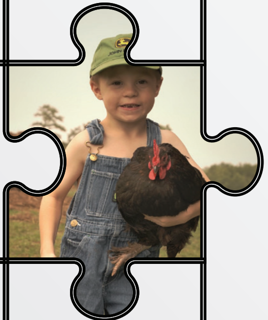




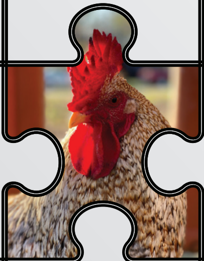


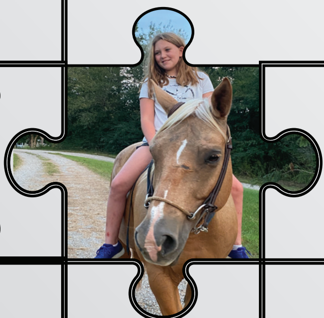
2020

PIECE BY PIECE

our annual report

ALABAMA AG CREDIT
LAND & FARM LENDERS




KEY PIECES
OF INFORMATION

$20,521,652
NET INCOME FOR 2020

$11.2 MILLION

AMOUNT OF CASH PATRONAGE PAID OUT TO OUR BORROWERS BASED ON THE 2020 FINANCIAL GOALS THAT WERE ACHIEVED

$1.16 BILLION

TOTAL LOANS AT THE END OF 2020. THIS WAS A GROWTH OVER LAST YEAR'S TOTAL VOLUME BY 9%

104

NUMBER OF YEARS FARM CREDIT HAS SERVED RURAL COMMUNITIES

88

NUMBER OF ALABAMA AG CREDIT TEAM MEMBERS

$175,128

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

54.81%

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

$211,300

AVERAGE LOAN SIZE - WE FINANCE LOANS OF ALL SIZES

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MESSAGE FROM
BOARD CHAIRMAN & CEO

Larry Gibson

Douglas Thiessen

Last year was a great year for Alabama Ag Credit. That statement seems strange to say considering all the challenges and abnormalities every one of us faced in 2020. The pandemic forced us to change our daily operations and processes so we could effectively serve our customers during some operationally tough times. Despite the trials, we produced records in several areas, including profitability, new loans closed, total loan volume, and cash patronage returned to member-borrowers.

We thank all our customers, the board of directors, and team of employees for every effort made to achieve these great results. We are fulfilling our mission of serving agriculture and rural communities in Alabama, and as a financial cooperative, those who do business with us are the beneficiaries of all those efforts.

There will always be challenges to confront as we look to the future. As you see in this Annual Report, your Association is well-positioned to face those challenges and continues to be an excellent resource for you and those you know.

With great appreciation,

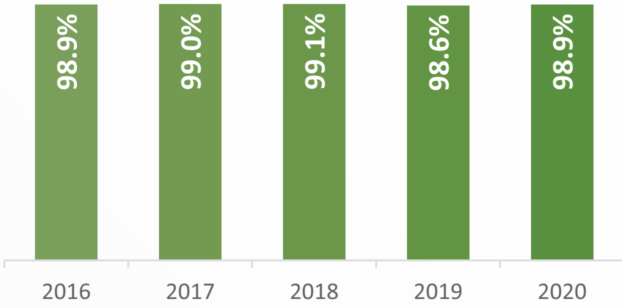
Larry Gibson
Chairman of the Board

Douglas Thiessen
President/Chief Executive Officer

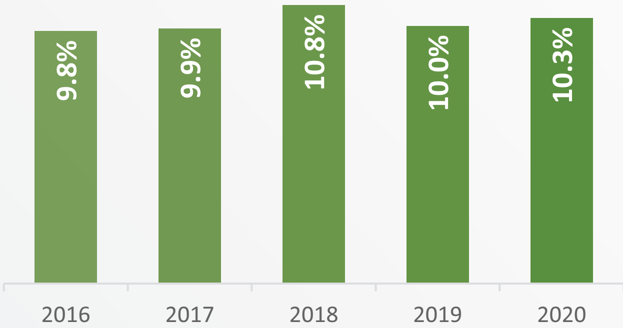
KEY FINANCIAL
METRICS FOR 2020

LOANS IN THOUSANDS

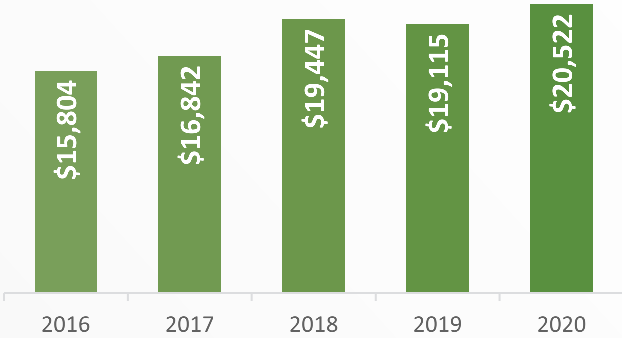
CREDIT QUALITY



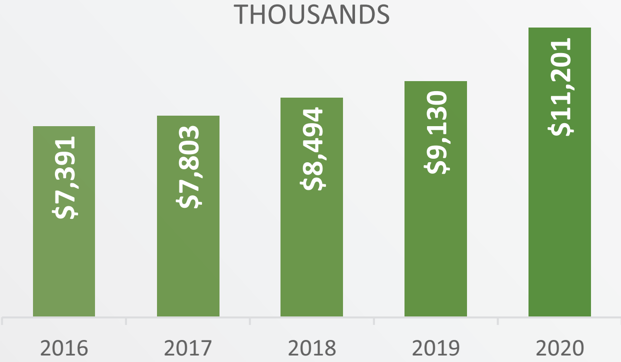
RETURN ON SHAREHOLDERS' EQUITY



NET INCOME IN THOUSANDS

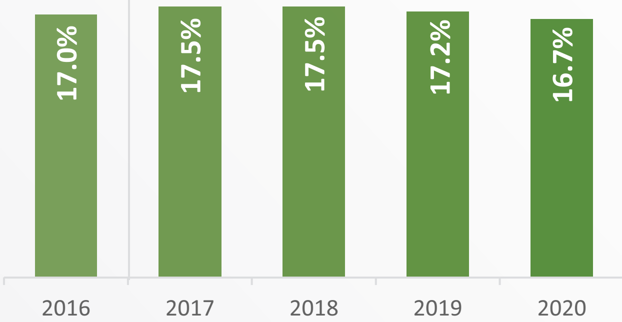


PATRONAGE DISTRIBUTION IN THOUSANDS



PERMANENT CAPITAL RATIO

TOTAL CAPITAL RATIO



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 12, 2021

Larry H. Gibson, Jr., Chairman, Board of Directors
March 12, 2021

M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
March 12, 2021

J.K. Love, CPA (retired), Chairman, Audit Committee
March 12, 2021

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2020. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2020, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2020. A review of the assessment performed was reported to the Association's audit committee.

Douglas Thiessen, President/Chief Executive Officer
March 12, 2021

M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
March 12, 2021

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of the entire board of directors of Alabama Ag Credit, ACA (Association). In 2020, four 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 2020.

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, 2020 (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, 2020.

Audit Committee Members

J.K. Love, CPA (retired), Chairman
Kimberly H. Adams
Annie Dee
Larry H. Gibson, Jr.
Richard H. Meadows
Ray Petty
Mark D. Platt
John Carl Sanders
Richard M. Stabler, CPA

March 12, 2021

ALABAMA AG CREDIT, ACA

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

	2020	2019	2018	2017	2016
Balance Sheet Data					
Assets					
Cash	**$ 10**	$ 11	$ 10	$ 13	$ 21
Loans	**1,160,465**	1,063,795	997,422	955,831	909,228
Less: allowance for loan losses	**8,141**	7,758	7,359	6,632	6,031
Net loans	**1,152,324**	1,056,037	990,063	949,199	903,197
Investment in and receivable from the Bank	**20,502**	21,182	18,026	16,875	17,269
Other property owned, net	**100**	-	45	41	-
Other assets	**16,756**	18,174	16,777	15,631	15,255
Total assets	**$ 1,189,692**	$ 1,095,404	$ 1,024,921	$ 981,759	$ 935,742
Liabilities					
Obligations with maturities of one year or less	**$ 19,603**	$ 17,718	$ 15,402	$ 15,565	$ 15,553
Obligations with maturities greater than one year	**970,073**	886,771	827,639	795,341	757,575
Total liabilities	**989,676**	904,489	843,041	810,906	773,128
Members' Equity					
Capital stock and participation certificates	**4,289**	4,196	4,114	4,005	3,914
Unallocated retained earnings	**196,386**	187,094	177,746	167,430	159,081
Accumulated other comprehensive income (loss)	**(659)**	(375)	20	(582)	(381)
Total members' equity	**200,016**	190,915	181,880	170,853	162,614
Total liabilities and members' equity	**$ 1,189,692**	$ 1,095,404	$ 1,024,921	$ 981,759	$ 935,742
Statement of Income Data					
Net interest income	**$ 29,207**	$ 28,463	$ 28,916	$ 27,000	$ 25,406
Provision for loan losses	**(813)**	(420)	(792)	(692)	(712)
Income from the Bank	**6,123**	4,796	4,136	3,489	3,322
Other noninterest income	**1,266**	651	763	400	505
Noninterest expense	**(15,261)**	(14,375)	(13,576)	(13,355)	(12,717)
Net income	**$ 20,522**	$ 19,115	$ 19,447	$ 16,842	$ 15,804
Key Financial Ratios for the Year					
Return on average assets	**1.8%**	1.8%	1.9%	1.8%	1.8%
Return on average members' equity	**10.3%**	10.0%	10.8%	9.9%	9.8%
Net interest income as a percentage of average earning assets	**2.6%**	2.7%	2.9%	2.9%	2.9%
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)

	2020	2019	2018	2017	2016
Key Financial Ratios at Year End *					
Members' equity as a percentage of total assets	**16.8%**	17.4%	17.8%	17.4%	17.4%
Debt as a percentage of members' equity	**494.8%**	473.8%	463.5%	474.6%	475.4%
Allowance for loan losses as a percentage of loans	**0.7%**	0.7%	0.7%	0.7%	0.7%
Common equity tier 1 ratio	**16.0%**	16.5%	16.8%	16.8%	n/a
Tier 1 capital ratio	**16.0%**	16.5%	16.8%	16.8%	n/a
Total capital ratio	**16.7%**	17.2%	17.5%	17.5%	n/a
Permanent capital ratio	**16.1%**	16.6%	16.9%	16.9%	17.0%
Tier 1 leverage ratio	**16.3%**	16.7%	16.9%	16.9%	n/a
UREE leverage ratio	**17.4%**	17.8%	18.0%	18.0%	n/a
Total surplus ratio	**n/a**	n/a	n/a	n/a	16.6%
Core surplus ratio	**n/a**	n/a	n/a	n/a	16.6%
Net Income Distribution					
Cash dividends	**$ 9,767**	$ 9,130	$ 8,494	$ 7,803	$ 7,391

* 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, 2020.

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, 2020, 2019 and 2018, 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, 2020, 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

The United States has been operating under a presidentially declared emergency since March 13, 2020, due to the Coronavirus Disease 2019 (also referred to as COVID-19). The potential impact of COVID-19 on the global, U.S. and local economies creates a high degree of economic uncertainty with business disruptions in supply chains in both the non-ag and the ag sectors. The Farm Credit Bank of Texas (Bank) and the Association continue during these unprecedented times to fulfill their mission to support agriculture and rural communities by providing access to reliable and consistent credit. The Bank has been able to maintain access to the financial markets to redeem and replace preferred-stock and callable debt and fund incremental needs. There have been no significant changes to its funding strategies or interest rate risk profile. The credit quality of the Bank's loan portfolio continues to remain strong and capital levels remain strong as well.

As discussed further in the "Liquidity and Funding Sources" and "Relationship with the Farm Credit Bank of Texas" sections of Management's Discussion and Analysis, the Association relies on the Bank as its primary source of funding for its operations, and is therefore impacted by these factors that affect the Bank. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts. The Association will continue to evaluate its allowance for loan losses as changes in outlook occur. Through December 31, 2020, and the date of this report, the Association's loan portfolio has maintained strong credit quality. In addition, capital levels remain strong to address adversity and support continuing loan demand. The Association has taken actions to provide relief to many Association borrowers affected by COVID-19. Servicing actions include deferring payments, extending terms, providing additional liquidity, and a temporary moratorium on foreclosures that expired by the end of the second quarter.

Operationally, the Association continues to function as normal during these challenging times. The Association has witnessed the benefits of past and current technology initiatives which allow Association personnel to work remotely and support both their families and their customer base. The Association's internal controls over financial reporting and disclosure controls and procedures continue to operate effectively and no material changes to the controls or financial systems have occurred or are contemplated.

The Association will closely monitor the potential impact of COVID-19 in the coming months as conditions continue to unfold.

In March 2020, the Association paid a patronage of $9,795,999 in cash from 2019 earnings to the Association's stockholders and in December 2019 declared another patronage of $11,201,017 from 2020 earnings to be paid in March 2021. In December 2020, the Association received a direct loan patronage of $5,108,308 from the Bank, representing 54.75 basis points on the average daily balance of the Association's direct loan with the Bank. During 2020, the Association received $433,165 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank. Also during 2020, the Association received a capital markets patronage of $406,617 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 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.

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 5,540 loans at December 31, 2020. Total loan volume as of December 31, 2020, 2019 and 2018 was $1,160,464,933, $1,063,795,171 and $997,421,512, 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. On December 18, 2020, the FCA posted an informational memorandum providing guidance to System institutions on the transition away from LIBOR, in which they emphasized that the IBA proposal is not intended to slow down the transition and that System institutions should continue reducing LIBOR exposures as soon as practicable. System institutions should adopt 2021 transition plans with steps and timeframes to accomplish the following:

- reduce LIBOR exposure,
- stop the inflow of new LIBOR volume,
- develop and implement loan products with alternative reference rates,
- assess and, if necessary, revise fallback language on legacy LIBOR indexed loans and contracts,
- adjust operations processes, including accounting and management information systems to handle alternative reference rates, and
- communicate pending or imminent changes to customers, as appropriate.

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. In late 2020, the Funding Corporation launched an alternative benchmark rate based on SOFR as an alternative to LIBOR. The rate is a monthly-reset variable rate index and is published on the Funding Corporation's website. As of December 31, 2020, the Association did not have any loan volume tied to the new index.

The Association's Asset/Liability Committee (ALCO) serves as the primary workgroup to address all matters related to the phase-out of LIBOR for the Association. ALCO is comprised of the Chief Executive Officer (CEO), Chief Credit Officer (CCO), Chief Financial Officer (CFO), and Chief Relationship Officer (CRO). Other resources will also be engaged as needed. The Association is actively working to reduce exposure to LIBOR, primarily by converting existing LIBOR loans to other rate products and ensuring all note agreements contain appropriate legal language allowing the change to a different index. At December 31, 2020, the Association's portfolio included LIBOR-indexed volume of $122,152,831, representing approximately 10.5 percent of the loan portfolio. Of this amount, approximately $23.8 million is scheduled to mature prior to December 31, 2021.

Purchase and Sales of Loans

During 2020, 2019 and 2018, the Association was participating in loans with other lenders. As of December 31, 2020, 2019 and 2018, these participations totaled $66,362,690, $58,359,383 and $56,501,024, or 5.7 percent, 5.4 percent and 5.7 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the District of $343,229, $393,313 and $563,281, or 0.0 percent, 0.0 percent and 0.1 percent of loans, respectively. The Association has also sold participations of $66,392,397, $46,023,235 and $32,300,795 as of December 31, 2020, 2019 and 2018, respectively.

Risk Exposure

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

	2020		2019		2018	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 7,775,295**	**96.3%**	$ 8,324,241	98.4%	$ 2,597,848	64.0%
90 days past due and still accruing interest	**-**	**0.0%**	-	0.0%	983	0.0%
Formally restructured	**203,799**	**2.5%**	135,473	1.6%	1,415,001	34.9%
Other property owned, net	**100,000**	**1.2%**	-	0.0%	45,040	1.1%
Total	**$ 8,079,094**	**100.0%**	$ 8,459,714	100.0%	$ 4,058,872	100.0%

At December 31, 2020, 2019 and 2018, loans that were considered impaired were $7,979,094, $8,459,714 and $4,013,832, representing 0.7 percent, 0.8 percent and 0.4 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The number of nonaccrual loans decreased slightly from 2019 to 2020. 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. By contrast, as of December 31, 2020, 36 loans with an average balance of approximately $216,000 were classified as nonaccrual, with two large credits comprising 57 percent of the total.

Other property owned, net increased from no properties owned as of December 31, 2019, to one property owned as of December 31, 2020.

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:

	2020	2019	2018
Allowance for loan losses	**$ 8,140,866**	$ 7,758,195	$ 7,359,122
Allowance for loan losses to total loans	**0.7%**	0.7%	0.7%
Allowance for loan losses to nonaccrual loans	**104.7%**	93.2%	283.3%
Allowance for loan losses to impaired loans	**102.0%**	91.7%	183.3%
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 $8,140,866, $7,758,195 and $7,359,122 at December 31, 2020, 2019 and 2018, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates.

Results of Operations

The Association's net income for the year ended December 31, 2020, was $20,521,652 as compared to $19,115,421 for the year ended December 31, 2019, reflecting an increase of $1,406,231, or 7.4 percent. The Association's net income for the year ended December 31, 2018, was $19,447,253. Net income decreased $331,832, or 1.7 percent, in 2019 versus 2018.

Net interest income for 2020, 2019 and 2018 was $29,206,523, $28,463,291 and $28,916,033, respectively, reflecting an increase of $743,232 or 2.6 percent for 2020 versus 2019 and a decrease of $452,742, or 1.6 percent for 2019 versus 2018. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2020		2019		2018	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 1,114,407,502**	**$ 52,889,413**	$ 1,044,718,502	$ 55,219,208	$ 980,635,482	$ 51,257,283
Interest-bearing liabilities	**933,563,686**	**23,682,890**	873,608,295	26,755,917	819,244,717	22,341,250
Impact of capital	**$ 180,843,816**		$ 171,110,207		$ 161,390,765	
Net interest income		**$ 29,206,523**		$ 28,463,291		$ 28,916,033

	2020 Average Yield	2019 Average Yield	2018 Average Yield
Yield on loans	**4.75%**	5.29%	5.23%
Cost of interest-bearing liabilities	**2.54%**	3.06%	2.73%
Interest rate spread	**2.21%**	2.23%	2.50%
Impact of capital	**0.41%**	0.50%	0.45%
Net interest income/average earning assets	**2.62%**	2.73%	2.95%

	2020 vs. 2019			2019 vs. 2018		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 3,683,482**	**$ (6,013,277)**	**$ (2,329,795)**	$ 3,349,555	$ 612,370	$ 3,961,925
Interest expense	**1,836,254**	**(4,909,281)**	**(3,073,027)**	1,482,549	2,932,118	4,414,667
Net interest income	**$ 1,847,228**	**$ (1,103,996)**	**$ 743,232**	$ 1,867,006	$ (2,319,748)	$ (452,742)

Interest income decreased by $2,329,795, or 4.2 percent, from 2019 to 2020 primarily due to decreases in yields on earning assets partially offset by an increase in average loan volume. The Association recognized interest income of $241,993 from nonaccrual loans in 2020. Without the additional nonaccrual interest income, the yield on loans for 2020 would have been 4.72 percent, interest rate spread would have been 2.19 percent, and net interest income/average earning assets would have been 2.60 percent. Interest expense decreased by $3,073,027, or 11.5 percent, from 2019 to 2020 due to a decrease in the cost of debt partially offset by an increase in average debt volume. 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 $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.

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 2020, 2019 and 2018 was $43,585, $35,790 and $13,601, respectively.

Noninterest income for 2020 increased by $1,941,460, or 35.6 percent, compared to 2019, due primarily to increased patronage from the Bank and increased loan fees. Patronage from the Bank increased primarily as a result of a higher average direct loan with the Bank during 2020 as compared to 2019, and a higher rate of patronage distributed in accordance with the Bank's patronage model as discussed in the Significant Events section, above. Loan fees increased as a result of an increase in the number of interest rate conversions due to the lower rate environment.

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.

Provisions for loan losses increased by $392,124, or 93.2 percent, compared to 2019 even though there were fewer impaired loans in 2020 compared to 2019. The increase in provisions in 2020 was due to the charge off of one large credit. 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.

Operating expenses consist primarily of salaries and employee benefits, Insurance Fund premiums, occupancy and equipment and purchased services. Operating expenses increased by $886,337 or 6.2 percent, from 2019 to 2020. The increase was primarily due to a $914,530 increase in salaries and employee benefits. Salaries and employee benefits increased primarily as a result of a larger workforce in 2020 versus 2019 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 $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.

Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of $1,614,971, $1,187,910 and $1,122,721 for 2020, 2019 and 2018, 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 $1,395,305, $1,081,536 and $1,051,667 for 2020, 2019 and 2018, respectively, related to the origination of loans.

The Association's return on average assets (ROA) was 1.8 percent, 1.8 percent and 1.9 percent for the years ended December 31, 2020, 2019 and 2018, respectively. The Association's return on average members' equity (ROE) was 10.3 percent, 10.0 percent and 10.8 percent for the years ended December 31, 2020, 2019 and 2018, respectively.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank 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 $968,268,302, $884,543,103 and $825,552,682 as of December 31, 2020, 2019 and 2018, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.17 percent, 2.92 percent and 2.95 percent at December 31, 2020, 2019 and 2018, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2019, 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 $192,858,180, $179,739,079 and $172,176,463 at

December 31, 2020, 2019 and 2018, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2020, was $1,166,437,904 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2021. As borrower payments are received, they are applied to the Association's note payable to the Bank.

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

Capital Resources

The Association's capital position remains strong, with total members' equity of $200,016,157, $190,915,453 and $181,880,512 at December 31, 2020, 2019 and 2018, respectively. 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% of risk-adjusted assets as defined by the Farm Credit Administration (FCA). The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. 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, 2020, 2019 and 2018 was 16.1 percent, 16.6 percent and 16.9 percent, respectively. 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 16.0 percent, tier 1 capital ratio was 16.0 percent, and total capital ratio was 16.7 percent at December 31, 2020. 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 16.3 and UREE leverage ratio was 17.4 at December 31, 2020. 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.

Regulatory ratios remained well above regulatory minimums, including the conservation and leverage buffers at December 31, 2020. The following table reflects the Association's capital ratios at December 31:

	2020	2019	2018	Regulatory Minimum
Common equity tier 1 ratio	**16.0%**	16.5%	16.8%	7.0%
Tier 1 capital ratio	**16.0%**	16.5%	16.8%	8.5%
Total capital ratio	**16.7%**	17.2%	17.5%	10.5%
Permanent capital ratio	**16.1%**	16.6%	16.9%	7.0%
Tier 1 leverage ratio	**16.3%**	16.7%	16.9%	5.0%
UREE leverage ratio	**17.4%**	17.8%	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%

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, 2020, the Association was not under written agreements with the FCA.

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

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

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

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

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

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

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

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

On June 25, 2020, the FCA, together with four other federal agencies, published a final rule finalizing changes to their swap margin rule to facilitate the implementation of prudent risk management strategies at banks and other entities with significant swap activities. On July 1, 2020, a final rule and interim final rule on margin and capital requirements for covered swap entities were published in the Federal Register. The final rule became effective on August 31, 2020. The interim final rule became effective September 1, 2020.

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

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

This regulation became effective on October 21, 2020.

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

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

Relationship with the Bank

The Association’s statutory obligation to borrow only from the Bank is discussed in Note 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, 2020, December 31, 2019, and December 31, 2018, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alabama Ag Credit, ACA and its subsidiaries as of December 31, 2020, December 31, 2019, and December 31, 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 12, 2021

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ALABAMA AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2020	2019	2018
Assets			
Cash	**$ 10,343**	$ 11,379	$ 10,000
Loans	**1,160,464,933**	1,063,795,171	997,421,512
Less: allowance for loan losses	**8,140,866**	7,758,195	7,359,122
Net loans	**1,152,324,067**	1,056,036,976	990,062,390
Accrued interest receivable	**9,660,163**	10,786,605	9,827,877
Investment in and receivable from Bank			
Capital stock	**18,541,250**	17,377,430	16,322,640
Accrued patronage receivable	**406,617**	288,432	228,574
Other	**1,553,862**	3,516,526	1,474,469
Other property owned, net	**100,000**	-	45,040
Premises and equipment	**6,264,322**	6,461,977	6,439,711
Other assets	**831,976**	925,087	509,846
Total assets	**$ 1,189,692,600**	$ 1,095,404,412	$ 1,024,920,547
Liabilities			
Note payable to the Bank	**$ 968,268,302**	$ 884,543,103	$ 825,552,682
Accrued interest payable	**1,804,407**	2,228,315	2,085,861
Drafts outstanding	**203,007**	862,901	229,909
Patronage distributions payable	**11,201,454**	9,767,488	9,129,719
Other liabilities	**8,199,273**	7,087,152	6,041,864
Total liabilities	**989,676,443**	904,488,959	843,040,035
Members' Equity			
Capital stock and participation certificates	**4,289,225**	4,196,475	4,114,255
Unallocated retained earnings	**196,386,088**	187,094,401	177,746,279
Accumulated other comprehensive income (loss)	**(659,156)**	(375,423)	19,978
Total members' equity	**200,016,157**	190,915,453	181,880,512
Total liabilities and members' equity	**$ 1,189,692,600**	$ 1,095,404,412	$ 1,024,920,547

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2020	2019	2018
Interest Income			
Loans	**$ 52,889,413**	$ 55,219,208	$ 51,257,283
Interest Expense			
Note payable to the Bank	**23,682,890**	26,755,917	22,341,250
Net interest income	**29,206,523**	28,463,291	28,916,033
Provision for Loan Losses			
Provision for loan losses	**812,662**	420,538	791,562
Net interest income after provision for loan losses	**28,393,861**	28,042,753	28,124,471
Noninterest Income			
Income from the Bank	**6,122,990**	4,795,659	4,136,264
Loan fees	**880,675**	231,740	194,723
Gain on sale of premises and equipment, net	**61,093**	173,272	35,426
Other noninterest income	**324,108**	246,735	570,160
Total noninterest income	**7,388,866**	5,447,406	4,936,573
Noninterest Expenses			
Salaries and employee benefits	**9,914,845**	9,000,315	8,525,763
Directors' expense	**338,104**	369,885	272,708
Purchased services	**617,066**	492,848	477,801
Travel	**529,694**	797,882	800,981
Occupancy and equipment	**917,854**	822,481	807,352
Communications	**350,459**	296,814	272,007
Advertising	**386,594**	344,224	331,837
Public and member relations	**426,229**	514,131	524,988
Supervisory and exam expense	**376,687**	370,789	339,448
Insurance Fund premiums	**1,010,126**	881,811	818,580
Other components of net periodic postretirement benefit cost	**102,108**	97,280	133,430
Loss on other property owned, net	**22,654**	54,334	41,405
Other noninterest expense	**268,655**	331,944	267,491
Total noninterest expenses	**15,261,075**	14,374,738	13,613,791
NET INCOME	**20,521,652**	19,115,421	19,447,253
Other comprehensive income:			
Change in postretirement benefit plans	**(283,733)**	(395,401)	602,212
COMPREHENSIVE INCOME	**$ 20,237,919**	$ 18,720,020	$ 20,049,465

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2017	$ 4,004,710	$ 167,430,087	$ (582,234)	$ 170,852,563
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	4,114,255	177,746,279	19,978	181,880,512
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	4,196,475	187,094,401	(375,423)	190,915,453
Net income	-	20,521,652	-	20,521,652
Other comprehensive income			(283,733)	(283,733)
Capital stock/participation certificates issued	872,860	-	-	872,860
Capital stock/participation certificates retired	(780,110)	-	-	(780,110)
Patronage dividends:				
Cash	-	(11,201,017)	-	(11,201,017)
Change in patronage declared and paid	-	(28,948)	-	(28,948)
Balance at December 31, 2020	**$ 4,289,225**	**$ 196,386,088**	**$ (659,156)**	**$ 200,016,157**

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	**$ 20,521,652**	$ 19,115,421	$ 19,447,253
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**812,662**	420,538	791,562
Provision for acquired property	**36,000**	(37,600)	37,600
(Gain) loss on other property owned, net	**(26,312)**	77,220	1,213
Depreciation and amortization	**487,022**	484,323	489,447
Gain on sale of premises and equipment, net	**(60,079)**	(166,428)	(69,160)
Decrease (increase) in accrued interest receivable	**1,126,442**	(958,728)	(1,313,120)
Decrease (increase) in other receivables from the Bank	**1,844,479**	(2,101,915)	(360,933)
Decrease (increase) in other assets	**93,111**	(18,365)	(5,529)
(Decrease) increase in accrued interest payable	**(423,908)**	142,454	456,601
Increase (decrease) in other liabilities	**828,388**	228,954	(259,862)
Net cash provided by operating activities	**25,239,457**	17,185,874	19,215,072
Cash flows from investing activities:			
Increase in loans, net	**(97,206,246)**	(66,648,512)	(41,782,145)
Cash recoveries of loans previously charged off	**40,390**	37,515	44,314
Purchase of capital stock in the Bank	**(1,163,820)**	(1,054,790)	(789,325)
Purchases of premises and equipment	**(443,842)**	(723,449)	(405,024)
Proceeds from sales of premises and equipment	**170,969**	347,498	143,469
Proceeds from sales of other property owned	**-**	281,140	39,987
Net cash used in investing activities	**(98,602,549)**	(67,760,598)	(42,748,724)

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2020	2019	2018
Cash flows from financing activities:			
Net draws on note payable to the Bank	**83,725,199**	58,990,421	31,840,319
(Decrease) increase in drafts outstanding	**(659,894)**	632,992	76,276
Issuance of capital stock and participation certificates	**872,860**	605,365	551,135
Retirement of capital stock and participation certificates	**(780,110)**	(523,145)	(441,590)
Patronage distributions paid	**(9,795,999)**	(9,129,530)	(8,495,562)
Net cash provided by financing activities	**73,362,056**	50,576,103	23,530,578
Net (decrease) increase in cash	**(1,036)**	1,379	(3,074)
Cash at the beginning of the year	**11,379**	10,000	13,074
Cash at the end of the year	**$ 10,343**	$ 11,379	$ 10,000
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	**136,000**	275,720	82,640
Loans charged off	**444,069**	34,924	122,326
Patronage declared	**11,201,017**	9,767,396	9,129,666
Change in AOCI	**283,733**	395,401	(602,212)
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 24,340,240**	$ 27,913,217	$ 22,521,096

The accompanying notes are an integral part of these 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, 2020, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations (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, 2020, the District consisted of the Bank, one FLCA and 13 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums (which may be passed on to the 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 March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs. System entities have adopted this relief for qualifying loan modifications.

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

In December 2019, the FASB issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the institution adopted this guidance on January 1, 2020. The adoption of this guidance did not impact the institution's financial condition or results of operations; nor did the guidance impact the presentation of taxes for prior periods in the 2020 year-end financial statements.

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

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

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

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The institution qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association’s financial condition and its results of operations, with planned adoption for interim and reporting periods beginning after December 15, 2022.

B. Cash 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 $14,844,722, $17,334,811 and $26,916,674 at December 31, 2020, 2019 and 2018, 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, 2020) 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 AND UNFUNDED COMMITMENTS

A summary of loans as of December 31 follows:

	2020		2019		2018	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 938,239,785**	**80.8%**	$ 867,916,496	81.6%	$ 828,054,658	83.0%
Production and intermediate term	**124,885,845**	**10.8%**	120,331,139	11.3%	109,967,257	11.0%
Agribusiness:						
Loans to cooperatives	**6,423,734**	**0.6%**	3,878,008	0.4%	2,127,764	0.2%
Processing and marketing	**31,386,952**	**2.7%**	35,352,598	3.3%	29,920,600	3.0%
Farm-related business	**10,726,553**	**0.9%**	15,959	0.0%	143,110	0.0%
Communication	**2,607,511**	**0.2%**	2,634,328	0.2%	2,767,256	0.3%
Energy and Water/Waste Water	**3,111,657**	**0.3%**	934,042	0.1%	-	0.0%
Rural residential real estate	**43,082,896**	**3.7%**	32,732,601	3.1%	24,440,867	2.5%
Total	**$ 1,160,464,933**	**100.0%**	$ 1,063,795,171	100.0%	$ 997,421,512	100.0%

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, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 15,711,244	$ 42,908,276	$ -	$ -	$ 15,711,244	$ 42,908,276
Production and intermediate term	10,783,010	11,610,199	-	-	10,783,010	11,610,199
Agribusiness	34,149,268	11,873,922	-	-	34,149,268	11,873,922
Communication	2,607,511	-	-	-	2,607,511	-
Energy	1,375,000	-	-	-	1,375,000	-
Water and waste water	1,736,657	-	-	-	1,736,657	-
Total	$ 66,362,690	$ 66,392,397	$ -	$ -	$ 66,362,690	$ 66,392,397

Geographic Distribution: Distribution is based on collateral location.

County	**2020**	2019	2018
Baldwin	**5.2%**	4.6%	3.8%
Dale	**4.6%**	4.7%	4.1%
Marengo	**4.6%**	4.2%	4.8%
Montgomery	**4.4%**	4.0%	3.9%
Henry	**4.0%**	3.1%	3.2%
Dallas	**3.9%**	4.5%	4.2%
Coffee	**3.5%**	3.6%	3.8%
Bullock	**3.4%**	3.8%	3.6%
Macon	**3.0%**	3.1%	3.4%
Geneva	**3.0%**	2.9%	2.5%
Houston	**2.8%**	3.0%	2.8%
Monroe	**2.7%**	3.5%	3.9%
Tuscaloosa	**2.6%**	2.7%	2.7%
Lowndes	**2.5%**	3.2%	3.3%
Barbour	**2.5%**	3.2%	2.5%
Hale	**2.4%**	2.3%	2.4%
Perry	**2.4%**	1.6%	1.9%
Mobile	**2.2%**	2.5%	2.7%
Pike	**2.2%**	2.1%	2.7%
Wilcox	**2.2%**	1.6%	1.2%
Washington	**2.1%**	1.3%	1.4%
Autauga	**1.9%**	2.0%	2.0%
Elmore	**1.9%**	1.9%	2.2%
Chilton	**1.8%**	1.6%	1.2%
Coosa	**1.8%**	1.4%	1.0%
Greene	**1.8%**	2.0%	2.0%
Lee	**1.7%**	2.0%	2.0%
Crenshaw	**1.5%**	1.7%	2.1%
Escambia	**1.4%**	1.2%	1.1%
Pickens	**1.4%**	1.7%	1.4%
Tallapoosa	**1.4%**	1.2%	1.3%
Russell	**1.3%**	1.3%	1.4%
Clarke	**1.3%**	1.2%	1.8%
Butler	**1.1%**	1.4%	1.5%
Chambers	**1.1%**	1.1%	1.2%
Sumter	**1.1%**	1.1%	1.2%
Other Counties	**3.7%**	4.3%	4.2%
Other States	**7.6%**	7.4%	7.6%
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.

	2020		2019		2018	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Timber	**611,814,919**	**52.7%**	538,591,023	50.6%	$ 505,101,836	50.6%
Livestock, except dairy and poultry	**143,476,643**	**12.4%**	135,276,611	12.7%	124,567,585	12.5%
Poultry and eggs	**125,493,255**	**10.8%**	131,351,349	12.3%	112,134,849	11.2%
Field crops except cash grains	**96,812,924**	**8.3%**	97,868,355	9.2%	94,809,680	9.5%
Rural home loans	**51,133,572**	**4.4%**	42,073,104	4.0%	33,961,392	3.4%
Lumber and wood products, except furniture	**29,514,707**	**2.5%**	21,222,805	2.0%	21,616,309	2.2%
Hunting, trapping and game propagation	**14,577,405**	**1.3%**	11,687,900	1.1%	12,870,216	1.3%
Animal specialties	**13,788,440**	**1.2%**	13,098,001	1.2%	21,490,655	2.2%
Food and kindred products	**13,501,858**	**1.2%**	14,632,339	1.4%	18,427,235	1.8%
Other	**60,351,210**	**5.2%**	57,993,684	5.5%	52,441,755	5.3%
Total	**$ 1,160,464,933**	**100.0%**	$ 1,063,795,171	100.0%	$ 997,421,512	100.0%

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

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,	
	2020	2019	2018
Nonaccrual loans			
Current as to principal and interest	**$ 4,806,586**	$ 5,494,677	$ 913,036
Past Due	**2,968,709**	2,829,564	1,684,812
Total nonaccrual loans	**7,775,295**	8,324,241	2,597,848
Impaired accrual loans			
Restructured accrual loans	**203,799**	135,473	1,415,001
Accrual loans 90 days or more past due	**-**	-	983
Total impaired accrual loans	**203,799**	135,473	1,415,984
Total impaired loans	**$ 7,979,094**	$ 8,459,714	$ 4,013,832

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

	December 31, 2020	December 31, 2019	December 31, 2018
Nonaccrual loans:			
Real estate mortgage	**$ 6,315,042**	$ 7,480,266	$ 2,325,499
Production and intermediate term	**1,460,253**	789,891	208,811
Agribusiness	**-**	15,959	24,110
Rural residential real estate	**-**	38,125	39,428
Total nonaccrual loans	**7,775,295**	8,324,241	2,597,848
Accruing restructured loans:			
Real estate mortgage	**203,799**	135,473	1,363,583
Production and intermediate term	**-**	-	51,418
Total accruing restructured loans	**203,799**	135,473	1,415,001
Accruing loans 90 days or more past due:			
Production and intermediate term	**-**	-	983
Total accruing loans 90 days or more past due	**-**	-	983
Total nonperforming loans	**7,979,094**	8,459,714	4,013,832
Other property owned	**100,000**	-	45,040
Total nonperforming assets	**$ 8,079,094**	$ 8,459,714	$ 4,058,872

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.

	2020	2019	2018
Real estate mortgage			
Acceptable	**97.9** %	97.9 %	98.1 %
OAEM	**0.9**	0.6	0.8
Substandard/doubtful	**1.2**	1.5	1.1
	100.0	100.0	100.0
Production and intermediate term			
Acceptable	**93.5**	96.5	97.1
OAEM	**5.3**	1.9	2.6
Substandard/doubtful	**1.2**	1.6	0.3
	100.0	100.0	100.0
Loans to cooperatives			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Processing and marketing			
Acceptable	**100.0**	86.9	100.0
OAEM	**-**	13.1	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Farm-related business			
Acceptable	**100.0**	-	83.2
OAEM	**-**	-	-
Substandard/doubtful	**-**	100.0	16.8
	100.0	100.0	100.0
Communication			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Energy and Water/Waste Water			
Acceptable	**100.0**	100.0	-
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	-
Rural residential real estate			
Acceptable	**99.8**	99.6	99.8
OAEM	**0.1**	-	-
Substandard/doubtful	**0.1**	0.4	0.2
	100.0	100.0	100.0
Total Loans			
Acceptable	**97.6**	97.5	98.1
OAEM	**1.3**	1.1	1.0
Substandard/doubtful	**1.1**	1.4	0.9
	100.0 %	100.0 %	100.0 %

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

December 31, 2020:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or less than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 2,499,143**	**$ 2,102,912**	**$ 4,602,055**	**$ 941,700,770**	**$ 946,302,825**	**$ -**
Production and intermediate term	**9,538**	**718,690**	**728,228**	**125,494,605**	**126,222,833**	**-**
Loans to cooperatives	**-**	**-**	**-**	**6,450,703**	**6,450,703**	**-**
Processing and marketing	**-**	**-**	**-**	**31,474,587**	**31,474,587**	**-**
Farm-related business	**-**	**-**	**-**	**10,740,077**	**10,740,077**	**-**
Communication	**-**	**-**	**-**	**2,607,648**	**2,607,648**	**-**
Energy and Water/Waste Water	**-**	**-**	**-**	**3,114,192**	**3,114,192**	**-**
Rural residential real estate	**25,995**	**-**	**25,995**	**43,186,236**	**43,212,231**	**-**
Total	**$ 2,534,676**	**$ 2,821,602**	**$ 5,356,278**	**$ 1,164,768,818**	**$ 1,170,125,096**	**$ -**

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-and Water/Waste Water	-	-	-	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-and Water/Waste Water	-	-	-	-	-	-
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

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, 2020, the total recorded investment of TDR loans was $3,185,453, including $1,433,882 classified as nonaccrual and $1,751,571 classified as accrual, with specific allowance for loan losses of $215,681. 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, 2020, 2019 or 2018.

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, 2020 and 2019. 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, 2020:	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
Troubled debt restructurings:		
Real estate mortgage	**$ 2,909,333**	**$ 2,957,716**
Production and intermediate term	**73,109**	**1,472**
Total	**$ 2,982,442**	**$ 2,959,188**

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

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, 2020, 2019 and 2018, 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, 2020	December 31, 2019	December 31, 2018
Troubled debt restructurings:			
Real estate mortgage	**$ 3,055,470**	$ 399,840	$ 1,555,714
Production and intermediate term	**129,983**	177,417	95,366
Total	**$ 3,185,453**	$ 577,257	$ 1,651,080

	TDRs in Nonaccrual Status		
	December 31, 2020	December 31, 2019	December 31, 2018
Troubled debt restructurings:			
Real estate mortgage	**$ 1,305,371**	$ 264,366	$ 192,131
Production and intermediate term	**128,511**	177,417	43,948
Total	**$ 1,433,882**	$ 441,783	$ 236,079

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2020	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 2,703,110	$ 2,775,365	$ 610,686	$ 4,031,039	$ 6,967
Production and intermediate term	350,371	350,371	186,940	517,569	8,932
Farm-related business	-	-	-	-	-
Rural residential real estate	-	-	-	25,868	-
Total	$ 3,053,481	$ 3,125,736	$ 797,626	$ 4,574,476	$ 15,899
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,815,730	$ 3,970,446	$ -	$ 3,696,711	$ 33,797
Production and intermediate term	1,109,883	1,198,265	-	1,188,129	30,147
Farm-related business	-	-	-	2,497	-
Rural residential real estate	-	-	-	79,310	2,011
Total	$ 4,925,613	$ 5,168,711	$ -	$ 4,966,647	$ 65,955
Total impaired loans:					
Real estate mortgage	$ 6,518,840	$ 6,745,811	$ 610,686	$ 7,727,750	$ 40,764
Production and intermediate term	1,460,254	1,548,636	186,940	1,705,698	39,079
Farm-related business	-	-	-	2,497	-
Rural residential real estate	-	-	-	105,178	2,011
Total	$ 7,979,094	$ 8,294,447	$ 797,626	$ 9,541,123	$ 81,854

	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	$ 5,230,304	$ 5,276,597	$ 1,158,308	$ 2,907,639	$ 48,475
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	$ 3,229,411	$ 3,400,473	$ -	$ 4,870,407	$ 63,597
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	$ 8,459,715	$ 8,677,070	$ 1,158,308	$ 7,778,046	$ 112,072

	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	$ 1,672,764	$ 1,680,278	$ 695,854	$ 3,663,260	$ 81,907
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	$ 2,341,068	$ 2,631,760	$ -	$ 2,505,621	$ 43,678
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	$ 4,013,832	$ 4,312,038	$ 695,854	$ 6,168,881	$ 125,585

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

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

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

	2020	2019	2018
Interest income which would have been recognized under the original terms	**$ 623,637**	$ 569,817	$ 320,854
Less: interest income recognized	**(81,854)**	(112,072)	(125,585)
Foregone interest income	**$ 541,783**	$ 457,745	$ 195,269

A summary of the changes in the allowance for loan losses and unfunded commitments 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, 2019	$ 7,175,026	$ 378,935	$ 101,231	$ 2,159	$ 2,389	$ 98,455	$ 7,758,195
Charge-offs	(69,676)	(374,393)	-	-	-	-	(444,069)
Recoveries	40,390	-	-	-	-	-	40,390
Provision for loan losses	(28,851)	758,759	106,799	(69)	2,501	(26,478)	812,661
Other	53	(7,811)	(19,869)	-	1,778	(462)	(26,311)
Balance at December 31, 2020	$ 7,116,942	$ 755,490	$ 188,161	$ 2,090	$ 6,668	$ 71,515	$ 8,140,866
Ending Balance: individually evaluated for impairment	$ 996,329	$ 507,415	$ -	$ -	$ -	$ 9,255	$ 1,512,999
Ending Balance: collectively evaluated for impairment	$ 6,120,613	$ 248,075	$ 188,161	$ 2,090	$ 6,668	$ 62,260	$ 6,627,867
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2020	$ 946,302,825	$ 126,222,833	$ 48,665,367	$ 2,607,648	$ 3,114,192	$ 43,212,231	$ 1,170,125,096
Ending balance for loans individually evaluated for impairment	$ 11,001,810	$ 1,569,536	$ -	$ -	$ -	$ 56,956	$ 12,628,302
Ending balance for loans collectively evaluated for impairment	$ 935,301,015	$ 124,653,297	$ 48,665,367	$ 2,607,648	$ 3,114,192	$ 43,155,275	$ 1,157,496,794

	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	$ 7,175,026	$ 378,935	$ 101,231	$ 2,159	$ 2,389	$ 98,455	$ 7,758,195
Ending Balance: individually evaluated for impairment	$ 1,354,230	$ 141,311	$ -	$ -	$ -	$ 47,007	$ 1,542,548
Ending Balance: collectively evaluated for impairment	$ 5,820,796	$ 237,624	$ 101,231	$ 2,159	$ 2,389	$ 51,448	$ 6,215,647
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2019	$ 876,743,893	$ 122,037,362	$ 39,378,588	$ 2,634,241	$ 936,702	$ 32,850,990	$ 1,074,581,776
Ending balance for loans individually evaluated for impairment	$ 13,125,547	$ 1,902,058	$ 15,959	$ -	$ -	$ 130,087	$ 15,173,651
Ending balance for loans collectively evaluated for impairment	$ 863,618,346	$ 120,135,304	$ 39,362,629	$ 2,634,241	$ 936,702	$ 32,720,903	$ 1,059,408,125

	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	$ 6,910,644	$ 364,699	$ 43,021	$ 2,268	$ -	$ 38,490	$ 7,359,122
Ending Balance: individually evaluated for impairment	$ 1,153,425	$ 172,827	$ -	$ -	$ -	$ -	$ 1,326,252
Ending Balance: collectively evaluated for impairment	$ 5,757,219	$ 191,872	$ 43,021	$ 2,268	$ -	$ 38,490	$ 6,032,870
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2018	$ 835,989,728	$ 111,710,679	$ 32,254,155	$ 2,767,257	$ -	$ 24,527,570	$ 1,007,249,389
Ending balance for loans individually evaluated for impairment	$ 8,432,927	$ 345,255	$ 24,110	$ -	$ -	$ 39,428	$ 8,841,720
Ending balance for loans collectively evaluated for impairment	$ 827,556,801	$ 111,365,424	$ 32,230,045	$ 2,767,257	$ -	$ 24,488,142	$ 998,407,669

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, 2020. As of that date, the Bank's assets totaled $28.2 billion and members' equity totaled $2.0 billion. The Bank's earnings were $251.1 million during 2020.

NOTE 5 — PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31:

	2020	2019	2018
Land and improvements	**$ 1,500,108**	$ 1,500,108	$ 1,500,108
Building and improvements	**4,729,917**	4,721,667	4,692,768
Furniture and equipment	**473,253**	465,481	459,857
Computer equipment and software	**367,610**	300,336	397,253
Automobiles	**1,605,216**	1,515,196	1,421,576
Construction in progress	**5,988**	-	-
	8,682,092	8,502,788	8,471,562
Accumulated depreciation	**(2,417,770)**	(2,040,811)	(2,031,851)
Total	**$ 6,264,322**	$ 6,461,977	$ 6,439,711

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 $242,461, $241,155 and $235,546 for 2020, 2019 and 2018, respectively. Minimum annual lease payments for the next five years are as follows:

	Operating
2021	$ 212,352
2022	72,607
2023	72,607
2024	59,232
2025	30,381
Thereafter	-
Total	$ 447,179

NOTE 6 — OTHER PROPERTY OWNED, NET

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

	2020	2019	2018
Gain (loss) on sale, net	**$ 13,346**	$ (91,934)	$ (1,213)
Operating income (expense), net	**(36,000)**	37,600	(40,192)
Net gain (loss) on other property owned	**$ (22,654)**	$ (54,334)	$ (41,405)

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES

Other assets comprised the following at December 31:

		2020		2019		2018
Captive insurance savings	**$**	**475,884**	$	408,749	$	415,239
Right to use asset		**183,135**		396,876		-
Other assets		**172,957**		119,462		94,607
Total	**$**	**831,976**	$	925,087	$	509,846

Other liabilities comprised the following at December 31:

		2020		2019		2018
Accumulated postretirement benefit obligation	**$**	**3,382,079**	$	2,988,633	$	2,512,228
Accrued incentive bonus and related benefits		**2,363,960**		1,900,930		1,743,493
Lease liability		**183,135**		396,876		-
Other liabilities		**2,270,099**		1,800,713		1,786,143
Total	**$**	**8,199,273**	$	7,087,152	$	6,041,864

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, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2020, 2019 and 2018, was $968,268,302 at 2.17, $884,543,103, at 2.92 percent and $825,552,682 at 2.95 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2020, 2019 and 2018, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2020, was $1,166,437,904, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2020, 2019 and 2018, the Association was not subject to remedies associated with the covenants in the general financing agreement. 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, 2020, 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, 2020, 2019 and 2018, 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, 2020, 2019 and 2018, 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 2020, 2019 and 2018, respectively:

Date Declared	Date Paid	Patronage
December 2020	**March 2021**	**$11,201,017**
December 2019	March 2020	$ 9,767,396
December 2018	March 2019	$ 9,129,666

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, 2020:

Risk-adjusted:	**Regulatory Minimums**	**Regulatory Minimums with Buffer**	**As of December 31, 2020**
Common equity tier 1 ratio	4.50%	7.00%	15.96%
Tier 1 capital ratio	6.00%	8.50%	15.96%
Total capital ratio	8.00%	10.50%	16.69%
Permanent capital ratio	7.00%	7.00%	16.08%
Non-risk-adjusted:			
Tier 1 leverage ratio**	4.00%	5.00%	16.30%
UREE leverage ratio	1.50%	1.50%	17.44%

**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, 2020:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**201,414,390**	**201,414,390**	**201,414,390**	**201,414,390**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**4,269,957**	**4,269,957**	**4,269,957**	**4,269,957**
Allowance for loan losses and reserve for credit losses subject to certain limitations*	**-**	**-**	**8,508,347**	**-**
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(17,390,361)**	**(17,390,361)**	**(17,390,361)**	**(17,390,361)**
	188,293,986	**188,293,986**	**196,802,333**	**188,293,986**
Denominator:				
Risk-adjusted assets excluding allowance	**1,196,900,752**	**1,196,900,752**	**1,196,900,752**	**1,196,900,752**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(17,390,361)**	**(17,390,361)**	**(17,390,361)**	**(17,390,361)**
Allowance for loan losses	**-**	**-**	**-**	**(8,397,029)**
	1,179,510,391	**1,179,510,391**	**1,179,510,391**	**1,171,113,362**

*Capped at 1.25% of risk-adjusted assets.

The components of the Association's non-risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2020:

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**201,414,390**	**201,414,390**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**4,269,957**	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(17,390,361)**	**-**
	188,293,986	**201,414,390**
Denominator:		
Total Assets	**1,178,586,753**	**1,178,586,753**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(23,614,467)**	**(23,614,467)**
	1,154,972,286	**1,154,972,286**

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:

	2020	2019	2018
Class A stock	**768,226**	762,464	757,602
Participation certificates	**89,619**	76,831	65,249
Total	**857,845**	839,295	822,851

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:

	2020	2019	2018
Accumulated other comprehensive income (loss) at January 1	**$ (375,423)**	$ 19,978	$ (582,234)
Prior service (cost) credit	**-**	-	125,583
Amortization of prior service (credit) costs included in salaries and employee benefits	**192**	(20,218)	(17,296)
Amortization of actuarial (gain) loss	**-**	-	32,874
Net actuarial gain (loss)	**(283,925)**	(375,183)	461,051
Other comprehensive income (loss), net of tax	**(283,733)**	(395,401)	602,212
Accumulated other comprehensive income at December 31	**$ (659,156)**	$ (375,423)	$ 19,978

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:

	2020	2019	2018
Federal tax at statutory rate	**$ 4,309,547**	$ 4,014,238	$ 4,083,923
State tax, net	**1,333,907**	1,242,502	1,264,071
Effect of nontaxable FLCA subsidiary	**(5,389,250)**	(5,118,208)	(5,228,240)
Change in valuation allowance	**(61,401)**	13,009	36,881
Other	**(192,803)**	(151,541)	(156,635)
Provision for (benefit from) income taxes	**$ -**	$ -	$ -

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

	2020	2019	2018
Deferred Tax Assets			
Allowance for loan losses	**$ 66,454**	$ 116,872	$ 107,654
Loss carryforwards	**977,217**	977,217	977,217
Other	**(6,183)**	4,800	1,009
Gross deferred tax assets	**1,037,488**	1,098,889	1,085,880
Deferred tax asset valuation allowance	**(1,037,488)**	(1,098,889)	(1,085,880)
Net deferred tax asset	**$ -**	$ -	$ -

The following table is a summary of unrealized operating loss carryforwards with expiration dates at December 31, 2020:

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

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 $1,037,488, $1,098,889 and $1,085,880 during 2020, 2019 and 2018, 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 Association follows FASB guidance on accounting for uncertainty in income taxes. At December 31, 2020, 2019 and 2018, 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 $320,564, $522,220 and $572,482 for the years ended December 31, 2020, 2019 and 2018, respectively. The Association recognized pension costs for the DC plan of $370,302, $339,655 and $309,114 for the years ended December 31, 2020, 2019 and 2018, 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 $285,031, $262,126 and $265,317 for the years ended December 31, 2020, 2019 and 2018, 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 $21,915, $15,868 and $14,363 for 2020, 2019 and 2018, 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 2020, 2019 and 2018.

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, 2020.

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

a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employer.

c. If the Association chooses to stop participating in some of its multi-employer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

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

	2020	2019	2018
Funded status of plan	**62.6** %	66.2 %	68.0 %
Association's contribution	**$ 320,564**	$ 522,220	$ 572,482
Percentage of association's contribution to total contributions	**5.3** %	6.4 %	5.9 %

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 64.3 percent, 68.0 percent and 70.1 percent at December 31, 2020, 2019 and 2018, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care 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	2020	2019	2018
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 2,988,633**	$ 2,512,228	$ 2,980,557
Service cost	**61,833**	52,171	70,810
Interest cost	**101,912**	117,505	117,850
Plan participants' contributions	**32,434**	33,426	21,249
Plan amendments	**-**	-	(125,583)
Special termination benefits	**-**	-	-
Actuarial loss (gain)	**283,925**	375,183	(461,051)
Benefits paid	**(86,658)**	(101,880)	(91,604)
Accumulated postretirement benefit obligation, end of year	**$ 3,382,079**	$ 2,988,633	$ 2,512,228
Change in Plan Assets			
Plan assets at fair value, beginning of year	**$ -**	$ -	$ -
Actual return on plan assets	**-**	-	-
Company contributions	**54,224**	68,454	70,355
Plan participants' contributions	**32,434**	33,426	21,249
Benefits paid	**(86,658)**	(101,880)	(91,604)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (3,382,079)**	$ (2,988,633)	$ (2,512,228)
Amounts Recognized on the Balance Sheets			
Other liabilities	**$ (3,382,079)**	$ (2,988,663)	$ (2,512,228)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	**$ 744,295**	$ 480,785	$ 105,607
Prior service cost (credit)	**(85,139)**	(105,362)	(125,585)
Net transition obligation (asset)	**-**	-	-
Total	**$ 659,156**	$ 375,423	$ (19,978)
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2020**	12/31/2019	12/31/2018
Discount rate	**2.80%**	3.45%	4.75%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	6.90%/6.40%	6.90%/6.40%	7.30%/6.90%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2028/2029	2028/2029	2026/2027

Total Cost	**2020**	2019	2018
Service cost	**$ 61,833**	$ 52,171	$ 70,810
Interest cost	**101,912**	117,505	117,850
Expected return on plan assets	**-**	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	**-**	-	-
Unrecognized prior service cost (credit)	**(20,223)**	(20,218)	(17,296)
Unrecognized net loss (gain)	**20,418**	-	32,874
Net postretirement benefit cost	**$ 163,940**	$ 149,458	$ 204,238
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)	**$ 283,925**	$ 375,183	$ (461,051)
Amortization of net actuarial loss (gain)	**(20,418)**	-	(32,874)
Prior service cost (credit)	**-**	-	(125,583)
Amortization of prior service cost (credit)	**20,223**	20,218	17,296
Recognition of prior service cost	**-**	-	-
Amortization of transition liability (asset)	**-**	-	-
Total recognized in other comprehensive income	**$ 283,730**	$ 395,401	$ (602,212)
AOCI Amounts Expected to be Amortized Into Expense in 2021			
Unrecognized net transition obligation (asset)	**$ -**	$ -	$ -
Unrecognized prior service cost (credit)	**(20,223)**	(20,218)	20,223
Unrecognized net loss (gain)	**49,202**	20,418	-
Total	**$ 28,979**	$ 200	$ 20,223
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	**12/31/2019**	12/31/2018	12/31/2017
Discount rate	**3.45%**	4.75%	4.00%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**6.90% /6.40%**	7.30%/6.90%	7.70%/6.90%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2028/2029**	2026/2027	2026/2026

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)			
Fiscal 2021	**$ 66,501**	$ -	$ -
Fiscal 2022	**77,811**	-	-
Fiscal 2023	**90,631**	-	-
Fiscal 2024	**96,409**	-	-
Fiscal 2025	**104,174**	-	-
Fiscal 2026–2030	**634,445**	-	-
Expected Contributions			
Fiscal 2021	**$ 66,501**	$ -	$ -

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 amounted to $5,325,350, $3,813,634 and $2,913,862 at December 31, 2020, 2019 and 2018, respectively for the Association. During 2020, $3,792,802 of new loans were made, and repayments totaled $2,956,635. In addition, $675,549 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, 2020, 2019 and 2018 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 $915,581, $805,677 and $752,599 in 2020, 2019 and 2018, respectively.

The Association received patronage payments from the Bank totaling $5,966,941, $4,795,659 and $4,136,264 during 2020, 2019 and 2018, 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:

	Valuation Technique(s)	Input
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, 2020, 2019 and 2018 for each of the fair value hierarchy values are summarized below:

December 31, 2020	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$129,473**	**$ -**	**$ -**	**$ 129,473**

December 31, 2019	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 98,961	$ -	$ -	$ 98,961

December 31, 2018	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 72,879	$ -	$ -	$ 72,879

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

December 31, 2020	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$6,380,885**	**$6,380,885**
Other property owned	**-**	**-**	**112,500**	**112,500**

December 31, 2019	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 6,626,162	$ 6,626,162
Other property owned	-	-	-	-

December 31, 2018	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 3,059,213	$ 3,059,213
Other property owned	-	-	50,670	50,670

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, 2020 **Fair Value Measurement Using**				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 10,343**	**$ 10,343**	**$ -**	**$ -**	**$ 10,343**
Net loans	**1,145,943,182**	**-**	**-**	**1,158,285,585**	**1,158,285,585**
Total Assets	**$ 1,145,953,525**	**$ 10,343**	**$ -**	**$ 1,158,285,585**	**$ 1,158,295,928**
Liabilities:					
Note payable to Bank	**$ 968,268,302**	**$ -**	**$ -**	**$ 978,637,084**	**$ 978,637,084**
Total Liabilities	**$ 968,268,302**	**$ -**	**$ -**	**$ 978,637,084**	**$ 978,637,084**

	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	$ 1,049,422,193	$ 11,379	$ -	$ 1,048,172,605	$ 1,048,183,984
Liabilities:					
Note payable to Bank	$ 884,543,103	$ -	$ -	$ 883,505,568	$ 883,505,568
Total Liabilities	$ 884,543,103	$ -	$ -	$ 883,505,568	$ 883,505,568

	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	$ 986,568,800	$ 10,000	$ -	$ 960,367,468	$ 960,377,468
Liabilities:					
Note payable to Bank	$ 825,552,682	$ -	$ -	$ 803,635,768	$ 803,635,768
Total Liabilities	$ 825,552,682	$ -	$ -	$ 803,635,768	$ 803,635,768

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, 2020, the Association had outstanding unfunded commitments totaling $105,088,181. Included in that total were, through participations, letters of credit of $189,052.

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:

	2020				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 7,162**	**$ 7,224**	**$ 7,259**	**$ 7,561**	**$ 29,206**
(Provision for) reversal of loan losses	**(150)**	**(180)**	**(313)**	**(170)**	**(813)**
Noninterest income (expense), net	**(2,823)**	**(2,105)**	**(2,456)**	**(487)**	**(7,871)**
Net income	**$ 4,189**	**$ 4,939**	**$ 4,490**	**$ 6,904**	**$ 20,522**

	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

NOTE 16 — SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 12, 2021, which is the date the financial statements were issued or available to be issued. 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 Communications, 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, 2020, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to stockholders.

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

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

DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES	TIME IN POSITION
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	-
Richard H. Meadows	Director	July 2020	2023	-
Ray Petty	Director-Elected Director	January 2007	2022	-
Mark D. Platt	Director	April 2016	2023	-
Richard M. Stabler	Director-Elected Director	August 2020	2023	-
Douglas Thiessen	President/Chief Executive Officer	February 2007	-	14 years
Chris Higbe	Sr. VP/Chief Credit Officer	May 2011	-	9 years
M. Scott Sellers	Sr. VP/Chief Financial Officer	September 2003	-	16 years
J. Scott McCall	Chief Relationship Officer	January 2011	-	10 years

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 2020; other committee service is noted below.

Larry H. Gibson, **Jr**., age 48. 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 2,000 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 66. 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 56. 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 61. 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 Alabama Soybean and Corn Association (agricultural commodity promotion), the Pickens County Farmers Federation (agricultural federation), 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. Formerly Ms. Dee also served on the boards of the United Soybean Board and the Alabama Soybean Producers. Ms. Dee has worked with the Howard G. Buffett 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 65. Mr. Hataway resides in Ramer, Alabama, where he has owned and operated an 800-acre timber, beef and hay farm for the past 47 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. Mr. Hataway's term as a stockholder-elected director ended in July 2020.

J.K. Love, age 79. 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 formerly part owner of and continues to serve 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. He has served as CFO for Southeast Subway Development for 20 years and ALGA Development for two years. 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.

Richard H. Meadows, age 51. Mr. Meadows resides in Columbia, Alabama, with his wife, Kathy, and they have three sons. He has been involved in the farming business most of his life. Mr. Meadows is an Area Sales Manager for WB Fleming Mineral Company, where he has worked for 14 years. The company is a producer of livestock minerals and is based in Tifton, Georgia, with Mr. Meadows' sales territory covering central and south Alabama and the Florida panhandle. Mr. Meadows is a partner with his brother and other family members in Meadows Creek Farm, a cattle operation partnership formed in 1985 and based in Houston County, Alabama, focusing on seedstock production of Charolais, Angus, and SimAngus cattle. He also raises commercial cattle and market feeder calves through SAFE feeder calf sale. Meadows Creek Farm also grows corn silage, grain sorghum, and small grains for cattle feed. Mr. Meadows is past president and current member of Houston County Cattlemen's Association and Alabama Charolais Association. He is also a past president and now current executive committee member and current board member of Alabama Cattlemen's Association (cattle promotion). Mr. Meadows earned a bachelor's degree in Animal and Dairy Science from Auburn University and a Master of Business Administration degree with concentration in Agricultural Economics from Auburn. Mr. Meadows is currently deacon chairman at Watermark Church in Ashford, Alabama.

Ray Petty, age 70. 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 43. Mr. Platt resides in Fruitdale, Alabama, and has been farming full time for the last 21 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 earned an associate degree in Industrial and Business Technology from Alabama Southern. Mr. Platt is a member of Four Points Baptist Church.

Richard M. Stabler, age 64. Mr. Stabler resides in Fairhope, Alabama, and is a CPA. Mr. Stabler has over 40 years of experience in public accounting and is a Member/Partner with the accounting firm Warren Averett, LLC. He served on the firm's Executive Committee and was Chair of the firm's Office Managing Member Council for nine years and served as the Office Managing Member of the Montgomery office of the firm for 10 years. He also serves on the board of directors of Montgomery-based Whitfield Foods, Inc, a company specializing in packaging of beverage, retail syrup and other food products. Mr. Stabler is a member of the American Institute of Certified Public Accountants and the Alabama Society of CPAs. Additionally, Mr. Stabler serves on the board of directors of Leadership Alabama, an Alabama focused leaders educational organization. Mr. Stabler earned a bachelor's degree in Accounting from Troy University.

Douglas Thiessen, age 56, 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 Computer 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 23 years of service within the Farm Credit System. Mr. Thiessen serves as president of 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's degree in Agricultural Economics from Texas Tech University and an Executive Master of Business Administration degree from Troy University.

Chris Higbe, age 50, 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 earned a bachelor's degrees in General Business and Accounting from Auburn University Montgomery.

M. Scott Sellers, age 52, 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 earned a bachelor's degree in Accounting from Auburn University and a Master of Business Administration with an emphasis in Finance from Auburn University Montgomery.

J. Scott McCall, age 56, 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 five 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 earned a bachelor's degree in Business Administration from Auburn University Montgomery.

COMPENSATION OF DIRECTORS

In 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.

In 2019, the directors' compensation program was changed to incorporate a monthly retainer while also including a per-day honorarium. A retainer of $1,250 per month was paid to the board chairman and audit committee chairman, and $1,000 per month was paid to all other directors. As of July 1, 2020, the retainer was increased to $1,750 per month for the board chairman and audit committee chairman, and $1,250 per month 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 are reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2020, 2019, and 2018 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 2020**
Larry H. Gibson, Jr	17	24	$ 35,050
John Carl Sanders	16	17	27,150
Kimberly H. Adams	17	21	29,150
Annie Dee	17	17	28,600
David N. Hataway	9	17	18,000
J.K. Love	17	30	36,650
Richard H. Meadows	8	2	11,200
Ray Petty	17	20	29,700
Mark D. Platt	17	18	29,900
Richard M. Stabler	7	7	12,998
			$ 258,398

The aggregate compensation paid to directors in 2020, 2019 and 2018 was $258,398, $236,450 and $182,200, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2020:

Director	Audit	Compensation	Other Committees
Larry H. Gibson, Jr.	$ 950	$ 850	$ 550
John Carl Sanders	800	850	500
Kimberly H. Adams	950	850	-
Annie Dee	950	850	-
David N. Hataway	800	350	-
J.K. Love	950	850	750
Richard H. Meadows	150	500	-
Ray Petty	950	850	400
Mark D. Platt	950	850	-
Richard M. Stabler	150	500	-
	$ 7,600	**$ 7,300**	**$ 2,200**

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $79,706, $132,635 and $91,379 in 2020, 2019 and 2018, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

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 2020, 2019 and 2018. Amounts reflected in the table are presented in the year the compensation was earned.

Name of CEO	Year	Salary (a)	Bonus (b)	Deferred/ Perquisite (c)	Other (d)	Total
Douglas Thiessen	2020	**$ 382,014**	**$ 95,500**	**$ 49,058**	**$ 3,684**	**$ 530,256**
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

(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 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 2020, 2019 and 2018. This may include other non-senior officers if their total compensation is within the top five highest paid employees. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Group (a)	Year	Salary (b)	Bonus (c)	Deferred/ Perquisite (d)	Other (e)	Total
Aggregate of five highest paid officers	2020	$ 845,412	$ 230,035	$ 124,893	$ 6,179	**$1,206,519**
	2019	803,614	241,038	109,674	5,703	1,160,029
	2018	796,368	216,314	112,812	4,889	1,130,383

(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) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, and automobile benefits.
(e) Amounts in the "Other" column include premiums paid for life insurance, gift cards, and physical fitness program reimbursements. All amounts for gift cards were grossed up for taxes.

The CEO and a senior officer participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (the Plan). The Plan is a defined contribution plan and is sponsored and maintained by the AgFirst/FCBT Plan Sponsor Committee for the benefit of 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 2020, 2019 and 2018 the Association evaluated the benefits lost as a result of these limitations with regard to the CEO and a senior officer and funded the shortfall. The Association contributed $21,915, $15,868 and $14,363 to the Plan in 2020, 2019 and 2018, respectively.

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 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 results exceed the performance goal, the higher the potential payout, subject to 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 Manager 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 Manager 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 Relationship Manager 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 Manager 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 2020 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 2020, 2019 and 2018.

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

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference 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 2020 for professional services rendered for the Association by PwC were $75,505 for audit services, $10,100 for tax return preparation services and $936 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 12, 2021, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by 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**
2018	18.57%	54.08%	76.04%
2019	18.23%	51.01%	65.37%
2020	17.60%	54.81%	75.36%

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**
2021	18.00%	55.25%	76.00%
2022	18.50%	55.75%	76.50%
2023	19.00%	56.25%	77.00%

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.

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ALABAMA AG CREDIT
LAND & FARM LENDERS