have reviewed this 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.



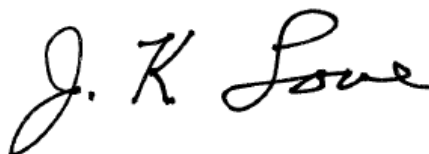
Douglas Thiessen, President/Chief Executive Officer
March 10, 2020



Larry H. Gibson, Jr., Chairman, Board of Directors
March 10, 2020



M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
March 10, 2020



J.K. Love, CPA (retired), Chairman, Audit Committee
March 10, 2020

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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



Douglas Thiessen, President/Chief Executive Officer
March 10, 2020



M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
March 10, 2020

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of the entire board of directors of Alabama Ag Credit, ACA (Association). In 2019, five committee meetings were held. The Committee oversees the scope of the Association'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 the Association's website at AlabamaAgCredit.com. The Committee approved the appointment of PricewaterhouseCoopers LLP as independent auditors for 2019.

Management is responsible for the Association'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. PricewaterhouseCoopers LLP is responsible for performing an independent audit of the Association'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 the Association's audited consolidated financial statements for the year ended December 31, 2019 (audited consolidated financial statements) with management and PricewaterhouseCoopers LLP. The Committee also reviews with PricewaterhouseCoopers LLP the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PricewaterhouseCoopers LLP and the Association's internal auditors directly provide reports on significant matters to the Committee.

The Committee discussed with PricewaterhouseCoopers LLP its independence from the Association. The Committee also reviewed the nonaudit services provided by PricewaterhouseCoopers LLP and concluded that these services were not incompatible with maintaining the independent accountant's independence. The Committee has discussed with management and PricewaterhouseCoopers LLP 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 the Association's Annual Report to Stockholders for the year ended December 31, 2019.

Audit Committee Members

J.K. Love, CPA, Chairman
Kimberly H. Adams
Annie Dee
Larry H. Gibson, Jr.
David N. Hataway
Ray Petty
Mark D. Platt
John Carl Sanders

March 10, 2020

ALABAMA AG CREDIT, ACA

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Balance Sheet Data</u>					
<u>Assets</u>					
Cash	\$ 11	\$ 10	\$ 13	\$ 21	\$ 11
Loans	1,063,795	997,422	955,831	909,228	861,660
Less: allowance for loan losses	7,758	7,359	6,632	6,031	5,381
Net loans	1,056,037	990,063	949,199	903,197	856,279
Investment in and receivable the Bank	21,182	18,026	16,875	17,269	16,185
Other property owned, net	-	45	41	-	542
Other assets	18,174	16,777	15,631	15,255	13,982
Total assets	<u>\$ 1,095,404</u>	<u>\$ 1,024,921</u>	<u>\$ 981,759</u>	<u>\$ 935,742</u>	<u>\$ 886,999</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 17,718	\$ 15,402	\$ 15,565	\$ 15,553	\$ 14,918
Obligations with maturities greater than one year	886,771	827,639	795,341	757,575	717,602
Total liabilities	<u>904,489</u>	<u>843,041</u>	<u>810,906</u>	<u>773,128</u>	<u>732,520</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	4,196	4,114	4,005	3,914	3,795
Unallocated retained earnings	187,094	177,746	167,430	159,081	151,072
Accumulated other comprehensive income (loss)	(375)	20	(582)	(381)	(388)
Total members' equity	190,915	181,880	170,853	162,614	154,479
Total liabilities and members' equity	<u>\$ 1,095,404</u>	<u>\$ 1,024,921</u>	<u>\$ 981,759</u>	<u>\$ 935,742</u>	<u>\$ 886,999</u>
<u>Statement of Income Data</u>					
Net interest income	\$ 28,463	\$ 28,916	\$ 27,000	\$ 25,406	\$ 24,689
Provision for loan losses	(420)	(792)	(692)	(712)	(729)
Income from the Bank	4,796	4,136	3,489	3,322	3,216
Other noninterest income	651	763	400	505	237
Noninterest expense	(14,375)	(13,576)	(13,355)	(12,717)	(12,410)
Net income (loss)	<u>\$ 19,115</u>	<u>\$ 19,447</u>	<u>\$ 16,842</u>	<u>\$ 15,804</u>	<u>\$ 15,003</u>
<u>Key Financial Ratios for the Year</u>					
Return on average assets	1.8%	1.9%	1.8%	1.8%	1.8%
Return on average members' equity	10.0%	10.8%	9.9%	9.8%	9.8%
Net interest income as a percentage of average earning assets	2.7%	2.9%	2.9%	2.9%	3.0%
Net charge-offs (recoveries) as a percentage of average loans	0.0%	0.0%	0.0%	0.0%	0.0%

ALABAMA AG CREDIT, ACA

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Key Financial Ratios at Year End *</u>					
Members' equity as a percentage of total assets	17.4%	17.8%	17.4%	17.4%	17.4%
Debt as a percentage of members' equity	473.8%	463.5%	474.6%	475.4%	474.2%
Allowance for loan losses as a percentage of loans	0.7%	0.7%	0.7%	0.7%	0.6%
Common equity tier 1 ratio	16.5%	16.8%	16.8%	n/a	n/a
Tier 1 capital ratio	16.5%	16.8%	16.8%	n/a	n/a
Total capital ratio	17.2%	17.5%	17.5%	n/a	n/a
Permanent capital ratio	16.6%	16.9%	16.9%	17.0%	16.9%
Tier 1 leverage ratio	16.7%	16.9%	16.9%	n/a	n/a
UREE leverage ratio	17.8%	18.0%	18.0%	n/a	n/a
Total surplus ratio	n/a	n/a	n/a	16.6%	16.5%
Core surplus ratio	n/a	n/a	n/a	16.6%	16.5%
<u>Net Income Distribution</u>					
Cash patronage paid	\$ 9,130	\$ 8,494	\$ 7,803	\$ 7,391	\$ 7,041

* Effective January 1, 2017 the new regulatory capital ratios were implemented by the Association. Regulatory ratios remained well above regulatory minimums, including the conservation and leverage buffers at December 31, 2019.

**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 Alabama Ag Credit, ACA, including its wholly-owned subsidiaries, Alabama Ag Credit, PCA and Alabama Ag Credit, FLCA (collectively called the Association) for the years ended December 31, 2019, 2018 and 2017, and should be read in conjunction with the accompanying consolidated financial statements, which were prepared under the oversight of the Association's audit committee.

The Farm Credit Bank of Texas (Bank) and its related associations (including the Association) are collectively referred to as the Texas Farm Credit District (District). The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2019, the District consisted of the Bank, one Federal Land Credit Association (FLCA) and 13 Agricultural Credit Association (ACA) parent companies, which each have two wholly-owned subsidiaries, an FLCA and a Production Credit Association (PCA), operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

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;
- changes in United States government support of the agricultural industry and the Farm Credit System (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.

Significant Events

In March 2019, the Association paid a patronage of \$9,129,530 in cash from 2018 earnings to the Association's stockholders and in December 2019 declared another patronage of \$9,767,396 from 2019 earnings to be paid in March 2020. In December 2019, the Association received a direct loan patronage of \$4,012,119 from the Bank, representing 45.94 basis points on the average daily balance of the Association's direct loan with the Bank. During 2019, the Association received \$495,121 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank. Also during 2019, the Association received a capital markets patronage of \$288,419 from the Bank, representing 75 basis points on the year's average daily balance of participations in capital markets loans with patronage commitments.

In March 2018, the Association paid a patronage of \$8,495,562 in cash from 2017 earnings to the Association's stockholders and in December 2018 declared another patronage of \$9,129,666 from 2018 earnings to be paid in March 2019. In December 2018, the Association received a direct loan patronage of \$3,408,947 from the Bank, representing 41.61 basis points on the average daily balance of the Association's direct loan with the Bank. During 2018, the Association received \$419,165 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank. Also during 2018, the Association received a capital markets patronage of \$227,457 from the Bank, representing 75 basis points on the year's average daily balance of participations in capital markets loans with patronage commitments.

As of January 1, 2018, the Bank increased the spread charged to all District associations by 0.23 percent for all new loans originated and any existing loans with repricing features subsequent to that date. Existing loans originated at the lower Bank spread are not impacted by this change. To the extent that the market has not allowed this increased cost of funds to be included in borrowers' rates, the Association has and will continue to experience compression of its net interest spread. The Bank's patronage

model includes the goal of providing patronage back to its associations at corresponding levels to effectively reduce their respective cost of borrowing to the net marginal cost of funds obtained from the Funding Corp. Accordingly, as existing loans are paid off and replaced with new loans originated at the higher Bank spread, the Association expects to receive higher levels of patronage on its direct loan with the Bank.

In March 2017, the Association paid a patronage of \$7,802,525 in cash from 2016 earnings to the Association's stockholders and in December 2017 declared another patronage of \$8,493,566 from 2017 earnings to be paid in March 2018. In December 2017, the Association received a direct loan patronage of \$3,040,875 from the Bank, representing 39 basis points on the average daily balance of the Association's direct loan with the Bank. During 2017, the Association received \$329,125 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank. Also during 2017, the Association received a capital markets patronage of \$118,654 from the Bank, representing 75 basis points on the year's average daily balance of participations in capital markets loans with patronage commitments.

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

Loan Portfolio

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loans are available to eligible borrowers with competitive prime- and LIBOR-based, fixed and adjustable interest rates and loan maturities ranging up to 40 years. 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's loan portfolio is stated at recorded investment (principal less funds held) and consisted of 5,585 loans at December 31, 2019. Total loan volume as of December 31, 2019, 2018 and 2017 was \$1,063,795,171, \$997,421,512 and \$955,830,732, respectively. The principal commodities comprising the Association's loan portfolio are timber, cattle, poultry and field crops. The composition of the Association's loan portfolio including borrower profile, geographic distribution, commodity concentrations and asset quality, is described more fully in detailed tables in Note 3 to the financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

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

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

Purchase and Sales of Loans

During 2019, 2018 and 2017, the Association was participating in loans with other lenders. As of December 31, 2019, 2018 and 2017, these participations totaled \$58,359,383, \$56,501,024 and \$64,828,695, or 5.4 percent, 5.7 percent and 6.8 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the District of \$393,313, \$563,281 and \$653,309, or 0.0 percent, 0.1 percent and 0.1 percent of loans, respectively. The Association has also sold participations of \$46,023,235, \$32,300,795 and \$26,436,706 as of December 31, 2019, 2018 and 2017, respectively.

Risk Exposure

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net. The following table illustrates the Association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 8,324,241	98.4%	\$ 2,597,848	64.0%	\$ 4,987,706	69.6%
90 days past due and still accruing interest	-	0.0%	983	0.0%	58,723	0.8%
Formally restructured	135,473	1.6%	1,415,001	34.9%	2,078,563	29.0%
Other property owned, net	-	0.0%	45,040	1.1%	41,200	0.6%
Total	\$ 8,459,714	100.0%	\$ 4,058,872	100.0%	\$ 7,166,192	100.0%

At December 31, 2019, 2018 and 2017, loans that were considered impaired were \$8,459,714, \$4,013,832 and \$7,124,992, representing 0.8 percent, 0.4 percent and 0.7 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The number of nonaccrual loans increased slightly from 2018 to 2019. As of December 31, 2018, 34 loans with an average balance of approximately \$83,000 were classified as nonaccrual, with one large credit comprising 24 percent of the total. By contrast, as of December 31, 2019, 44 loans with an average balance of approximately \$189,000 were classified as nonaccrual, with two large credits comprising 45 percent of the total.

Other property owned, net decreased from two properties owned as of December 31, 2018 to no properties owned as of December 31, 2019.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural or rural real estate lender. To help mitigate and diversify credit risk, the Association has employed practices including obtaining credit guarantees and engaging in loan participations. The Association also has the option of securitizing loans if considered prudent to manage risk.

Allowance for Loan Losses

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

	2019	2018	2017
Allowance for loan losses	\$ 7,758,195	\$ 7,359,122	\$ 6,632,476
Allowance for loan losses to total loans	0.7%	0.7%	0.7%
Allowance for loan losses to nonaccrual loans	93.2%	283.3%	133.0%
Allowance for loan losses to impaired loans	91.7%	183.3%	93.1%
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 \$7,758,195, \$7,359,122 and \$6,632,476 at December 31, 2019, 2018 and 2017, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates.

Results of Operations

The Association's net income for the year ended December 31, 2019, was \$19,115,421 as compared to \$19,447,253 for the year ended December 31, 2018, reflecting a decrease of \$331,832, or 1.7 percent. The Association's net income for the year ended December 31, 2017 was \$16,841,939. Net income increased \$2,605,314, or 15.5 percent, in 2018 versus 2017.

Net interest income for 2019, 2018 and 2017 was \$28,463,291, \$28,916,033, and \$27,000,197, respectively, reflecting a decrease of \$452,742 or 1.6 percent for 2019 versus 2018 and an increase of \$1,915,836, or 7.1 percent for 2018 versus 2017. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2019		2018		2017	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 1,044,718,502	\$ 55,219,208	\$ 980,635,482	\$ 51,257,283	\$ 933,037,008	\$ 44,896,899
Interest-bearing liabilities	873,608,295	26,755,917	819,244,717	22,341,250	780,015,514	17,896,702
Impact of capital	\$ 171,110,207		\$ 161,390,765		\$ 153,021,494	
Net interest income		\$ 28,463,291		\$ 28,916,033		\$ 27,000,197

	2019	2018	2017
	Average Yield	Average Yield	Average Yield
Yield on loans	5.29%	5.23%	4.81%
Cost of interest-bearing liabilities	3.06%	2.73%	2.29%
Interest rate spread	2.23%	2.50%	2.52%
Impact of capital	0.50%	0.45%	0.38%
Net interest income/average earning assets	2.73%	2.95%	2.90%

	2019 vs. 2018			2018 vs. 2017		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ 3,349,555	\$ 612,370	\$ 3,961,925	\$ 2,290,391	\$ 4,069,993	\$ 6,360,384
Interest expense	1,482,549	2,932,118	4,414,667	900,075	3,544,473	4,444,548
Net interest income	\$ 1,867,006	\$ (2,319,748)	\$ (452,742)	\$ 1,390,316	\$ 525,520	\$ 1,915,836

Interest income increased by \$3,961,925, or 7.7 percent, from 2018 to 2019 primarily due to an increase in average loan volume. While yields on loans increased, the Association realized lower interest rate spreads as a result of increased competition for high-quality loans in the marketplace and increased cost of funds. The Association recognized interest income of \$308,384 from nonaccrual loans in 2019. Without the additional nonaccrual interest income, the yield on loans for 2019 would have been 5.25 percent, interest rate spread would have been 2.19 percent, and net interest income/average earning assets would have been 2.69 percent. Interest expense increased by \$4,414,667, or 19.8 percent, from 2018 to 2019 due to an increase in the average balance in interest-bearing liabilities and an increase in the cost of funds. Loan volume, and accordingly, the direct note to the Bank, increased during the reporting period as a result of increased and focused marketing efforts by the Association and retention of a highly experienced credit staff.

Interest income increased by \$6,360,384, or 14.2 percent, from 2017 to 2018 primarily due to increases in yields on earning assets and an increase in average loan volume. While yields on loans increased, the Association realized lower interest rate spreads as a result of increased competition for high-quality loans in the marketplace and increased cost of funds. The Association recognized interest income of \$1,386,913 from nonaccrual loans in 2018. Without the additional nonaccrual interest income, the yield on loans for 2018 would have been 5.09 percent, interest rate spread would have been 2.36 percent, and net interest income/average earning assets would have been 2.81 percent. Interest expense increased by \$4,444,548, or 24.8 percent, from 2017 to 2018 due to an increase in the average balance in those interest-bearing liabilities and an increase in the cost of funds. A primary contributor to the increase in cost of funds was the higher spread charged by the Bank to the Association, as described in the Significant Events section of Management's Discussion and Analysis, above. Loan volume, and accordingly, the direct note to the Bank, increased

during the reporting period as a result of increased and focused marketing efforts by the Association and retention of a highly experienced credit staff.

The Association follows authoritative accounting guidance that requires loan origination fees and costs to be capitalized and amortized over the life of the loans as an adjustment to yield. The resulting adjustment to loan yield for 2019, 2018 and 2017 was \$35,790, \$13,601 and \$6,735, respectively.

Noninterest income for 2019 increased by \$510,833, or 10.4 percent, compared to 2018, due primarily to increased patronage from the Bank. Patronage from the Bank increased primarily as a result of a higher average direct loan with the Bank during 2019 as compared to 2018, and a higher rate of patronage distributed in accordance with the Bank's patronage model as discussed in the Significant Events section, above. The increased patronage was offset partially by less income received from the Farm Credit System Insurance Corporation (FCSIC) Insurance Fund in 2019 as compared to 2018. In 2019 and 2018, FCSIC declared a distribution of excess Insurance Fund reserves; however, the distribution was lower in 2019 than in 2018. The FCSIC and the Insurance Fund are discussed further in Note 1 "Organization and Operations" to the consolidated financial statements included in this annual report.

Noninterest income for 2018 increased by \$1,047,777, or 26.9 percent, compared to 2017, due primarily to increased patronage from the Bank and a refund received from the FCSIC. Patronage from the Bank increased primarily as a result of a higher average direct loan with the Bank during 2018 as compared to 2017, and a higher rate of patronage distributed in accordance with the Bank's patronage model as discussed in the Significant Events section, above. The Association received a distribution of excess Insurance Fund reserves from the FCSIC which was not received in 2017.

Provisions for loan losses decreased by \$371,024, or 46.9 percent, compared to 2018 even though there were more impaired loans in 2019 compared to 2018. Provisions for loan losses increased by \$99,775, or 14.4 percent, compared to 2017. Even though there were fewer impaired loans in 2018 compared to 2017, additional reserves were recognized on a few large credits, resulting in the increased provision expense.

Operating expenses consist primarily of salaries and employee benefits, Insurance Fund premiums, occupancy and equipment and travel. Operating expenses increased by \$760,947 or 5.6 percent, from 2018 to 2019. The increase was primarily due to a \$474,552 increase in salaries and employee benefits. Salaries and employee benefits increased primarily as a result of a larger workforce in 2019 versus 2018, coupled with normal increases in compensation rates. For further detail on the Association's employee benefit plans, see Note 2, "Summary of Significant Accounting Policies" and Note 11, "Employee Benefit Plans," to the consolidated financial statements included in this annual report.

Operating expenses increased by \$258,524, or 1.9 percent, from 2017 to 2018. The increase was primarily due to a \$450,423 increase in salaries and employee benefits, offset partially by a decrease of \$383,643 in Insurance Fund premiums. Insurance Fund premiums decreased as a result of lower rates charged by the FCSIC in 2018 compared to 2017. Salaries and employee benefits increased primarily as a result of a larger workforce in 2018 versus 2017, coupled with normal increases in compensation rates.

Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of \$1,187,910, \$1,122,721 and \$1,107,616 for 2019, 2018 and 2017, respectively, in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs consisted of salaries and benefits totaling \$1,081,536, \$1,051,667 and \$1,048,362 for 2019, 2018 and 2017, respectively, related to the origination of loans.

The Association's return on average assets (ROA) was 1.8 percent, 1.9 percent and 1.8 percent for the years ended December 31, 2019, 2018 and 2017, respectively. The Association's return on average members' equity (ROE) was 10.0 percent, 10.8 percent and 9.9 percent for the years ended December 31, 2019, 2018 and 2017, respectively.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank would have a similar 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 \$884,543,103, \$825,552,682 and \$793,712,363 as of December 31, 2019, 2018 and 2017, respectively, is recorded as a liability on

the Association's balance sheet. The note carried a weighted average interest rate of 2.92 percent, 2.95 percent and 2.40 percent at December 31, 2019, 2018 and 2017, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2018, is due to increased funding needs generated by growth in the Association's loan portfolio. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$179,739,079, \$172,176,463 and \$162,512,219 at December 31, 2019, 2018 and 2017, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2019, was \$1,069,896,884 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

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

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

Capital Resources

The Association's capital position remains strong, with total members' equity of \$190,915,453, \$181,880,512 and \$170,852,563 at December 31, 2019, 2018 and 2017, respectively.

New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the Farm Credit Administration (FCA). The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2019, 2018 and 2017 was 16.6 percent, 16.9 percent and 16.9 percent, respectively.

Under the new regulations, the Association is required to maintain a minimum common equity tier 1 (CET1), tier 1 capital, and total capital ratios of 4.5 percent, 6.0 percent, and 8.0 percent, along with a capital conservation buffer of 2.5 percent applicable to each ratio, respectively. The 2.5 percent capital conservation buffer was phased in over a three-year period ending on December 31, 2019. The Association's common equity tier 1 ratio was 16.5 percent, tier 1 capital ratio was 16.5 percent, and total capital ratio was 17.2 percent at December 31, 2019. Under the new regulations, the Association is required to maintain a minimum tier 1 leverage ratio of 4.0 percent, along with a leverage buffer of 1.0 percent, and a minimum UREE leverage ratio of 1.5 percent. The Association's tier 1 leverage ratio was 16.7 and UREE leverage ratio was 17.8 at December 31, 2019. The CET1 capital ratio is an indicator of the institution's highest quality of capital and consists of unallocated retained earnings, qualifying common cooperative equities (CCEs) that meet the required holding periods, and paid-in capital. The tier 1 capital ratio is a measure of the institution's quality of capital and financial strength. The total capital ratio is supplementary to the tier 1 capital ratio, the components of which include qualifying CCEs subject to certain holding periods, third-party capital subject to certain holding periods and limitations, and allowance and reserve for credit losses subject to certain limitations. The tier 1 leverage ratio is used to measure the amount of leverage an institution has incurred against its capital base, of which at least 1.5 percent must be unallocated retained earnings (URE) and URE equivalents. This is the UREE leverage ratio.

Prior to January 1, 2017, the core surplus ratio measured available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio was an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The total surplus ratio measured available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio was an indicator of the reserves existing to protect borrowers' investments in the Association.

Regulatory ratios remained well above regulatory minimums, including the conservation and leverage buffers at December 31, 2019. The following table reflects the Association’s capital ratios at December 31:

	2019	2018	2017	Regulatory Minimum
Common equity tier 1 ratio	16.5%	16.8%	16.8%	7.0%
Tier 1 capital ratio	16.5%	16.8%	16.8%	8.5%
Total capital ratio	17.2%	17.5%	17.5%	10.5%
Permanent capital ratio	16.6%	16.9%	16.9%	7.0%
Tier 1 leverage ratio	16.7%	16.9%	16.9%	5.0%
UREE leverage ratio	17.8%	18.0%	18.0%	1.5%

	2016	2015	2014	2013	2012	Regulatory Minimum
Total surplus ratio	16.6%	16.5%	17.9%	17.8%	17.4%	7.0%
Core surplus ratio	16.6%	16.5%	17.9%	17.8%	17.4%	3.5%

Refer to Note 9, “Members’ Equity,” to the consolidated financial statements for additional information related to our capital and related requirements and restrictions.

Significant Recent Accounting Pronouncements

Refer to Note 2 – “Summary of Significant Accounting Policies” in this annual report for disclosures of recent accounting pronouncements which may impact the Association’s consolidated financial position and results of operations and for critical accounting policies.

Regulatory Matters

At December 31, 2019, the Association was not under written agreements with the FCA.

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

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

The regulation became effective January 1, 2019.

On June 15, 2018, the FCA published a proposed rule to amend its regulations governing standards of conduct of directors and employees of System institutions and require every System bank and association to have a Standards of Conduct Program based on core principles to put into effect ethical values as part of corporate culture. The stated objectives of the proposed rule are to:

- Establish principles for ethical conduct and recognize each System institution’s responsibility for promoting an ethical culture;
- Provide each System institution flexibility to develop specific guidelines on acceptable practices suitable for its business;
- Encourage each System institution to foster core ethical values and conduct as part of its corporate culture;
- Require each System institution to develop strategies and a system of internal controls to promote institution and individual accountability in ethical conduct, including by establishing a Standards of Conduct Program and adopting a Code of Ethics; and
- Remove prescriptive requirements of the regulations that do not promote these objectives.

The deadline for the submission of public comments was September 13, 2018.

On August 24, 2018, the FCA published for public comment a proposed rule that would modify the existing outside director eligibility criteria to accomplish the following objectives:

- Amend the eligibility criteria for outside directors in § 611.220(a);
- Remove the definition of outside director in § 619.9225;
- Strengthen the safety and soundness of System institutions; and
- Incorporate best practices for corporate governance for System institutions.

The proposed regulation would expand the list of persons who would be excluded from nomination for an outside director's seat to ensure the independence of outside directors. The list would include borrowers of the institution, immediate family members of any director, officer, employee, agent, stockholder or borrower of any System institution, and anyone who has a controlling interest in an entity that borrows from any System institution or any affiliated organization of a System institution. The deadline for the submission of public comments was October 23, 2018.

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

On February 21, 2019, an advance notice of proposed rulemaking on ways to collect, evaluate and report data on the System's service to young, beginning and small (YBS) farmers was published in the Federal Register. The purpose of the advance notice of proposed rulemaking is to gather public input on how FCA might:

- Improve the accuracy, transparency and process by which FCA ensures that YBS farmer data is properly collected and reported by the System;
- Clarify the definitions of terms related to the collection, reporting and identification of YBS farmer data;
- Ensure the definitions of YBS farmers and related terms remain relevant and reflective of the evolving agricultural economy; and
- Evaluate the effectiveness of each System institution's YBS program to achieve its mission of serving YBS farmers.

The comment period ended on May 22, 2019.

On March 19, 2019, an interim final rule on margin and capital requirements for covered swap entities was published in the Federal Register. Five federal agencies acted to ensure that qualifying swaps may be transferred from a United Kingdom (UK) entity to an affiliate in the European Union (EU) or the United States without triggering new margin requirements. The interim final rule adopted would ensure that any legacy swap currently exempt from the agencies' rule on margin for noncleared swaps would not become subject to the rule if such swap is amended solely for the purpose of transferring it to an affiliate as a result of a non-negotiated UK withdrawal from the EU. The comment period ended on April 18, 2019.

On April 3, 2019, a proposed rule was published in the Federal Register on the criteria for reinstating nonaccrual loans. The objectives of the proposed rule 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.

The comment period ended on June 3, 2019.

On September 18, 2019, a proposed rule was published in the Federal Register to address changes to allow System associations to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the United States Department of Agriculture (USDA) unconditionally guarantees or insures as to the timely payment of principal and interest. The objectives of the proposed rule are to authorize System associations to buy as investments for risk management purposes, portions of certain loans that non-System lenders originate, and the USDA fully guarantees as to principal and interest to:

- Augment the liquidity of rural credit markets;
- Reduce the capital burden on community banks and other non-System lenders who choose to sell their USDA guaranteed portions of loans, so they may extend additional credit in rural areas; and
- Enhance the ability of associations to manage risk.

The comment period ended on November 18, 2019.

On September 23, 2019, a proposed rule was published in the Federal Register to address changes to capital and other regulations, including certain regulatory disclosure requirements, in response to recent changes in the U.S. generally accepted accounting principles (U.S. GAAP). The objectives of the proposed rule are to:

- Ensure that the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. GAAP; and
- Ensure that conforming amendments to other regulations accurately reference credit losses.

The comment period ended on November 22, 2019.

On November 7, 2019, a proposed rule was published in the Federal Register by five federal agencies that would amend the agencies' regulations that require swap dealers and security-based swap dealers under the agencies' respective jurisdictions to exchange margin with their counterparties for swaps that are not centrally cleared (Swap Margin Rule). The Swap Margin Rule as adopted in 2015 takes effect under a phased compliance schedule spanning from 2016 through 2020, and the dealers covered by the rule continue to hold swaps in their portfolios that were entered into before the effective dates of the rule. Such swaps are grandfathered from the Swap Margin Rule's requirements until they expire according to their terms. The proposed rule would permit swaps entered into prior to an applicable compliance date (legacy swaps) to retain their legacy status in the event that they are amended to replace an interbank offered rate (IBOR) or other discontinued rate, repeal the inter-affiliate initial margin provisions, introduce an additional compliance date for initial margin requirements, clarify the point in time at which trading documentation must be in place, permit legacy swaps to retain their legacy status in the event that they are amended due to technical amendments, notional reductions, or portfolio compression exercises, and make technical changes to relocate the provision addressing amendments to legacy swaps that are made to comply with the Qualified Financial Contract Rules, as defined in the Supplementary Information section.

The comment period ended on December 9, 2019.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 8 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 8 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 12 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 FCSIC Insurance Fund premiums.

Summary

Regardless of the state of the agricultural and general economies, your Association's board of directors and management are 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 Alabama Ag Credit, ACA

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 10, 2020

ALABAMA AG CREDIT, ACA
CONSOLIDATED BALANCE SHEET

	December 31,		
	2019	2018	2017
<u>Assets</u>			
Cash	\$ 11,379	\$ 10,000	\$ 13,074
Loans	1,063,795,171	997,421,512	955,830,732
Less: allowance for loan losses	7,758,195	7,359,122	6,632,476
Net loans	1,056,036,976	990,062,390	949,198,256
Accrued interest receivable	10,786,605	9,827,877	8,514,757
Investment in and receivable from the Bank			
Capital stock	17,377,430	16,322,640	15,533,315
Accrued patronage receivable	288,432	228,574	116,993
Other	3,516,526	1,474,469	1,225,117
Other property owned, net	-	45,040	41,200
Premises and equipment	6,461,977	6,439,711	6,612,044
Other assets	925,087	509,846	504,317
Total assets	<u>\$ 1,095,404,412</u>	<u>\$ 1,024,920,547</u>	<u>\$ 981,759,073</u>
<u>Liabilities</u>			
Note payable to the Bank	\$ 884,543,103	\$ 825,552,682	\$ 793,712,363
Accrued interest payable	2,228,315	2,085,861	1,629,260
Drafts outstanding	862,901	229,909	153,633
Patronage distributions payable	9,767,488	9,129,719	8,494,220
Other liabilities	7,087,152	6,041,864	6,917,034
Total liabilities	<u>904,488,959</u>	<u>843,040,035</u>	<u>810,906,510</u>
<u>Members' Equity</u>			
Capital stock and participation certificates	4,196,475	4,114,255	4,004,710
Unallocated retained earnings	187,094,401	177,746,279	167,430,087
Accumulated other comprehensive income (loss)	(375,423)	19,978	(582,234)
Total members' equity	<u>190,915,453</u>	<u>181,880,512</u>	<u>170,852,563</u>
Total liabilities and members' equity	<u>\$ 1,095,404,412</u>	<u>\$ 1,024,920,547</u>	<u>\$ 981,759,073</u>

The accompanying notes are an integral part of these consolidated financial statements.
Alabama Ag Credit, ACA — 2019 Annual Report

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2019	2018	2017
<u>Interest Income</u>			
Loans	\$ 55,219,208	\$ 51,257,283	\$ 44,896,899
<u>Interest Expense</u>			
Note payable to the Bank	26,755,917	22,341,250	17,896,702
Net interest income	28,463,291	28,916,033	27,000,197
<u>Provision for Loan Losses</u>			
Provision for loan losses	420,538	791,562	691,787
Net interest income after provision for loan losses	28,042,753	28,124,471	26,308,410
<u>Noninterest Income</u>			
Income from the Bank	4,795,659	4,136,264	3,488,654
Loan fees	231,740	194,723	174,037
Gain on sale of premises and equipment, net	173,272	35,426	145,571
Other noninterest income	246,735	570,160	80,534
Total noninterest income	5,447,406	4,936,573	3,888,796
<u>Noninterest Expenses</u>			
Salaries and employee benefits	9,000,315	8,525,763	8,075,340
Directors' expense	369,885	272,708	298,190
Purchased services	492,848	477,801	553,515
Travel	797,882	800,981	719,788
Occupancy and equipment	822,481	807,352	832,635
Communications	296,814	272,007	334,736
Advertising	344,224	331,837	311,742
Public and member relations	514,131	524,988	490,098
Supervisory and exam expense	370,789	339,448	325,976
Insurance Fund premiums	881,811	818,580	1,202,223
Other components of net periodic postretirement benefit cost	97,280	133,430	-
Loss (gain) on other property owned, net	54,334	41,405	(14,345)
Other noninterest expense	331,944	267,491	225,369
Total noninterest expenses	14,374,738	13,613,791	13,355,267
NET INCOME	19,115,421	19,447,253	16,841,939
Other comprehensive income:			
Change in postretirement benefit plans	(395,401)	602,212	(201,658)
COMPREHENSIVE INCOME	\$ 18,720,020	\$ 20,049,465	\$ 16,640,281

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

Alabama Ag Credit, ACA — 2019 Annual Report

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2016	\$ 3,913,875	\$ 159,081,109	\$ (380,576)	\$ 162,614,408
Net income	-	16,841,939	-	16,841,939
Other comprehensive income	-	-	(201,658)	(201,658)
Capital stock/participation certificates issued	539,670	-	-	539,670
Capital stock/participation certificates retired	(448,835)	-	-	(448,835)
Patronage dividends:				
Cash	-	(8,493,566)	-	(8,493,566)
Change in patronage declared and paid	-	605	-	605
Balance at December 31, 2017	<u>4,004,710</u>	<u>167,430,087</u>	<u>(582,234)</u>	<u>170,852,563</u>
Net income	-	19,447,253	-	19,447,253
Other comprehensive income	-	-	602,212	602,212
Capital stock/participation certificates issued	551,135	-	-	551,135
Capital stock/participation certificates retired	(441,590)	-	-	(441,590)
Patronage dividends:				
Cash	-	(9,129,666)	-	(9,129,666)
Change in patronage declared and paid	-	(1,395)	-	(1,395)
Balance at December 31, 2018	<u>4,114,255</u>	<u>177,746,279</u>	<u>19,978</u>	<u>181,880,512</u>
Net income	-	19,115,421	-	19,115,421
Other comprehensive income	-	-	(395,401)	(395,401)
Capital stock/participation certificates issued	605,365	-	-	605,365
Capital stock/participation certificates retired	(523,145)	-	-	(523,145)
Patronage dividends:				
Cash	-	(9,767,396)	-	(9,767,396)
Change in patronage declared and paid	-	97	-	97
Balance at December 31, 2019	<u>\$ 4,196,475</u>	<u>\$ 187,094,401</u>	<u>\$ (375,423)</u>	<u>\$ 190,915,453</u>

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

Alabama Ag Credit, ACA — 2019 Annual Report

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 19,115,421	\$ 19,447,253	\$ 16,841,939
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	420,538	791,562	691,787
Provision for acquired property	(37,600)	37,600	-
Loss (gain) on other property owned, net	77,220	1,213	(9,360)
Depreciation and amortization	484,323	489,447	504,272
Gain on sale of premises and equipment, net	(166,428)	(69,160)	(145,598)
Increase in accrued interest receivable	(958,728)	(1,313,120)	(215,783)
(Increase) decrease in other receivables from the Bank	(2,101,915)	(360,933)	1,310,666
Increase in other assets	(18,365)	(5,529)	(53,356)
Increase in accrued interest payable	142,454	456,601	284,367
Increase (decrease) in other liabilities	228,954	(259,862)	422,729
Net cash provided by operating activities	<u>17,185,874</u>	<u>19,215,072</u>	<u>19,631,663</u>
Cash flows from investing activities:			
Increase in loans, net	(66,648,512)	(41,782,145)	(47,189,691)
Cash recoveries of loans previously charged off	37,515	44,314	6,795
Purchase of capital stock in the Bank	(1,054,790)	(789,325)	(917,560)
Purchases of premises and equipment	(723,449)	(405,024)	(751,464)
Proceeds from sales of premises and equipment	347,498	143,469	292,771
Proceeds from sales of other property owned	281,140	39,987	460,000
Net cash used in investing activities	<u>(67,760,598)</u>	<u>(42,748,724)</u>	<u>(48,099,149)</u>

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

Alabama Ag Credit, ACA — 2019 Annual Report

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2019	2018	2017
Cash flows from financing activities:			
Net draws on note payable to the Bank	58,990,421	31,840,319	37,482,678
Increase (decrease) in drafts outstanding	632,992	76,276	(1,311,325)
Issuance of capital stock and participation certificates	605,365	551,135	539,670
Retirement of capital stock and participation certificates	(523,145)	(441,590)	(448,835)
Patronage distributions paid	(9,129,530)	(8,495,562)	(7,802,525)
Net cash provided by financing activities	50,576,103	23,530,578	28,459,663
Net increase (decrease) in cash	1,379	(3,074)	(7,823)
Cash at the beginning of the year	10,000	13,074	20,897
Cash at the end of the year	\$ 11,379	\$ 10,000	\$ 13,074
 Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	275,720	82,640	491,840
Loans charged off	34,924	122,326	88,454
Patronage distributions declared	9,767,396	9,129,666	8,493,566
Change in AOCI	395,401	(602,212)	201,658
 Supplemental cash information:			
Cash paid during the year for:			
Interest	\$ 27,913,217	\$ 22,521,096	\$ 17,830,135

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

Alabama Ag Credit, ACA — 2019 Annual Report

ALABAMA AG CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS

- A. Organization: Alabama Ag Credit, ACA, including its wholly-owned subsidiaries, Alabama Ag Credit, PCA and Alabama Ag Credit, FLCA (collectively called the Association) is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Autauga, Baldwin, Barbour, Bibb, Bullock, Butler, Chambers, Chilton, Choctaw, Clarke, Coffee, Conecuh, Coosa, Covington, Crenshaw, Dale, Dallas, Elmore, Escambia, Geneva, Greene, Hale, Henry, Houston, Lee, Lowndes, Macon, Marengo, Mobile, Monroe, Montgomery, Perry, Pickens, Pike, Russell, Sumter, Tallapoosa, Tuscaloosa, Washington and Wilcox in the state of Alabama.

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

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

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

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums (which may be passed on to the associations) 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.” The secure base amount 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 Act, 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 Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

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

The Association also serves as an intermediary in offering credit life and term life insurance to borrowers.

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires

consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance on January 1, 2019, did not materially impact the Association's financial condition or its results of operations.

- B. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.
- C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 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.

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-nonviable 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 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. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of these circumstances.

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.

The Association purchases loan 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."

- D. **Capital Stock Investment in the Bank:** The Association's investment in the Bank is in the form of Class A voting capital stock. 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 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.

- E. **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 in the consolidated balance sheet at the lower of the loan's carrying amount or the property's fair value less estimated selling costs upon acquisition. 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.

- F. 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.
- G. 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. The Association had advance conditional payments of \$17,334,811, \$26,916,674 and \$16,963,199 at December 31, 2019, 2018 and 2017, respectively, all of which was restricted and therefore was all netted against the related loan balances in the consolidated balance sheet.
- H. 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 non-qualified defined contribution 401(k) plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions (5 percent of eligible pay for the year ended December 31, 2019) made on their behalf into various investment alternatives. Association DC plan costs are expensed as incurred.

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 in the consolidated balance sheet.

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 percent of eligible earnings, and to match 50 percent of employee contributions for the next 2 percent of employee contributions, up to a maximum employer contribution of 4 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred.

In addition to the DB plan, the DC plan, and the Farm Credit Benefits Alliance 401(k) Plan, 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 in the consolidated balance sheet. For further information on the Association's employee benefit plans, see Note 11, "Employee Benefit Plans."

- I. 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. The Association distributes patronage on the basis of book income. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax

payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (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.

- J. Patronage Refunds from the Bank: The Association records patronage refunds from the Bank on an accrual basis.
- K. 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 our 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 13, "Fair Value Measurements."

- L. 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 — LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans as of December 31 follows:

Loan Type	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 867,916,496	81.6%	\$ 828,054,658	83.0%	\$ 797,514,109	83.4%
Production and intermediate term	120,331,139	11.3%	109,967,257	11.0%	97,061,367	10.2%
Agribusiness:						
Loans to cooperatives	3,878,008	0.4%	2,127,764	0.2%	2,373,350	0.2%
Processing and marketing	35,352,598	3.3%	29,920,600	3.0%	36,866,722	3.9%
Farm-related business	15,959	0.0%	143,110	0.0%	655,293	0.1%
Communication	2,634,328	0.2%	2,767,256	0.3%	2,893,234	0.3%
Energy	934,042	0.1%	-	0.0%	-	0.0%
Rural residential real estate	32,732,601	3.1%	24,440,867	2.5%	18,466,657	1.9%
Total	<u>\$ 1,063,795,171</u>	<u>100.0%</u>	<u>\$ 997,421,512</u>	<u>100.0%</u>	<u>\$ 955,830,732</u>	<u>100.0%</u>

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2019:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 12,641,578	\$ 32,276,874	\$ -	\$ -	\$ 12,641,578
Production and intermediate term	12,691,018	6,068,799	-	-	12,691,018	6,068,799
Agribusiness	29,458,417	7,677,562	-	-	29,458,417	7,677,562
Communication	2,634,328	-	-	-	2,634,328	-
Energy	934,042	-	-	-	934,042	-
Total	<u>\$ 58,359,383</u>	<u>\$ 46,023,235</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,359,383</u>	<u>\$ 46,023,235</u>

Geographic Distribution: Distribution is based on collateral location.

County	2019	2018	2017
Dale	4.7%	4.1%	4.2%
Baldwin	4.6%	3.8%	3.8%
Dallas	4.5%	4.2%	4.7%
Marengo	4.2%	4.8%	4.4%
Montgomery	4.0%	3.9%	3.4%
Bullock	3.8%	3.6%	3.3%
Coffee	3.6%	3.8%	3.7%
Monroe	3.5%	3.9%	3.3%
Barbour	3.2%	2.5%	2.5%
Lowndes	3.2%	3.3%	3.2%
Macon	3.1%	3.4%	3.1%
Henry	3.1%	3.2%	3.4%
Houston	3.0%	2.8%	3.1%
Geneva	2.9%	2.5%	2.5%
Tuscaloosa	2.7%	2.7%	2.5%
Mobile	2.5%	2.7%	3.0%
Hale	2.3%	2.4%	2.2%
Pike	2.1%	2.7%	2.7%
Greene	2.0%	2.0%	1.9%
Autauga	2.0%	2.0%	2.1%
Lee	2.0%	2.0%	2.2%
Elmore	1.9%	2.2%	2.0%
Crenshaw	1.7%	2.1%	2.4%
Pickens	1.7%	1.4%	1.3%
Wilcox	1.6%	1.2%	2.2%
Perry	1.6%	1.9%	1.6%
Chilton	1.6%	1.2%	1.3%
Coosa	1.4%	1.0%	0.8%
Butler	1.4%	1.5%	1.7%
Russell	1.3%	1.4%	1.6%
Washington	1.3%	1.4%	1.5%
Escambia	1.2%	1.1%	1.0%
Tallapoosa	1.2%	1.3%	1.2%
Clarke	1.2%	1.8%	0.9%
Sumter	1.1%	1.2%	1.3%
Chambers	1.1%	1.2%	1.3%
Covington	1.1%	1.1%	1.1%
Conecuh	1.0%	1.2%	1.1%
Other Counties	2.2%	1.9%	1.9%
Other States	7.4%	7.6%	8.6%
Totals	100.0%	100.0%	100.0%

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.

Operation/Commodity	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
Timber	\$ 538,591,023	50.6%	\$ 505,101,836	50.6%	\$ 477,391,947	49.9%
Livestock, except dairy and poultry	135,276,611	12.7%	124,567,585	12.5%	118,642,837	12.4%
Poultry and eggs	131,351,349	12.3%	112,134,849	11.2%	111,643,396	11.7%
Field crops except cash grains	97,868,355	9.2%	94,809,680	9.5%	95,619,149	10.0%
Rural home loans	42,073,104	4.0%	33,961,392	3.4%	27,597,345	2.9%
Lumber and wood products, except furniture	21,222,805	2.0%	21,616,309	2.2%	14,416,591	1.5%
Food and kindred products	14,632,339	1.4%	18,427,235	1.8%	23,424,526	2.5%
Animal specialties	13,098,001	1.2%	21,490,655	2.2%	20,282,823	2.1%
Other	69,681,584	6.6%	65,311,971	6.6%	66,812,118	7.0%
Total	<u>\$ 1,063,795,171</u>	<u>100.0%</u>	<u>\$ 997,421,512</u>	<u>100.0%</u>	<u>\$ 955,830,732</u>	<u>100.0%</u>

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.

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

The following table presents information relating to impaired loans:

	December 31,		
	2019	2018	2017
Nonaccrual loans			
Current as to principal and interest	\$ 5,494,677	\$ 913,036	\$ 1,525,510
Past Due	2,829,564	1,684,812	3,462,196
Total nonaccrual loans	<u>8,324,241</u>	<u>2,597,848</u>	<u>4,987,706</u>
Impaired accrual loans			
Restructured accrual loans	135,473	1,415,001	2,078,563
Accrual loans 90 days or more past due	-	983	58,723
Total impaired accrual loans	<u>135,473</u>	<u>1,415,984</u>	<u>2,137,286</u>
Total impaired loans	<u>\$ 8,459,714</u>	<u>\$ 4,013,832</u>	<u>\$ 7,124,992</u>

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

	December 31, 2019	December 31, 2018	December 31, 2017
Nonaccrual loans:			
Real estate mortgage	\$ 7,480,266	\$ 2,325,499	\$ 4,562,792
Production and intermediate term	789,891	208,811	336,638
Agribusiness	15,959	24,110	33,055
Rural residential real estate	38,125	39,428	55,221
Total nonaccrual loans	<u>8,324,241</u>	<u>2,597,848</u>	<u>4,987,706</u>
Accruing restructured loans:			
Real estate mortgage	135,473	1,363,583	1,659,037
Production and intermediate term	-	51,418	419,526
Total accruing restructured loans	<u>135,473</u>	<u>1,415,001</u>	<u>2,078,563</u>
Accruing loans 90 days or more past due:			
Real estate mortgage	-	-	58,723
Production and intermediate term	-	983	-
Total accruing loans 90 days or more past due	<u>-</u>	<u>983</u>	<u>58,723</u>
Total nonperforming loans	8,459,714	4,013,832	7,124,992
Other property owned	-	45,040	41,200
Total nonperforming assets	<u>\$ 8,459,714</u>	<u>\$ 4,058,872</u>	<u>\$ 7,166,192</u>

One credit quality indicator utilized by the Bank and the Association is the FCA'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,
- 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 FCA's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31. There were no loans in the loss category.

	<u>2019</u>		<u>2018</u>		<u>2017</u>
Real estate mortgage					
Acceptable	97.9	%	98.1	%	98.1
OAEM	0.6		0.8		0.8
Substandard/doubtful	1.5		1.1		1.1
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Production and intermediate term					
Acceptable	96.5		97.1		97.8
OAEM	1.9		2.6		1.7
Substandard/doubtful	1.6		0.3		0.5
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Loans to cooperatives					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Processing and marketing					
Acceptable	86.9		100.0		100.0
OAEM	13.1		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Farm-related business					
Acceptable	-		83.2		95.0
OAEM	-		-		-
Substandard/doubtful	100.0		16.8		5.0
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Communication					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Energy					
Acceptable	100.0		-		-
OAEM	-		-		-
Substandard	-		-		-
	<u>100.0</u>		<u>-</u>		<u>-</u>
Rural residential real estate					
Acceptable	99.6		99.8		99.5
OAEM	-		-		0.2
Substandard/doubtful	0.4		0.2		0.3
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Total Loans					
Acceptable	97.5		98.1		98.2
OAEM	1.1		1.0		0.8
Substandard/doubtful	1.4		0.9		1.0
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>

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

December 31, 2019:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 4,372,447	\$ 251,030	\$ 4,623,477	\$ 872,120,416	\$ 876,743,893	\$ -
Production and intermediate term	201,975	410,499	612,474	121,424,888	122,037,362	-
Loans to cooperatives	-	-	-	3,886,270	3,886,270	-
Processing and marketing	-	-	-	35,476,359	35,476,359	-
Farm-related business	-	-	-	15,959	15,959	-
Communication	-	-	-	2,634,241	2,634,241	-
Energy	-	-	-	936,702	936,702	-
Rural residential real estate	29,480	-	29,480	32,821,510	32,850,990	-
Total	\$ 4,603,902	\$ 661,529	\$ 5,265,431	\$ 1,069,316,345	\$ 1,074,581,776	\$ -

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	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 3,215,620	\$ 1,315,735	\$ 4,531,355	\$ 831,458,373	\$ 835,989,728	\$ -
Production and intermediate term	644,096	1,983	646,079	111,064,600	111,710,679	983
Loans to cooperatives	-	-	-	2,136,305	2,136,305	-
Processing and marketing	-	-	-	29,974,158	29,974,158	-
Farm-related business	-	-	-	143,692	143,692	-
Communication	-	-	-	2,767,257	2,767,257	-
Energy	-	-	-	-	-	-
Rural residential real estate	94,945	-	94,945	24,432,625	24,527,570	-
Total	\$ 3,954,661	\$ 1,317,718	\$ 5,272,379	\$ 1,001,977,010	\$ 1,007,249,389	\$ 983

December 31, 2017:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 4,842,756	\$ 461,111	\$ 5,303,867	\$ 799,192,198	\$ 804,496,065	\$ 58,723
Production and intermediate term	171,709	180,533	352,242	98,098,961	98,451,203	-
Loans to cooperatives	-	-	-	2,382,368	2,382,368	-
Processing and marketing	-	-	-	36,935,022	36,935,022	-
Farm-related business	-	-	-	655,574	655,574	-
Communication	-	-	-	2,894,322	2,894,322	-
Energy	-	-	-	-	-	-
Rural residential real estate	256,290	9,372	265,662	18,265,273	18,530,935	-
Total	\$ 5,270,755	\$ 651,016	\$ 5,921,771	\$ 958,423,717	\$ 964,345,488	\$ 58,723

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 TDR 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. TDRs are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of December 31, 2019, the total recorded investment of TDR loans was \$577,257, including \$441,783 classified as nonaccrual and \$135,474 classified as accrual, with specific allowance for loan losses of \$141,311. All loans classified as TDRs were individually evaluated to determine the need for allowance for loan losses. There were no additional commitments to lend to borrowers whose loans have been modified in TDR at December 31, 2019, 2018 or 2017.

The following tables present additional information regarding TDRs, which includes both accrual and nonaccrual loans with TDR designation, that occurred during the years ended December 31, 2019 and 2017. There were no loans with TDR designation that occurred during the year ended December 31, 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, 2019:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 249,981	\$ 251,031
Production and intermediate term	163,863	145,911
Total	\$ 413,844	\$ 396,942
December 31, 2017:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 1,403,553	\$ 1,369,420
Production and intermediate term	411,640	418,602
Total	\$ 1,815,193	\$ 1,788,022

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

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

For the years ended December 31, 2019, 2018 and 2017, there were no loans that met the accounting criteria as a TDR 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 TDRs at period end. These loans are included as impaired loans in the impaired loan table:

	Loans Modified as TDRs		
	December 31, 2019	December 31, 2018	December 31, 2017
Troubled debt restructurings:			
Real estate mortgage	\$ 399,840	\$ 1,555,714	\$ 4,507,937
Production and intermediate term	177,417	95,366	575,631
Total	\$ 577,257	\$ 1,651,080	\$ 5,083,568
	TDRs on Nonaccrual Status		
	December 31, 2019	December 31, 2018	December 31, 2017
Troubled debt restructurings:			
Real estate mortgage	\$ 264,366	\$ 192,131	\$ 2,848,900
Production and intermediate term	177,417	43,948	156,105
Total	\$ 441,783	\$ 236,079	\$ 3,005,005

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2019	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 5,049,868	\$ 5,096,160	\$ 1,000,767	\$ 2,705,877	\$ 47,497
Production and intermediate term	142,311	142,311	141,311	186,354	793
Farm-related business	-	-	-	-	-
Rural residential real estate	38,125	38,126	16,230	15,408	185
Total	<u>\$ 5,230,304</u>	<u>\$ 5,276,597</u>	<u>\$ 1,158,308</u>	<u>\$ 2,907,639</u>	<u>\$ 48,475</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 2,565,872	\$ 2,736,397	\$ -	\$ 4,480,291	\$ 54,597
Production and intermediate term	647,580	648,117	-	338,326	8,610
Farm-related business	15,959	15,959	-	16,613	-
Rural residential real estate	-	-	-	35,177	390
Total	<u>\$ 3,229,411</u>	<u>\$ 3,400,473</u>	<u>\$ -</u>	<u>\$ 4,870,407</u>	<u>\$ 63,597</u>
Total impaired loans:					
Real estate mortgage	\$ 7,615,740	\$ 7,832,557	\$ 1,000,767	\$ 7,186,168	\$ 102,094
Production and intermediate term	789,891	790,428	141,311	524,680	9,403
Farm-related business	15,959	15,959	-	16,613	-
Rural residential real estate	38,125	38,126	16,230	50,585	575
Total	<u>\$ 8,459,715</u>	<u>\$ 8,677,070</u>	<u>\$ 1,158,308</u>	<u>\$ 7,778,046</u>	<u>\$ 112,072</u>

	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	\$ 1,464,953	\$ 1,472,467	\$ 524,234	\$ 3,380,787	\$ 69,970
Production and intermediate term	207,811	207,811	171,620	263,742	11,665
Farm-related business	-	-	-	-	-
Rural residential real estate	-	-	-	18,731	272
Total	<u>\$ 1,672,764</u>	<u>\$ 1,680,278</u>	<u>\$ 695,854</u>	<u>\$ 3,663,260</u>	<u>\$ 81,907</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 2,224,129	\$ 2,427,675	\$ -	\$ 2,180,109	\$ 35,859
Production and intermediate term	53,401	140,547	-	257,510	7,819
Farm-related business	24,110	24,110	-	25,179	-
Rural residential real estate	39,428	39,428	-	42,823	-
Total	<u>\$ 2,341,068</u>	<u>\$ 2,631,760</u>	<u>\$ -</u>	<u>\$ 2,505,621</u>	<u>\$ 43,678</u>
Total impaired loans:					
Real estate mortgage	\$ 3,689,082	\$ 3,900,142	\$ 524,234	\$ 5,560,896	\$ 105,829
Production and intermediate term	261,212	348,358	171,620	521,252	19,484
Farm-related business	24,110	24,110	-	25,179	-
Rural residential real estate	39,428	39,428	-	61,554	272
Total	<u>\$ 4,013,832</u>	<u>\$ 4,312,038</u>	<u>\$ 695,854</u>	<u>\$ 6,168,881</u>	<u>\$ 125,585</u>

	Recorded Investment at 12/31/2017	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 4,228,280	\$ 4,235,041	\$ 932,168	\$ 4,019,772	\$ 52,265
Production and intermediate term	178,402	178,402	88,417	202,110	818
Farm-related business	33,055	33,055	5,895	35,277	-
Rural residential real estate	-	-	-	15,074	-
Total	<u>\$ 4,439,737</u>	<u>\$ 4,446,498</u>	<u>\$ 1,026,480</u>	<u>\$ 4,272,233</u>	<u>\$ 53,083</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 2,052,272	\$ 2,298,239	\$ -	\$ 2,259,487	\$ 38,056
Production and intermediate term	577,762	588,204	-	245,288	9,361
Farm-related business	-	-	-	-	-
Rural residential real estate	55,221	55,221	-	57,075	-
Total	<u>\$ 2,685,255</u>	<u>\$ 2,941,664</u>	<u>\$ -</u>	<u>\$ 2,561,850</u>	<u>\$ 47,417</u>
Total impaired loans:					
Real estate mortgage	\$ 6,280,552	\$ 6,533,280	\$ 932,168	\$ 6,279,259	\$ 90,321
Production and intermediate term	756,164	766,606	88,417	447,398	10,179
Farm-related business	33,055	33,055	5,895	35,277	-
Rural residential real estate	55,221	55,221	-	72,149	-
Total	<u>\$ 7,124,992</u>	<u>\$ 7,388,162</u>	<u>\$ 1,026,480</u>	<u>\$ 6,834,083</u>	<u>\$ 100,500</u>

^aUnpaid principal balance represents the recorded principal balance of the loan.

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

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

	2019	2018	2017
Interest income which would have been recognized under the original terms	\$ 569,817	\$ 320,854	\$ 455,833
Less: interest income recognized	(112,072)	(125,585)	(100,500)
Foregone interest income	<u>\$ 457,745</u>	<u>\$ 195,269</u>	<u>\$ 355,333</u>

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy and Water/ Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at							
December 31, 2018	\$ 6,910,644	\$ 364,699	\$ 43,021	\$ 2,268	\$ -	\$ 38,490	\$ 7,359,122
Charge-offs	(28,202)	-	-	-	-	(6,722)	(34,924)
Recoveries	37,515	-	-	-	-	-	37,515
Provision for loan losses	254,811	29,431	69,770	(109)	-	66,635	420,538
Other	258	(15,195)	(11,560)	-	2,389	52	(24,056)
Balance at							
December 31, 2019	<u>\$ 7,175,026</u>	<u>\$ 378,935</u>	<u>\$ 101,231</u>	<u>\$ 2,159</u>	<u>\$ 2,389</u>	<u>\$ 98,455</u>	<u>\$ 7,758,195</u>
Ending Balance:							
individually evaluated for impairment	<u>\$ 1,354,230</u>	<u>\$ 141,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,007</u>	<u>\$ 1,542,548</u>
Ending Balance:							
collectively evaluated for impairment	<u>\$ 5,820,796</u>	<u>\$ 237,624</u>	<u>\$ 101,231</u>	<u>\$ 2,159</u>	<u>\$ 2,389</u>	<u>\$ 51,448</u>	<u>\$ 6,215,647</u>
Recorded Investment in Loans Outstanding:							
Ending Balance at							
December 31, 2019	<u>\$ 876,743,893</u>	<u>\$ 122,037,362</u>	<u>\$ 39,378,588</u>	<u>\$ 2,634,241</u>	<u>\$ 936,702</u>	<u>\$ 32,850,990</u>	<u>\$ 1,074,581,776</u>
Ending balance for loans individually evaluated for impairment	<u>\$ 13,125,547</u>	<u>\$ 1,902,058</u>	<u>\$ 15,959</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,087</u>	<u>\$ 15,173,651</u>
Ending balance for loans collectively evaluated for impairment	<u>\$ 863,618,346</u>	<u>\$ 120,135,304</u>	<u>\$ 39,362,629</u>	<u>\$ 2,634,241</u>	<u>\$ 936,702</u>	<u>\$ 32,720,903</u>	<u>\$ 1,059,408,125</u>
	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy and Water/ Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at							
December 31, 2017	\$ 6,293,569	\$ 248,540	\$ 58,177	\$ 3,601	\$ -	\$ 28,589	\$ 6,632,476
Charge-offs	(20,871)	(88,888)	-	-	-	(12,567)	(122,326)
Recoveries	44,314	-	-	-	-	-	44,314
Provision for loan losses	589,364	201,526	(24,699)	(1,333)	4,167	22,537	791,562
Other	4,268	3,521	9,543	-	(4,167)	(69)	13,096
Balance at							
December 31, 2018	<u>\$ 6,910,644</u>	<u>\$ 364,699</u>	<u>\$ 43,021</u>	<u>\$ 2,268</u>	<u>\$ -</u>	<u>\$ 38,490</u>	<u>\$ 7,359,122</u>
Ending Balance:							
individually evaluated for impairment	<u>\$ 1,153,425</u>	<u>\$ 172,827</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,326,252</u>
Ending Balance:							
collectively evaluated for impairment	<u>\$ 5,757,219</u>	<u>\$ 191,872</u>	<u>\$ 43,021</u>	<u>\$ 2,268</u>	<u>\$ -</u>	<u>\$ 38,490</u>	<u>\$ 6,032,870</u>
Recorded Investment in Loans Outstanding:							
Ending Balance at							
December 31, 2018	<u>\$ 835,989,728</u>	<u>\$ 111,710,679</u>	<u>\$ 32,254,155</u>	<u>\$ 2,767,257</u>	<u>\$ -</u>	<u>\$ 24,527,570</u>	<u>\$ 1,007,249,389</u>
Ending balance for loans individually evaluated for impairment	<u>\$ 8,432,927</u>	<u>\$ 345,255</u>	<u>\$ 24,110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,428</u>	<u>\$ 8,841,720</u>
Ending balance for loans collectively evaluated for impairment	<u>\$ 827,556,801</u>	<u>\$ 111,365,424</u>	<u>\$ 32,230,045</u>	<u>\$ 2,767,257</u>	<u>\$ -</u>	<u>\$ 24,488,142</u>	<u>\$ 998,407,669</u>

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy and Water/ Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at							
December 31, 2016	\$ 5,396,080	\$ 520,729	\$ 67,499	\$ 3,514	\$ -	\$ 42,771	\$ 6,030,593
Charge-offs	(74,047)	-	-	-	-	(14,407)	(88,454)
Recoveries	6,795	-	-	-	-	-	6,795
Provision for loan losses	951,237	(265,914)	5,917	(70)	-	617	691,787
Other	13,504	(6,275)	(15,239)	157	-	(392)	(8,245)
Balance at							
December 31, 2017	\$ 6,293,569	\$ 248,540	\$ 58,177	\$ 3,601	\$ -	\$ 28,589	\$ 6,632,476
Ending Balance: individually evaluated for impairment	\$ 1,173,755	\$ 90,009	\$ 5,895	\$ -	\$ -	\$ -	\$ 1,269,659
Ending Balance: collectively evaluated for impairment	\$ 5,119,814	\$ 158,531	\$ 52,282	\$ 3,601	\$ -	\$ 28,589	\$ 5,362,817
Recorded Investment in Loans Outstanding:							
Ending Balance at							
December 31, 2017	\$ 804,496,065	\$ 98,451,203	\$ 39,972,964	\$ 2,894,322	\$ -	\$ 18,530,935	\$ 964,345,488
Ending balance for loans individually evaluated for impairment	\$ 8,777,797	\$ 511,993	\$ 33,055	\$ -	\$ -	\$ 55,221	\$ 9,378,066
Ending balance for loans collectively evaluated for impairment	\$ 795,718,268	\$ 97,939,210	\$ 39,939,909	\$ 2,894,322	\$ -	\$ 18,475,714	\$ 954,967,422

NOTE 4 — INVESTMENT IN THE BANK

The investment in the Bank is a requirement of borrowing from the Bank and is carried at cost, not fair value, in the accompanying balance sheet. Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. The Association owns 5.2 percent of the issued stock of the Bank as of December 31, 2019. As of that date, the Bank's assets totaled \$25.7 billion and members' equity totaled \$1.8 billion. The Bank's earnings were \$203.0 million during 2019.

NOTE 5 — PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31:

	2019	2018	2017
Land and improvements	\$ 1,500,108	\$ 1,500,108	\$ 1,500,108
Building and improvements	4,721,667	4,692,768	4,692,768
Furniture and equipment	465,481	459,857	450,923
Computer equipment and software	300,336	397,253	332,667
Automobiles	1,515,196	1,421,576	1,394,286
Construction in progress	-	-	-
	8,502,788	8,471,562	8,370,752
Accumulated depreciation	(2,040,811)	(2,031,851)	(1,758,708)
Total	\$ 6,461,977	\$ 6,439,711	\$ 6,612,044

The Association owns its office space in Montgomery (Branch), Dothan, Enterprise, Opelika, Monroeville and Spanish Fort. The Association leases office space in Montgomery (Administration), Demopolis, Selma and Tuscaloosa, all in Alabama. Lease expense was \$241,155, \$235,546 and \$228,726 for 2019, 2018 and 2017, respectively. Minimum annual lease payments for the next five years are as follows:

	Operating
2020	\$ 191,225
2021	138,604
2022	-
2023	-
2024	-
Thereafter	-
Total	<u>\$ 329,829</u>

NOTE 6 — OTHER PROPERTY OWNED, NET

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Gain (loss) on sale, net	\$ (91,934)	\$ (1,213)	\$ 15,227
Operating income (expense), net	37,600	(40,192)	(882)
Net gain (loss) on other property owned	<u>\$ (54,334)</u>	<u>\$ (41,405)</u>	<u>\$ 14,345</u>

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES

Other assets comprised the following at December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Captive insurance savings	\$ 408,749	\$ 415,239	\$ 422,204
Right to use asset	396,876	-	-
Other assets	119,462	94,607	82,113
Total	<u>\$ 925,087</u>	<u>\$ 509,846</u>	<u>\$ 504,317</u>

Other liabilities comprised the following at December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Accumulated postretirement benefit obligation	\$ 2,988,633	\$ 2,512,228	\$ 2,980,557
Accrued incentive bonus and related benefits	1,900,930	1,743,493	1,644,307
Lease liability	396,876	-	-
Other liabilities	1,800,713	1,786,143	2,292,170
Total	<u>\$ 7,087,152</u>	<u>\$ 6,041,864</u>	<u>\$ 6,917,034</u>

NOTE 8 — NOTE PAYABLE TO THE BANK

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets, and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the Association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2019, 2018 and 2017, was \$884,543,103, at 2.92 percent, \$825,552,682 at 2.95 percent and \$793,712,363 at 2.40 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2019, 2018 and 2017, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2019, was \$1,069,896,884, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2019, 2018 and 2017, the Association was not subject to remedies associated with the covenants in the general financing agreement. Other than our funding relationship with the Bank, we have no other uninsured or insured debt.

NOTE 9 — MEMBERS' EQUITY

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

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.

The Association's capital bylaws authorize the Association to issue Class A, C and P common stock and participation certificates. Each share of stock and unit of participation certificates has a par or face value of \$5. All transfers, exchanges, conversions and retirements of stock and participation certificates are recorded at book value, not to exceed par.

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 or participation certificates is equal to 2 percent of the aggregate of all of the borrower's loans, up to a maximum of \$1,000. If needed to meet regulatory capital adequacy requirements, the maximum amount to which the board of directors may increase the stock requirement is 5 percent of the individual loan amounts.

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. The Association's capitalization bylaws generally permit stock and participations certificates to be retired at the discretion of the board of directors and in accordance with the Association's capitalization plans, provided prescribed capital standards have been met. At December 31, 2019, the Association exceeded the prescribed standards. Further, neither management nor the board of directors anticipates any significant changes in capital that would affect the normal retirement of stock.

Each owner of Class A stock (for farm loans) is entitled to a single vote, while participation certificates (for rural home and farm-related business loans) provide no voting rights to their owners.

Within two years of repayment of a loan, the Association's capital bylaws require the conversion of any borrower's outstanding Class A stock 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. Ownership of Class C stock does not entitle holders to any patronage distributions, but the stock does carry an equal right to any dividends on common stock declared by the board of directors. Redemption of Class C shares is made solely at the discretion of the Association's board of directors. At December 31, 2019, 2018 and 2017, the Association had no Class C capital stock.

Class P stock may be issued only for allocated surplus distributions, stock dividends, and patronage distributions to borrowers eligible to hold Class A stock. Class P 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. Ownership of Class P stock does not entitle holders to any patronage distributions, but the stock does carry an equal right to any dividends on common stock declared by the board of directors. Redemption of Class P shares is made solely at the discretion of the Association's board of directors. At December 31, 2019, 2018 and 2017, the Association had no Class P capital 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 stock, Class C stock, Class P 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.

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 patronage distributions were declared and paid 2019, 2018 and 2017, respectively:

<u>Date Declared</u>	<u>Date Paid</u>	<u>Patronage</u>
December 2019	March 2020	\$ 9,767,396
December 2018	March 2019	\$ 9,129,530
December 2017	March 2018	\$ 8,495,562

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

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

<u>Risk-adjusted:</u>	<u>Regulatory Minimums</u>	<u>Conservation Buffer</u>	<u>Total</u>	<u>As of December 31, 2019</u>
Common equity tier 1 ratio	4.50%	2.50%	7.00%	16.46%
Tier 1 capital ratio	6.00%	2.50%	8.50%	16.46%
Total capital ratio	8.00%	2.50%	10.50%	17.17%
Permanent capital ratio	7.00%	0.00%	7.00%	16.58%
<u>Non-risk-adjusted:</u>				
Tier 1 leverage ratio**	4.00%	1.00%	5.00%	16.66%
UREE leverage ratio	1.50%	0.00%	1.50%	17.78%

**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 90-day 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 stock subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

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

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	\$ 191,808,210	\$ 191,808,210	\$ 191,808,210	\$ 191,808,210
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,194,794	4,194,794	4,194,794	4,194,794
Allowance for loan losses and reserve for credit losses subject to certain limitations*	-	-	7,734,390	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(16,334,360)	(16,334,360)	(16,334,360)	(16,334,360)
	<u>179,668,644</u>	<u>179,668,644</u>	<u>187,403,034</u>	<u>179,668,644</u>
Denominator:				
Risk-adjusted assets excluding allowance	1,107,747,789	1,107,747,789	1,107,747,789	1,107,747,789
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(16,334,360)	(16,334,360)	(16,334,360)	(16,334,360)
Allowance for loan losses	-	-	-	(7,631,976)
	<u>\$ 1,091,413,429</u>	<u>\$ 1,091,413,429</u>	<u>\$ 1,091,413,429</u>	<u>\$ 1,083,781,453</u>

*Capped at 1.25 percent of risk-adjusted assets

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

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	\$ 191,808,210	\$ 191,808,210
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	4,194,794	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(16,334,360)	-
	<u>179,668,644</u>	<u>191,808,210</u>
Denominator:		
Total Assets	1,099,667,538	1,099,667,538
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(20,964,239)	(20,964,239)
	<u>\$ 1,078,703,299</u>	<u>\$ 1,078,703,299</u>

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

As mentioned in Note 2, "Summary of Significant Accounting Policies," the Association is required to purchase stock in the Bank. The level of stock required is calculated annually based on the average borrowings of the Association from the Bank. The required level is currently 2 percent of the average borrowing from the previous 12 months. This stock investment in the Bank reduces the amount of Association capital available for inclusion in the Association's capital adequacy calculations.

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.

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

	2019	2018	2017
Class A stock	\$ 762,464	\$ 757,602	\$ 741,899
Participation certificates	76,831	65,249	59,043
Total	<u>\$ 839,295</u>	<u>\$ 822,851</u>	<u>\$ 800,942</u>

An additional component of equity is accumulated other comprehensive income. 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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Accumulated other comprehensive income (loss) at January 1	\$ 19,978	\$ (582,234)	\$ (380,576)
Prior service (cost) credit	-	125,583	-
Amortization of prior service (credit) costs included			
in salaries and employee benefits	(20,218)	(17,296)	(23,064)
Amortization of actuarial (gain) loss	-	32,874	17,239
Net actuarial gain (loss)	<u>(375,183)</u>	<u>461,051</u>	<u>(195,833)</u>
Other comprehensive income (loss), net of tax	<u>(375,423)</u>	<u>602,212</u>	<u>(201,658)</u>
Accumulated other comprehensive income at December 31	<u>\$ (355,445)</u>	<u>\$ 19,978</u>	<u>\$ (582,234)</u>

NOTE 10 — INCOME TAXES

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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Federal tax at statutory rate	\$ 4,014,238	\$ 4,083,923	\$ 5,894,678
State tax, net	1,242,502	1,264,071	1,094,726
Effect of nontaxable FLCA subsidiary	(5,118,208)	(5,228,240)	(6,763,191)
Impact of change in statutory rate	-	-	(225,173)
Change in valuation allowance	13,009	36,881	237,750
Other	(151,541)	(156,635)	(238,790)
Provision for (benefit from) income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 116,872	\$ 107,654	\$ 79,440
Loss carryforwards	977,217	977,217	977,217
Deferred origination fees	4,800	1,009	(7,658)
Gross deferred tax assets	<u>1,098,889</u>	<u>1,085,880</u>	<u>1,048,999</u>
Deferred tax asset valuation allowance	<u>(1,098,889)</u>	<u>(1,085,880)</u>	<u>(1,048,999)</u>
Net deferred tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The following table is a summary of unrealized operating loss carryforwards with expiration dates at December 31, 2019:

2030	\$ 799,663
2031	622,895
2032	956,001
2033	752,879
2034	471,560
2035	136,114
Total	<u>\$ 3,739,112</u>

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. The Association recorded a full valuation allowance of \$1,098,889, \$1,085,880 and \$1,048,999 during 2019, 2018 and 2017, respectively, based on management's estimate that it is more likely than not that the deferred tax assets will not be realized. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

The enactment of federal tax legislation in late December 2017 lowered the federal corporate tax from 35% to 21% beginning January 1, 2018. In accordance with GAAP, the change to lower corporate tax rate led to a remeasurement of the deferred tax liabilities and deferred tax assets in 2017, the period of enactment.

The Association follows FASB guidance on accounting for uncertainty in income taxes. At December 31, 2019, 2018 and 2017, the Association did not recognize a tax liability for any uncertain tax positions.

NOTE 11 — EMPLOYEE BENEFIT PLANS

Employee Retirement Plans: As discussed in Note 2, "Summary of Significant Accounting Policies," employees of the Association participate in either the District's DB plan or the District's DC plan. For the DB plan, the Association recognized pension costs of \$522,220, \$572,482 and \$433,840 for the years ended December 31, 2019, 2018 and 2017, respectively. The Association recognized pension costs for the DC plan of \$339,655, \$309,114 and \$289,503 for the years ended December 31, 2019, 2018 and 2017, respectively.

Employees of the Association are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. The Association's contributions to the 401(k) plan were \$262,126, \$265,317 and \$252,587 for the years ended December 31, 2019, 2018 and 2017, respectively.

In addition, 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 Restored Employer and Elective Deferrals programs of the Supplemental 401(k) Plan. For the Restored Employer Contributions program, the Association contributed \$15,868, \$14,363 and \$11,574 for 2019, 2018 and 2017, respectively. To date no employees have made contributions to the Elective Deferrals program. There were no payments made from the Supplemental 401(k) Plan to active employees during 2019, 2018 and 2017.

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

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

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Funded status of plan	66.2 %	68.0 %	69.7 %
Association's contribution	\$ 522,220	\$ 572,482	\$ 433,840
Percentage of Association's contribution to total contributions	6.4 %	5.9 %	3.7 %

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

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care 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. Employees hired prior to January 1, 2004 and who are at least 55 years of age (or at least age 50 with 30 years of service) may retire and have their medical premium paid on a percentage of cost-sharing basis, predicated on length of employment service. Employees hired before this date that have reached the age requirement and have 25 years of service will receive 100 percent of their medical premium paid. Employees hired after January 1, 2004 will be eligible for access only to retiree medical benefits for themselves but will be responsible for 100 percent of the premium.

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

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	2019	2018	2017
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	\$ 2,512,228	\$ 2,980,557	\$ 2,663,291
Service cost	52,171	70,810	59,877
Interest cost	117,505	117,850	120,893
Plan participants' contributions	33,426	21,249	14,618
Plan amendments	-	(125,583)	-
Special termination benefits	-	-	-
Actuarial loss (gain)	375,183	(461,051)	195,833
Benefits paid	(101,880)	(91,604)	(73,955)
Accumulated postretirement benefit obligation, end of year	\$ 2,988,633	\$ 2,512,228	\$ 2,980,557
Change in Plan Assets			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Company contributions	68,454	70,355	59,337
Plan participants' contributions	33,426	21,249	14,618
Benefits paid	(101,880)	(91,604)	(73,955)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (2,988,633)	\$ (2,512,228)	\$ (2,980,557)
Amounts Recognized in Statement of Financial Position			
Other liabilities	\$ (2,988,633)	\$ (2,512,228)	\$ 2,980,557
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	\$ 480,785	\$ 105,607	\$ 599,530
Prior service cost (credit)	(105,362)	(125,585)	(17,296)
Net transition obligation (asset)	-	-	-
Total	\$ 375,423	\$ (19,978)	\$ 582,234
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	12/31/2019	12/31/2018	12/31/2017
Discount rate	3.45%	4.75%	4.00%
Health care cost trend rate assumed for next year (pre-/post-65) - 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

Total Cost	2019	2018	2017
Service cost	\$ 52,171	\$ 70,810	\$ 59,877
Interest cost	117,505	117,850	120,893
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost (credit)	(20,218)	(17,296)	(23,064)
Unrecognized net loss (gain)	-	32,874	17,239
Net postretirement benefit cost	\$ 149,458	\$ 204,238	\$ 174,945
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)	\$ 375,183	\$ (461,051)	\$ 195,833
Amortization of net actuarial loss (gain)	-	(32,874)	(17,239)
Prior service cost (credit)	-	(125,583)	-
Amortization of prior service cost (credit)	20,218	17,296	23,064
Amortization of transition liability (asset)	-	-	-
Total recognized in other comprehensive income	\$ 395,401	\$ (602,212)	\$ 201,658
AOCI Amounts Expected to be Amortized Into Expense			
Unrecognized net transition obligation (asset)	\$ -	\$ -	\$ -
Unrecognized prior service cost (credit)	(20,218)	20,223	(17,296)
Unrecognized net loss (gain)	20,418	-	32,874
Total	\$ 200	\$ 20,223	\$ 15,578
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	12/31/2018	12/31/2017	12/31/2016
Discount rate	4.75%	4.00%	4.60%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.30%/6.90%	7.70%/6.90%	6.75%/6.50%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2026/2027	2026/2026	2025/2024
Expected Future Cash Flows			
Expected Benefit Payments (net of employee contributions)			
Fiscal 2020	\$ 69,932	\$ -	\$ -
Fiscal 2021	70,380	-	-
Fiscal 2022	81,590	-	-
Fiscal 2023	94,199	-	-
Fiscal 2024	99,129	-	-
Fiscal 2025–2029	594,962	-	-
Expected Contributions			
Fiscal 2020	\$ 69,932	\$ -	\$ -

NOTE 12 — 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 for the Association amounted to \$3,813,634, \$2,913,862 and \$3,904,276 at December 31, 2019, 2018 and 2017, respectively. During 2019, \$1,405,292 of new loans were made, and repayments totaled \$1,976,258. In addition, \$1,470,738 was reclassified between related party and non-related party loans due to the election of a new director. In the opinion of management, no such loans outstanding at December 31, 2019, 2018 and 2017 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$805,677, \$752,599 and \$1,139,469 in 2019, 2018 and 2017, respectively.

The Association received patronage payments from the Bank totaling \$4,795,659, \$4,136,264 and \$3,488,654 during 2019, 2018 and 2017, respectively.

NOTE 13 — 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.

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. 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 transition. The following represent a brief summary of the valuation techniques used by the Bank and associations for assets and liabilities:

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.

Loans Evaluated for Impairment

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.

With regard to impaired loans, 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 take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

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. As a result, these fair value measurements fall within Level 3 of the hierarchy.

With regard to 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 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 instruments fair value measurements:

	<u>Valuation Technique(s)</u>	<u>Input</u>
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Note payable to Bank	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk

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

December 31, 2019	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	\$ 98,961	\$ -	\$ -	\$ 98,961
December 31, 2018	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	\$ 72,879	\$ -	\$ -	\$ 72,879
December 31, 2017	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	\$ 62,573	\$ -	\$ -	\$ 62,573

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

December 31, 2019	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 6,626,162	\$ 6,626,162
Other property owned	-	-	-	-
December 31, 2018	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 3,059,213	\$ 3,059,213
Other property owned	-	-	50,670	50,670
December 31, 2017	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 4,179,616	\$ 4,179,616
Other property owned	-	-	46,350	46,350

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

December 31, 2019
Fair Value Measurement Using

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 11,379	\$ 11,379	\$ -	\$ -	\$ 11,379
Net loans	1,049,410,814	-	-	1,048,172,605	1,048,172,605
Total Assets	<u>\$ 1,049,422,193</u>	<u>\$ 11,379</u>	<u>\$ -</u>	<u>\$ 1,048,172,605</u>	<u>\$ 1,048,183,984</u>
Liabilities:					
Note payable to Bank	\$ 884,543,103	\$ -	\$ -	\$ 883,505,568	\$ 883,505,568
Total Liabilities	<u>\$ 884,543,103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 883,505,568</u>	<u>\$ 883,505,568</u>

December 31, 2018
Fair Value Measurement Using

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 10,000	\$ 10,000	\$ -	\$ -	\$ 10,000
Net loans	986,558,800	-	-	960,367,468	960,367,468
Total Assets	<u>\$ 986,568,800</u>	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ 960,367,468</u>	<u>\$ 960,377,468</u>
Liabilities:					
Note payable to Bank	\$ 825,552,682	\$ -	\$ -	\$ 803,635,768	\$ 803,635,768
Total Liabilities	<u>\$ 825,552,682</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 803,635,768</u>	<u>\$ 803,635,768</u>

December 31, 2017
Fair Value Measurement Using

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 13,074	\$ 13,074	\$ -	\$ -	\$ 13,074
Net loans	944,149,230	-	-	921,672,237	921,672,237
Total Assets	<u>\$ 944,162,304</u>	<u>\$ 13,074</u>	<u>\$ -</u>	<u>\$ 921,672,237</u>	<u>\$ 921,685,311</u>
Liabilities:					
Note payable to Bank	\$ 793,712,363	\$ -	\$ -	\$ 744,816,762	\$ 744,816,762
Total Liabilities	<u>\$ 793,712,363</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 744,816,762</u>	<u>\$ 744,816,762</u>

NOTE 14 — COMMITMENTS AND CONTINGENCIES

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.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are

agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2019, the Association had outstanding unfunded commitments totaling \$89,351,943. Included in that total were, through participations, letters of credit of \$276,380.

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

NOTE 15 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 7,077	\$ 7,145	\$ 7,114	\$ 7,128	\$ 28,464
(Provision for) reversal of loan losses	(133)	(47)	(118)	(122)	(420)
Noninterest income (expense), net	(2,756)	(2,801)	(2,850)	(522)	(8,929)
Net income	\$ 4,188	\$ 4,297	\$ 4,146	\$ 6,484	\$ 19,115

	2018				
	First	Second	Third	Fourth	Total
Net interest income	\$ 6,876	\$ 6,929	\$ 6,929	\$ 8,182	\$ 28,916
(Provision for) reversal of loan losses	122	(9)	(450)	(455)	(792)
Noninterest income (expense), net	(2,268)	(2,700)	(2,686)	(1,023)	(8,677)
Net income	\$ 4,730	\$ 4,220	\$ 3,793	\$ 6,704	\$ 19,447

	2017				
	First	Second	Third	Fourth	Total
Net interest income	\$ 6,816	\$ 6,670	\$ 6,678	\$ 6,836	\$ 27,000
(Provision for) reversal of loan losses	(4)	(320)	(243)	(125)	(692)
Noninterest income (expense), net	(2,574)	(2,815)	(2,758)	(1,320)	(9,467)
Net income	\$ 4,238	\$ 3,535	\$ 3,677	\$ 5,391	\$ 16,841

NOTE 16 — SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 10, 2020, which is the date the financial statements were issued or available to be issued. There are no subsequent events to report.

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, 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 Alabama Ag Credit, ACA (Association) serves its 40-county territory through its main administrative office at 2660 EastChase Lane, Suite 401, Montgomery, Alabama, 36117. Additionally, there are nine branch lending offices located throughout the territory. The Association owns the office buildings in Montgomery (branch), Opelika, Enterprise, Dothan, Monroeville and Spanish Fort, free of debt. The Association leases the office buildings in Montgomery (administrative), Demopolis, Selma and Tuscaloosa.

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 9 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 8, "Note Payable to the Bank," Note 11, "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 14 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 Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communication, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 465-1881. Copies of the reports can also be requested by e-mailing fcb@farmcreditbank.com. The reports are also available on its website at www.farmcreditbank.com.

The Association’s annual and quarterly stockholder reports are also available free of charge, upon request. The quarterly reports will be available on the Association’s website at *www.AlabamaAgCredit.com* approximately 40 days after quarter end and the Association’s annual stockholder report will be available on its website 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. Copies of the reports can also be obtained by writing to Alabama Ag Credit, ACA, 2660 EastChase Lane, Suite 401, Montgomery, Alabama, 36117 or calling (334) 270-8687. In addition, copies of the reports can also be requested by e-mailing *Info@AlabamaAgCredit.com*

SELECTED FINANCIAL DATA

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

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

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

DIRECTORS AND SENIOR OFFICERS

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

<u>NAME</u>	<u>POSITION</u>	<u>DATE EMPLOYED</u>	<u>TERM EXPIRES</u>	<u>TIME IN POSITION</u>
Larry H. Gibson, Jr.	Chairman	April 2010	2022	-
John Carl Sanders	Vice Chairman	April 2015	2021	-
Kimberly H. Adams	Director	June 2018	2021	-
Annie Dee	Director	June 2019	2022	-
David N. Hataway	Director	June 2017	2020	-
J.K. Love	Director-Elected Director	April 2006	2021	-
Ray Petty	Director-Elected Director	January 2007	2022	-
Mark D. Platt	Director-Elected Director	April 2016	2020	-
Timothy D. Tucker	Director	June 2018*	-	-
Douglas Thiessen	President/Chief Executive Officer	February 2007	-	13 years
Chris Higbe	Sr. VP/Chief Credit Officer	May 2011	-	8 years
M. Scott Sellers	Sr. VP/Chief Financial Officer	September 2003	-	15 years
J. Scott McCall	Chief Relationship Officer	January 2011	-	9 years

*Mr. Tucker was originally elected in April 2005 and resigned effective March 27, 2018. He was subsequently re-elected in June 2018 and resigned again effective March 26, 2019. Mr. Platt was appointed by the board to fill the remaining term of Mr. Tucker.

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes. All directors served on the Association’s audit and compensation committees in 2019; other committee service is noted below.

Larry H. Gibson, Jr., age 47. Mr. Gibson resides in Aliceville, Alabama, and is president and owner of Gibson Forest Management, Inc., a forestry consulting firm established in 1994, and Gibson Timberlands, LLC, a land and timber company. He manages approximately 60,000 acres of timberland for clients in West Alabama and East Mississippi where he provides complete forest management services and he owns approximately 1,800 acres of timberland where timber and wildlife are the primary commodities. Mr. Gibson is a member of the Alabama Forestry Association, the Society of American Foresters (past state chair), the Association of Consulting Foresters (past state chair), and Alabama Farmers Federation of Pickens County, having served on the boards of each organization. He currently serves as a member of the Pickens County Industrial Board (industrial development). Mr. Gibson earned a bachelor’s degree in forest management from Mississippi State University. He is a trustee at Hebron United Methodist Church. Mr. Gibson serves as chairman of the Association’s board of directors, and previously served as vice chairman of the board.

John Carl Sanders, age 65. Mr. Sanders resides in Roeton, Alabama, and has been farming full-time all of his adult life. He farms in partnership with his son on 1,000 acres where the primary commodities produced are peanuts, cotton and corn. In addition, Mr. Sanders has a 100-head brood cow operation. Mr. Sanders serves as president of the Alabama Peanut Producers Association (peanut promotion); a director of the American Peanut Council (peanut promotion); a member of the Peanut Standards Board (peanut promotion); vice president of the Coffee County Farmers Federation (agricultural federation); and a director of the Alabama 4-H Club Foundation (resources for promotion of youth in agriculture). Mr. Sanders earned a bachelor's degree in Agricultural Science from Auburn University. Mr. Sanders serves as vice chairman of the Association's board of directors, and formerly served as chairman of the board.

Kimberly H. Adams, age 55. Ms. Adams resides in Montgomery, Alabama, where she has a law practice, established in 2000, concentrating in governmental affairs and governmental law. She is also a certified mediator for the State of Alabama, and owns a pine and hardwood timber farm located in Russell County, Alabama. Ms. Adams' affiliations include the Alabama State Bar Association; the Montgomery County Bar Association; the Alabama Council of Association Executives; the Alabama Forestry Association; the Alabama Chapter Coastal Conservation Association; and the Montgomery County Junior League (sustaining member). Ms. Adams earned a bachelor's degree from Auburn University and a Juris Doctor degree from Cumberland School of Law. Ms. Adams is a member of First United Methodist Church.

Annie Dee, age 60. Ms. Dee resides in Aliceville, Alabama, and has been farming all of her adult life. She is president and part owner of Dee River Ranch, a family-operated 10,000-acre farm where the principal commodities produced are corn and soybeans. In addition, Dee River Ranch has over 1,000 head of Brahman and Angus crossbred cattle, along with pine and hardwoods planted on part of the farm. Ms. Dee is part owner and manager of Dee Farm, a general partnership which runs the farming operations located at Dee River Ranch, and Dee Farm Equipment, LLC. The farm also engages in collaborations with several universities in irrigation research projects, and crop variety and fungicide trials. In addition to her work on the farm, Ms. Dee's affiliations and board service include: the United Soybean Board (soybean promotion); the Alabama Soybean and Corn Association (agricultural commodity promotion); the Pickens County Farmers Federation (agricultural federation); the Alabama Soybean Producers (soybean promotion); the West Alabama Food Bank (storing and distributing food for hunger relief), and the Advisory Board for the Soybean Innovation Lab administered through University of Illinois. Ms. Dee has worked with the Howard G. Buffet Foundation on "Invest an Acre" and "Harvesting the Potential" programs, and she is a Soil Health Partner for the National Association of Conservation Districts. She serves as a lead farmer for the Farm Journal Foundation and is a member of Pickens County Cattlewomen (past president), New Era Arts Club (past president), and Corpus Christi Parish Council (past president). In addition, Ms. Dee serves on the advisory committee for Auburn University Forestry Department, NRCS State Advisory Board and Auburn University Integrated Pest Management. Mrs. Dee earned a bachelor's degree in Animal Industries from Clemson University, and attends Corpus Christi Church.

David N. Hataway, age 64. Mr. Hataway resides in Ramer, Alabama, where he has owned and operated an 800 acre timber, beef and hay farm for the past 46 years. Mr. Hataway is retired from the Alabama Department of Agriculture where he worked in the poultry, market news, and animal health division. He also served in the Alabama National Guard and retired as an Infantry major. Mr. Hataway's affiliations and board service include past president of the Montgomery County Farmers Federation (agricultural federation); and past president of the Montgomery County Cattleman's Association (cattle promotion). Prior to his election to the Association's board of directors, Mr. Hataway served as a past chairman of the Association's Nominating Committee. Mr. Hataway earned an associate degree from Troy University. He is a member of Ramer United Methodist Church.

J.K. Love, age 78. Mr. Love resides in Montgomery, Alabama, and is a CPA. Mr. Love retired after 30 years in public accounting and served four years as the CFO for Hudson Industries, Inc., a Troy, Alabama-based business which specializes in manufacturing, packaging and distribution of food condiments. Mr. Love is part owner of and serves as CFO of Southeast Subway Development Co. Inc., and ALGA Development Co., franchising businesses for Subway brand restaurants in parts of Alabama, Georgia and Florida. In addition, Mr. Love is part owner and serves as Treasurer on the board of directors of 5i Solutions, Inc., a Ft. Lauderdale, Florida-based company specializing in electronic document management. He also serves on the board of directors for two other Montgomery-based businesses – Whitfield Foods, Inc., which specializes in packaging of beverages, retail syrup and other food products; and Best Glass, Inc., which is a subcontractor for commercial buildings. Mr. Love earned a bachelor's degree in accounting from Auburn University. Mr. Love serves as the chairman of the Association's audit committee.

Ray Petty, age 69. Mr. Petty resides in Birmingham, Alabama, and serves on the Montgomery Advisory Board for an independent commercial bank, ServisFirst Bank, based in Birmingham, Alabama. Mr. Petty was serving on the board of directors of ServisFirst at the time of his appointment as chief development officer in July, 2008, a position he held until 2019. Previously, Mr. Petty was retired after a 34-year career in commercial banking with SouthTrust Bank. Mr. Petty served 27 years in Montgomery, the last 20 as the Montgomery area president. During the last nine years of his Montgomery tenure, Mr. Petty also served as South

Alabama/Mississippi regional president. In addition, he taught commercial lending for 15 years at University of South Alabama's banking school. Mr. Petty earned a bachelor's degree in history from Auburn University.

Mark D. Platt, age 42. Mr. Platt resides in Fruitdale, Alabama, and has been farming full-time for the last 20 years. He is co-owner of Platt Farms, a Washington County-based operation which includes 850 acres where principal commodities produced are poultry, cotton, peanuts, feed grains, cattle and timber. Mr. Platt serves on the boards of Deer Park-Vinegar Bend Water Board (rural water management), Fruitdale Volunteer Fire Department (fire service), Washington County Soil and Water Conservation District (soil and water conservation), Washington County Farmers Federation (agricultural federation), and the Clark-Washington Farm Service Agency (USDA programs). Mr. Platt is a member of Alabama Farmers Federation, Alabama Cattlemen's Association, Alabama Peanut Producers Association, and Association of Volunteer Fire Departments. Mr. Platt attended Alabama Southern where he earned an associate degree in Industrial and Business Technology. Mr. Platt is a member of Four Points Baptist Church. Mr. Platt's term as a stockholder-elected director ended June 2019. On July 9, 2019, Mr. Platt was appointed by the board to serve the remainder of the term of the vacant position created when Mr. Tucker resigned.

Timothy D. (Tim) Tucker, age 60. Mr. Tucker resides in Uriah, Alabama, and has been farming full-time all of his adult life. Mr. Tucker's farming operation, Tim Tucker Farm, consists primarily of cotton, cattle and peanuts. Mr. Tucker is also a stockholder and vice president and also serves on the board of Monroe County Gin, a cotton ginning and warehousing operation based in Monroe County, Alabama. He serves as vice president on the board of Monroe County Cattlemen's Association and vice chairman and supervisor of Monroe County Soil and Water Conservation District (soil and water conservation). Mr. Tucker is a member of the Southeastern Livestock Exposition, Monroe County Farmers Federation, Alabama Angus Association, Alabama Charolais Association, and Mineola Methodist Church. He also formerly served as the Area 6 VP of the Alabama Association of Conservation Districts (soil and water conservation). Mr. Tucker has also served as the Association's representative on the board of the Texas District Farm Credit Council. Mr. Tucker's term as director ended when he resigned from the board on March 26, 2019.

Douglas Thiessen, age 55, President/Chief Executive Officer. Mr. Thiessen has been with the Association since February 2007. Prior to joining the Association, Mr. Thiessen served for four years as Senior Vice President/Chief Financial Officer of First Ag Credit, FCS, based in Lubbock, Texas. In addition, he held various financial positions with computer manufacturer Dell, Inc. and the Farm Credit Bank of Texas, and also served as a commissioned examiner with the Farm Credit Administration. Mr. Thiessen has a total of 22 years of service within the Farm Credit System. Mr. Thiessen serves on the board of the Alabama Future Farmers of America Foundation (youth in agriculture), the Alabama Poultry and Egg Association (poultry promotion) and Goodwill Industries of Central Alabama, Inc (nonprofit charity), and formerly served on the boards of the Alabama 4-H Club Foundation (youth in agriculture), the Montgomery Area Chamber of Commerce (industrial development), and the Alabama Agribusiness Council (agriculture and forestry promotion). He is also a member of the AgFirst/FCBT Plan Fiduciary Committee. Mr. Thiessen is a graduate of the LSU Graduate School of Banking, and he also has a bachelor of science in agricultural economics from Texas Tech University and an executive master of business administration degree from Troy University.

Chris Higbe, age 49, Senior Vice President/Chief Credit Officer. Mr. Higbe joined the Association in May 2011 as the Association's VP-Credit, and in May 2012 was named Chief Credit Officer. Prior to joining the Association, Mr. Higbe was employed in various credit-related positions in the commercial banking industry for approximately 19 years, most recently serving for two years as credit manager of a de-novo bank in Prattville, Alabama. Mr. Higbe serves on the board of the Alabama Agribusiness Council (agriculture and forestry promotion). Mr. Higbe is a graduate of Auburn University Montgomery with a bachelor of science in general business and a bachelor of science in accounting.

M. Scott Sellers, age 51, Senior Vice President/Chief Financial Officer. Mr. Sellers has been with the Association since September 2003. He is a CPA with more than 10 years' experience in public accounting. Prior to joining the Association, Mr. Sellers worked for four years in a family-owned forestry consulting and rural real estate brokerage firm. Mr. Sellers is a graduate of Auburn University with a bachelor of science in accounting and he also has a master in business administration degree with an emphasis in finance from Auburn University Montgomery.

J. Scott McCall, age 55, Chief Relationship Officer. Mr. McCall has been with the Association since January 2011, serving in the roles of Regional President, and VP-Senior Lender. He was named Chief Relationship Officer effective February 2019. Prior to joining the Association, Mr. McCall was employed by Sterling Bank in Montgomery, Alabama for 22 years, most recently serving as Executive Vice President/Commercial Banking Lead for 5 years. Mr. McCall is a past Chairman of the Board and Executive Committee of the Baptist Health Care Foundation, and he also serves on the Advisory Board for Auburn University Montgomery School of Business. Mr. McCall is a graduate of the Southwestern Graduate School of Banking in Dallas, Texas and also has a bachelor of science in business administration from Auburn University Montgomery.

COMPENSATION OF DIRECTORS

In 2017 and 2018, directors were compensated for their service to the Association in the form an honorarium at base rate of \$800 per day for directors traveling less than 100 miles. For directors traveling over 100 miles but less than 200 miles, the base rate increased by 25 percent to \$1,000, and for directors traveling over 200 miles, the base rate increased by 50 percent to \$1,200. For multi-day meetings, the increased base rate applied to the first day only; the normal base rate of \$800 applied thereafter. In addition, this rule applied to meetings held at the Association administrative office only; for meetings held elsewhere the honorarium was set at the base rate of \$800 per day. The directors were also compensated for scheduled conference calls at the rate of \$200 per day.

As of January 1, 2019, the directors' compensation program was changed to incorporate a monthly retainer while also including a per-day honorarium. The retainer of \$1,250 per month is paid to the board chairman and audit committee chairman, and \$1,000 per month is paid to all other directors. The honorarium rate of \$500 is paid for each day served in any official capacity as an Association board member. An additional travel-related honorarium of \$200 per day is paid to directors traveling over 100 miles but less than 200 miles to a board or committee meeting, and an additional honorarium of \$400 is paid to directors traveling over 200 miles. For multi-day meetings, the increased travel honorarium applies to the first day only. In addition, if multiple meetings are held on the same day (i.e. "stacked meetings," for example, audit committee and board meeting held on the same day), the directors receive an additional honorarium of \$150 for the "stacked" meeting. The directors are also compensated for scheduled conference calls at the rate of \$200 per day. Additionally, they were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2019, 2018, and 2017 was paid at the IRS-approved rate prevailing at the time. A copy of the travel policy is available to stockholders of the Association upon request.

Number of Days Served Associated With			
Director	Board Meetings	Other Official Activities	Total Compensation in 2019
Larry H. Gibson, Jr	17	27	\$ 33,750
John Carl Sanders	17	25	31,550
Kimberly H. Adams	16	19	26,250
Annie Dee	9	9	15,700
David N. Hataway	16	27	30,250
J.K. Love	17	33	36,150
Ray Petty	17	26	32,250
Mark D. Platt	14	12	24,000
Timothy D. Tucker	2	6	6,550
			\$ 236,450

The aggregate compensation paid to directors in 2019, 2018 and 2017 was \$236,450, \$182,200 and \$191,200, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2019:

Director	Audit	Compensation	Other Committees
Larry H. Gibson, Jr.	\$ 800	\$ 650	\$ 1,000
John Carl Sanders	600	650	0
Kimberly H. Adams	800	150	0
Annie Dee	300	500	0
David N. Hataway	800	650	0
J.K. Love	800	350	0
Ray Petty	800	650	0
Mark D. Platt	800	650	0
Timothy D. Tucker	150	0	0
	\$ 5,850	\$ 4,250	\$ 1,000

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$132,635, \$91,379 and \$106,990 in 2019, 2018 and 2017, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

Overview

A critical factor to the Association's success is its ability to attract, develop, and retain staff that are knowledgeable and efficient in their ability to support the Association in the execution of its strategic objectives and delivery of results that maximize value to the stockholders. This objective holds particularly true for the Association's chief executive officer (CEO) and senior officers. The Association employs a compensation program which focuses on the performance and contributions of its employees in achieving the Association's financial and operational objectives, all for the ultimate benefit of its stockholder/members. The Association's board of directors, through its compensation committee, establishes salary and incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure that salary and incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for the Association's evaluation and establishment of salary and incentive plans used by the Association.

Chief Executive Officer (CEO) Compensation Policy and Table

The CEO's salary is set by the board, through its compensation committee, using the compensation market data of independent third-party specialists, as well as peer comparisons of CEOs of similar sized Farm Credit associations, as a guideline to determine a fair and competitive salary. Factors considered by the compensation committee and board in determining the final established compensation amounts for the CEO include personal performance evaluation, Association performance relative to goals established in the annual business plan, profitability, credit quality and administration, ability to pay patronage to members, and overall abilities exhibited by the CEO. The CEO's incentive bonus is determined at the discretion of the compensation committee and board.

The following table summarizes the compensation paid to the CEO of the Association during 2019, 2018 and 2017. Amounts reflected in the table are presented in the year the compensation was earned.

Name of CEO	Year	Salary (a)	Bonus (b)	Deferred /		Total
				Perquisite (c)	Other (d)	
Douglas Thiessen	2019	\$ 368,564	\$ 92,138	\$ 45,270	\$ 3,550	\$ 509,522
Douglas Thiessen	2018	351,013	87,750	44,439	1,800	485,002
Douglas Thiessen	2017	334,309	83,574	40,677	1,711	460,271

(a) Gross salary.

(b) Bonuses paid within the first 30 days of the subsequent calendar year.

(c) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, and automobile benefits.

(d) Amounts in the "Other" column include premiums paid for life insurance.

The CEO participates 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 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. During 2019, 2018 and 2017 the Association evaluated the benefits lost as a result of these limitations with regard to the CEO and funded the shortfall. The Association contributed \$15,868, \$14,363 and \$11,574 to the Plan in 2019, 2018 and 2017, respectively.

The employment relationship between the Association and the CEO is "at-will," meaning the Association may terminate the CEO's employment at any time, and the CEO may choose to leave at any time.

Compensation of Other Senior Officers

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

Name of Group (a)	Year	Salary (b)	Bonus (c)	Change in			Total
				Pension Value (d)	Deferred/Perquisite (e)	Other (f)	
Aggregate of five highest paid officers	2019	\$ 803,614	\$ 241,038	\$ -	\$ 109,674	\$ 5,703	\$ 1,160,029
	2018	796,368	216,314	-	112,812	4,889	1,130,383
	2017	821,142	225,684	277,950	101,880	5,623	1,432,279

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.

(b) Gross salary.

(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) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, and automobile benefits.

(f) Amounts in the "Other" column include premiums paid for life insurance, gift cards, service awards, and physical fitness program reimbursements. All amounts for gift cards were grossed up for taxes.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to the CEO or 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

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 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 participants are married on the date the annuity begins, that the spouse is exactly two years younger than the participant, 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. Neither the CEO nor any of the five highest paid officers (including senior officers) are participants in the Pension Plan.

Employee Success-Sharing and Incentive Plan

Association employees, including senior officers, can earn compensation above base salary through the Association's Employee Success Sharing Plan (Incentive Plan). Incentive compensation is available to all full-time, permanent employees and is based upon the achievement of predetermined, board-approved performance goals (as stated in the annual Business Plan) pertaining to the Association's profitability, credit quality, and loan growth. Performance against these criteria is measured on a calendar year basis. Incentive compensation, if any, is accrued prior to December 31 of the given year, with payout being made generally by the end of the following January. In each program described below, the incentive compensation is correlated to the achievement of results compared to the performance goals – the more the results exceed the performance goals, the higher the potential payout, subject to the limitations described below. Likewise, the lower the results compared to the performance goals, the lower the potential payout. The Association's Incentive Plan and total incentive compensation dollars are approved annually by the compensation committee and are at the full discretion of the board of directors.

The Incentive Plan has three major programs, as follows.

- Administrative Program – Incentive compensation for all administrative employees is based on the Association’s total actual results in four key performance areas, with each area receiving equal weight. The four key performance areas are: 1) accrual loan growth, 2) return on equity (ROE) ratio, 3) adverse assets ratio, and 4) efficiency ratio. Total incentive compensation under the Administrative Program is limited to 25 percent of base salary.
- Relationship Managers Program – Incentive compensation for relationship managers is based on their respective branch’s actual results in four key performance areas, with each area receiving equal weight. The four key performance areas are: 1) accrual loan growth, 2) ROE, 3) adverse assets ratio, and 4) delinquencies. In addition to incentive compensation from the Relationship Managers Program, which is not limited, employees in this program may also receive one-half of the incentive compensation from the Administrative Program (limited to 12.5 percent of base salary). Total incentive compensation under the Lenders Program is limited to 40 percent of base salary.
- New Volume and Sales Call Program – Relationship Managers may receive an additional payout of 5 percent, 10 percent or 15 percent of base salary, depending on individual performance related to sales calls and new volume goals. Total incentive compensation under this program is subject to the 40 percent limit under the Relationship Managers Program above.

Other Compensation Plans Funded by the Association on Behalf of Senior Officers and Employees

Relationship managers participate in a YBS incentive program which encourages lending activity to young, beginning, and small farmers. In this program, \$500 is paid to the relationship manager(s) who originates the highest number of loans in each of the young, beginning, and small categories, for a total of \$1,500 per quarter. The results are measured on a quarterly basis, and the payout is made in the month following quarter-end.

Association employees have the opportunity to earn commissions on revenue generated from sales of term or credit life insurance. The Association participates in a program with an outside insurance company to provide borrowers the opportunity to purchase the insurance. Employees who generate the insurance sales receive a portion of the commissions received by the Association.

The Association provides certain employees use of Association-owned vehicles. Personal use of these vehicles is governed by the Association’s board-approved travel and vehicle policies as well as IRS rules. Employees assigned an Association vehicle are required to maintain a business mileage log, and the calculated value of personal use of the vehicles is included in respective employees’ taxable earnings, in accordance with IRS regulations. Amounts for personal use of an Association vehicle are included in the “Deferred/Perquisite” column in the compensation tables above.

Employees who use their personal vehicle for business purposes were reimbursed during 2019 at the IRS-approved rate prevailing at the time.

As discussed in Note 2, “Summary of Significant Accounting Policies” and Note 12, “Employee Benefit Plans,” the Association participates in the Farm Credit Benefits Alliance 401(k) Plan and the Defined Contribution (DC) Plan. Amounts contributed by the Association to the 401(k) and DC plans on behalf of the CEO and senior officers are included in the “Deferred/Perquisite” column in the compensation tables above.

The Association provides group term life insurance to all employees in an amount equal to double the employees’ respective salaries. To the extent that the value of the insurance exceeds \$50,000, an amount must be added to the employees’ taxable earnings using the IRS-approved calculation. Amounts relating to excess life insurance are included in the “Other” column in the compensation tables above.

Association policy allows for reimbursement of tuition and related education expenses incurred in connection with approved undergraduate and/or graduate level coursework. The program is available to all full-time, permanent employees.

The Association employs a program for the health and well-being of its employees. All full-time permanent employees are eligible to participate in the program, which allows for reimbursement of physical-fitness-related expenses up to \$360 per year, per employee. Amounts paid for physical fitness reimbursements to the CEO and senior officers are included in the “Other” column in the compensation tables above.

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

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

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association’s policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference to Note 12 to the consolidated financial statements, “Related Party Transactions,” included in this annual report.

DIRECTORS’ AND SENIOR OFFICERS’ INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

FCA regulations require disclosure in this section of any events occurring within the last five years (bankruptcy, conviction or naming in a criminal proceeding, or judgment or finding limiting a right to engage in a business) that are material to the evaluation of the ability or integrity of any person who served as a director or senior officer. The Association has no directors or senior officers with any involvement in such legal proceedings as described in the FCA regulations.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The Association’s audit committee engaged the independent accounting firm of PricewaterhouseCoopers LLP (PwC) to perform the annual audit of the Association’s financial statements included in this annual report. The fees paid during 2019 for professional services rendered for the Association by PwC were \$66,087 for audit services, \$9,600 for tax return preparation services and \$900 for an automated disclosure checklist license. No other services were performed by PwC during the reporting period. All audit and non-audit services performed by PwC during the reporting period were approved by the audit committee.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The Association has formed unincorporated business entities for the purpose of acquiring and managing unusual or complex collateral associated with loans. Each of the entities is a single-member limited liability company (LLC) with the Association being the sole member. SA Alabama Properties, LLC and SA Alabama Properties II, LLC were each organized for the purpose of holding and managing foreclosed properties. In addition the Association is also part owner of FCBT Biostar B, LLC, which was organized for the purpose of holding and managing foreclosed property related to a participation loan.

FINANCIAL STATEMENTS

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

MEMBER/SHAREHOLDER PRIVACY

Members’ nonpublic personal financial information is protected by FCA 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 (YBS) farmers and ranchers 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: Ten 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 Alabama (Census) indicates that in our territory 4.9 percent of farm operators are “young,” 28.4 percent are “beginning” and 92.5 percent of the farms are “small.”

Slight differences noted between the Census and our YBS information is as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association’s YBS information shows young farmers up to age 35.
- The Census shows years on present farm in a class up to 9 years, whereas the Association’s YBS information shows 10 years or less for a beginning farmer.
- USDA data is based on the number of farms, whereas the Association’s data is based on the number of loans.

The Association’s YBS loans, as a percentage of total loans outstanding on December 31, are reflected in the table below for the past three years.

	Young	Beginning	Small
2017	18.29%	54.67%	77.12%
2018	18.57%	54.08%	76.04%
2019	18.23%	51.01%	65.37%

The Association’s goals over the succeeding three-year period is to reach the percentages of its number of loans outstanding in young, beginning and small farmer loans as shown below.

	Young	Beginning	Small
2020	18.75%	55.00%	70.00%
2021	19.00%	55.50%	72.00%
2022	19.25%	56.00%	75.00%

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.

Alabama Ag Credit
2660 Eastchase Lane, Suite 401
Montgomery, Alabama 36117

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