ALABAMA AG CREDIT, ACA

2020
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2020

REPORT OF MANAGEMENT

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

Douglas Thiessen, President/Chief Executive Officer
November 3, 2020

Larry H. Gibson, Jr., Chairman, Board of Directors
November 3, 2020

M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
November 3, 2020

J.K. Love, CPA (retired), Chairman, Audit Committee
November 3, 2020

ALABAMA AG CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and nine months ended September 30, 2020. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2019 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Significant Events

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 September 30, 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 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 quarters as conditions continue to unfold.

Results of Operations

The Association had net income of $4,489,606 and $13,617,233 for the three and nine months ended September 30, 2020, as compared to net income of $4,146,302 and $12,631,643 for the same period in 2019, reflecting an increase of 8.3 percent and 7.8 percent, respectively. Net interest income was $7,259,419 and $21,645,754 for the three and nine months ended September 30, 2020, compared to $7,113,525 and $21,335,756 for the same period in 2019.

	Nine Months Ended			
	September 30, 2020		September 30, 2019	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 1,104,182,789**	**$ 39,922,100**	$ 1,037,438,126	$ 41,362,782
Interest-bearing liabilities	**924,875,482**	**18,276,346**	867,469,144	20,027,026
Impact of capital	**$ 179,307,307**		$ 169,968,982	
Net interest income		**$ 21,645,754**		$ 21,335,756

	2020 Average Yield	2019 Average Yield
Yield on loans	**4.83%**	5.33%
Cost of interest-bearing liabilities	**2.64%**	3.09%
Interest rate spread	**2.19%**	2.24%
Impact of capital	**0.43%**	0.51%
Net interest income as a percentage of average earning assets	**2.62%**	2.75%

	Three months ended: September 30, 2020 vs. September 30, 2019		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 2,663,558**	**$ (4,104,240)**	**$ (1,440,682)**
Interest expense	**1,326,550**	**(3,077,230)**	**(1,750,680)**
Net interest income	**$ 1,337,007**	**$ (1,027,009)**	**$ 309,998**

Interest income for the three and nine months ended September 30, 2020, decreased by $1,048,376 and $1,440,682, or 7.5 and 3.5 percent respectively, from the same period of 2019, primarily due to decreases in yields on earning assets partially offset by an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2020, decreased by $1,194,270 and $1,750,680, or 17.3 and 8.7 percent respectively, from the same period of 2019 due to a decrease in the cost of debt partially offset by an increase in average debt volume. Average loan volume for the third quarter of 2020 was $1,128,033,404, compared to $1,057,724,423 in the third quarter of 2019.

Noninterest income for the three months ended September 30, 2020, increased by $551,597, or 117.9 percent over the same period of 2019. Noninterest income for the nine months ended September 30, 2020, increased by $1,632,419 or 98.3 percent respectively, over the same period of 2019. The increase is due primarily to an increase in the accrual rate for patronage income from the Bank. In addition, there was an increase in net loan fees in 2020 compared to 2019. The increase in loans fees is due to increases in rate conversions and the associated fees generated in a decreasing interest rate environment.

Noninterest expenses for the three months ended September 30, 2020 increased by $159,713 or 4.8 percent, as compared to the same period in 2019. Noninterest expenses for the nine months ended September 30, 2020 increased by $612,600 or 6.1 percent, as compared to the same period in 2019. The increase is primarily due to increases in salaries and benefits. The increase in salaries and benefits is primarily due to a larger workforce and normal increase in compensation rates.

The Association's return on average assets for the nine months ended September 30, 2020, was 1.61 percent compared to 1.58 percent for the same period in 2019. The Association's return on average equity for the nine months ended September 30, 2020, was 9.19 percent, compared to 8.96 percent for the same period in 2019.

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 seasonal cash-flow capabilities of the borrower.

Total loans outstanding at September 30, 2020, stated at recorded investment (principal less funds held), were $1,137,479,818 compared to $1,063,795,171 at December 31, 2019, reflecting an increase of 6.9 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.8 percent at September 30, 2020 and at December 31, 2019. The major commodities within the Association's portfolio are timber, cattle, poultry and field crops.

The Association recorded $7,665 and $27,992 in recoveries and no charge-offs for the three and nine ended September 30, 2020 compared to $19,361 and $34,594 in recoveries and $6,722 and $34,924 in charge-offs for the same period in 2019. The Association's allowance for loan losses was 0.7 percent of total loans outstanding as of September 30, 2020, and December 31, 2019.

The following table reflects the credit quality of the Association's loan volume as of:

	September 30, 2020	December 31, 2019
Acceptable	**97.3 %**	97.5 %
OAEM	**0.9**	1.1
Substandard/doubtful	**1.8**	1.4
	100.0 %	100.0 %

Risk Exposure

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

	September 30, 2020		December 31, 2019	
	Amount	**%**	Amount	%
Nonaccrual	**$ 9,470,265**	**98.1%**	$ 8,324,241	98.4%
Formally restructured	**187,708**	**1.9%**	135,473	1.6%
Total	**$ 9,657,973**	**100.0%**	$ 8,459,714	100.0%

Liquidity and Funding Sources

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of System-wide obligations. The following schedule summarizes the Association's borrowings.

	September 30, 2020	December 31, 2019
Note payable to the bank	**$ 954,590,214**	$ 884,543,103
Accrued interest on note payable	**1,859,274**	2,228,315
Total	**$ 956,449,488**	$ 886,771,418

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $954,590,214 as of September 30, 2020, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.28 percent at September 30, 2020. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. 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 $183,420,311 at September 30, 2020. The maximum amount the Association may borrow from the Bank as of September 30, 2020, was $1,142,801,250 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources

The Association's capital position increased by $13,656,031 at September 30, 2020, compared to December 31, 2019. The Association's debt as a ratio of members' equity was 4.71:1 as of September 30, 2020, compared to 4.74:1 as of December 31, 2019.

FCA regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2020, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

Information regarding significant recent accounting pronouncements, required to be disclosed, is incorporated herein by reference to Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly report.

Relationship With the Farm Credit Bank of Texas

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2019 Annual Report of Alabama Ag Credit, ACA more fully describe the Association's relationship with the Bank.

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, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the Bank are also available on its website at *www.farmcreditbank.com.*

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 can also be obtained by writing to Alabama Ag Credit, ACA, 2660 EastChase Lane, Suite 401, Montgomery, Alabama, 36117 or calling (334) 270-8687. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *Info@AlabamaAgCredit.com*. The Association's annual stockholder report is 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.

ALABAMA AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2020 (unaudited)	December 31, 2019
ASSETS		
Cash	**$ 24,825**	$ 11,379
Loans	**1,137,479,818**	1,063,795,171
Less: allowance for loan losses	**8,415,901**	7,758,195
Net loans	**1,129,063,917**	1,056,036,976
Accrued interest receivable	**11,353,185**	10,786,605
Investment in and receivable from the Bank:		
Capital stock	**17,377,430**	17,377,430
Accrued patronage receivable	**1,692,000**	288,432
Other	**620,998**	3,516,526
Premises and equipment, net	**6,385,459**	6,461,977
Other assets	**949,440**	925,087
Total assets	**$ 1,167,467,254**	**$ 1,095,404,412**
LIABILITIES		
Note payable to the Bank	**$ 954,590,214**	$ 884,543,103
Accrued interest payable	**1,859,274**	2,228,315
Drafts outstanding	**66,324**	862,901
Patronage distributions payable	**437**	9,767,488
Other liabilities	**6,379,521**	7,087,152
Total liabilities	**962,895,770**	904,488,959
MEMBERS' EQUITY		
Capital stock and participation certificates	**4,264,075**	4,196,475
Unallocated retained earnings	**200,682,688**	187,094,401
Accumulated other comprehensive loss	**(375,279)**	(375,423)
Total members' equity	**204,571,484**	190,915,453
Total liabilities and members' equity	**$ 1,167,467,254**	$ 1,095,404,412

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
INTEREST INCOME				
Loans	**$ 12,984,374**	$ 14,032,750	**$ 39,922,100**	$ 41,362,782
INTEREST EXPENSE				
Note payable to the Bank	**5,724,955**	6,919,225	**18,276,346**	20,027,026
Net interest income	**7,259,419**	7,113,525	**21,645,754**	21,335,756
PROVISION FOR LOAN LOSSES				
Provision for loan losses	**312,737**	118,263	643,065	298,838
Net interest income after provision for loan losses	**6,946,682**	6,995,262	**21,002,689**	21,036,918
NONINTEREST INCOME				
Income from the Bank	**666,219**	359,930	**2,049,222**	1,076,500
Loan fees	**289,539**	99,560	**850,615**	298,120
Gain (loss) on other property owned, net	**19,237**	(24,150)	**13,346**	(77,948)
Gain (loss) on sale of premises and equipment, net	**43,184**	31,799	**56,341**	117,889
Other noninterest income	**1,113**	556	**323,981**	246,525
Total noninterest income	**1,019,292**	467,695	**3,293,505**	1,661,086
NONINTEREST EXPENSES				
Salaries and employee benefits	**2,251,129**	2,115,385	**6,812,334**	6,285,196
Directors' expense	**63,772**	78,716	**249,165**	256,451
Purchased services	**164,721**	159,198	**463,634**	339,219
Travel	**126,894**	209,924	**407,640**	579,818
Occupancy and equipment	**192,823**	171,585	**639,395**	579,666
Communications	**81,710**	71,288	**253,499**	217,437
Advertising	**72,405**	49,396	**280,083**	195,687
Public and member relations	**99,665**	74,471	**277,832**	323,087
Supervisory and exam expense	**101,004**	95,238	**275,683**	275,551
Insurance Fund premiums	**242,211**	184,063	**757,412**	690,029
Other components of net periodic postretirement benefit cost	**25,527**	24,320	**76,581**	72,960
Other noninterest expense	**54,507**	83,071	**185,703**	251,260
Total noninterest expenses	**3,476,368**	3,316,655	**10,678,961**	10,066,361
NET INCOME	**4,489,606**	4,146,302	**13,617,233**	12,631,643
Other comprehensive income:				
Change in postretirement benefit plans	**48**	(5,055)	**144**	(15,165)
COMPREHENSIVE INCOME	**$ 4,489,654**	$ 4,141,247	**$ 13,617,377**	$ 12,616,478

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2018	$ 4,114,255	$ 177,746,279	$ 19,978	$ 181,880,512
Net income	-	12,631,643	-	12,631,643
Other comprehensive income	-	-	(15,165)	(15,165)
Capital stock/participation certificates issued	460,895	-	-	460,895
Capital stock/participation certificates retired	(399,655)	-	-	(399,655)
Patronage refunds:				
Change in patronage declared and paid	-	97	-	97
Balance at September 30, 2019	$ 4,175,495	$ 190,378,019	$ 4,813	$ 194,558,327
Balance at December 31, 2019	$ 4,196,475	$ 187,094,401	$ (375,423)	$ 190,915,453
Net income	-	13,617,233	-	13,617,233
Other comprehensive income	-	-	144	144
Capital stock/participation certificates issued	620,850	-	-	620,850
Capital stock/participation certificates retired	(553,250)	-	-	(553,250)
Patronage refunds:				
Change in patronage declared and paid	-	(28,946)	-	(28,946)
Balance at September 30, 2020	**$ 4,264,075**	**$ 200,682,688**	**$ (375,279)**	**$ 204,571,484**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves 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 (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019, as contained in the 2019 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with GAAP, except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by the Farm Credit Administration (FCA), associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019, as contained in the 2019 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Descriptions of the significant accounting policies are included in the 2019 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In 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. The Association is evaluating the impact of adoption on the Association’s financial condition and its results of operations.

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 Association’s financial condition or its results of operations.

In August 2018, 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. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association’s financial condition or its results of operations but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement.” The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance 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 2018. 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 Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association’s financial condition and its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended September 30, 2020, are not necessarily indicative of the results to be expected for the year ended December 31, 2019. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows:

Loan Type	**September 30, 2020 Amount**	December 31, 2019 Amount
Production agriculture:		
Real estate mortgage	**$ 911,863,730**	$ 867,916,496
Production and intermediate term	**131,988,991**	120,331,139
Agribusiness:		
Loans to cooperatives	**8,088,346**	3,878,008
Processing and marketing	**36,154,080**	35,352,598
Farm-related business	**4,635,185**	15,959
Communication	**2,614,216**	2,634,328
Energy	**1,375,000**	934,042
Water and waste water	**1,942,916**	-
Rural residential real estate	**38,817,354**	32,732,601
Total	**$ 1,137,479,818**	$ 1,063,795,171

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 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	$ 15,755,080	$ 43,185,993	$ -	$ -	$ 15,755,080	$ 43,185,993
Production and intermediate term	10,393,759	11,784,167	-	-	10,393,759	11,784,167
Agribusiness	35,468,302	11,787,798	-	-	35,468,302	11,787,798
Communication	2,614,216	-	-	-	2,614,216	-
Energy	1,375,000	-	-	-	1,375,000	-
Water and waste water	1,942,916	-	-	-	1,942,916	-
Total	$ 67,549,273	$ 66,757,958	$ -	$ -	$ 67,549,273	$ 66,757,958

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted ACPs are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $17,991,582 and $17,334,811 at September 30, 2020, and December 31, 2019, respectively.

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

	September 30, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	**$ 7,101,436**	$ 7,480,266
Production and intermediate term	**2,337,007**	789,891
Agribusiness	**-**	15,959
Rural residential real estate	**31,822**	38,125
Total nonaccrual loans	**9,470,265**	8,324,241
Accruing restructured loans:		
Real estate mortgage	**154,467**	135,473
Production and intermediate term	**33,241**	-
Total accruing restructured loans	**187,708**	135,473
Total nonperforming assets	**$ 9,657,973**	$ 8,459,714

One credit quality indicator utilized by the Association is the FCA 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 as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2020	December 31, 2019
Real estate mortgage		
Acceptable	**97.9** %	97.9 %
OAEM	**0.7**	0.6
Substandard/doubtful	**1.4**	1.5
	100.0	100.0
Production and intermediate term		
Acceptable	**95.1**	96.5
OAEM	**2.8**	1.9
Substandard/doubtful	**2.1**	1.6
	100.0	100.0
Agribusiness		
Acceptable	**90.6**	88.2
OAEM	**-**	11.8
Substandard/doubtful	**9.4**	-
	100.0	100.0
Energy and water/waste water		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**99.6**	99.6
OAEM	**0.2**	-
Substandard/doubtful	**0.2**	0.4
	100.0	100.0
Total loans		
Acceptable	**97.3**	97.5
OAEM	**0.9**	1.1
Substandard/doubtful	**1.8**	1.4
	100.0 %	100.0 %

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

September 30, 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	**$ 2,000,675**	**$ 2,287,716**	**$ 4,288,391**	**$ 916,983,724**	**$ 921,272,115**	**$ -**
Production and intermediate term	**561,722**	**1,259,130**	**1,820,852**	**131,782,022**	**133,602,874**	**-**
Loans to cooperatives	**-**	**-**	**-**	**8,142,464**	**8,142,464**	**-**
Processing and marketing	**-**	**-**	**-**	**36,284,409**	**36,284,409**	**-**
Farm-related business	**-**	**-**	**-**	**4,644,547**	**4,644,547**	**-**
Communication	**-**	**-**	**-**	**2,614,353**	**2,614,353**	**-**
Energy	**-**	**-**	**-**	**1,377,610**	**1,377,610**	**-**
Water and waste water	**-**	**-**	**-**	**1,943,032**	**1,943,032**	**-**
Rural residential real estate	**73,753**	**-**	**73,753**	**38,877,846**	**38,951,599**	**-**
Total	**$ 2,636,150**	**$ 3,546,846**	**$ 6,182,996**	**$ 1,142,650,007**	**$ 1,148,833,003**	**$ -**

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

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

A restructuring of a debt constitutes a troubled debt restructuring (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 September 30, 2020, the total recorded investment of TDR loans was $1,658,090, including $1,470,382 classified as nonaccrual and $187,708 classified as accrual, with specific allowance for loan losses of $131,711. All loans classified as TDRs were individually evaluated to determine the need for allowance for loan losses. As of September 30, 2020, the Association had no commitments to lend funds to borrowers whose loan terms have been modified in a TDR.

The following tables present additional information regarding TDRs, which includes both accrual and nonaccrual loans with TDR designation, that occurred during the three and nine months ended September 30, 2020. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. Loans formally restructured prior to January 1, 2019, were $292,474.

For the Three Months Ended September 30, 2020	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 1,441,468	$ 1,367,779
Total	$ 1,441,468	$ 1,367,779

For the Three Months Ended September 30, 2019	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Production and intermediate term	$ 163,863	$ 145,911
Total	$ 163,863	$ 145,911

For the Nine Months Ended September 30, 2020	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 1,441,468	$ 1,367,779
Total	$ 1,441,468	$ 1,367,779

For the Nine Months Ended September 30, 2019	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Production and intermediate term	$ 163,863	$ 145,911
Total	$ 163,863	$ 145,911

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 we assess all of the modified terms to determine if the overall modification qualifies as a TDR. No loans modified in the last 12 months have subsequently defaulted as of September 30, 2020.

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 at:

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Real estate mortgage	$ 1,493,337	$ 399,840	$ 1,338,871	$ 264,366
Production and intermediate term	164,752	177,417	131,511	177,417
Total	$ 1,658,089	$ 577,257	$ 1,470,382	$ 441,783

Additional impaired loan information is as follows:

	September 30, 2020			December 31, 2019		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 4,236,198**	**$ 4,241,258**	**$ 1,231,184**	$ 5,049,868	$ 5,096,160	$ 1,000,767
Production and intermediate term	**760,698**	**760,698**	**229,547**	142,311	142,311	141,311
Farm-related business	**-**	**-**	**-**	-	-	-
Rural residential real estate	**31,822**	**31,822**	**9,221**	38,125	38,126	16,230
Total	**$ 5,028,718**	**$ 5,033,778**	**$ 1,469,952**	$ 5,230,304	$ 5,276,597	$ 1,158,308
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 3,019,705**	**$ 3,266,564**	**$ -**	$ 2,565,872	$ 2,736,397	$ -
Production and intermediate term	**1,609,550**	**1,609,852**	**-**	647,580	648,117	-
Farm-related business	**-**	**-**	**-**	15,959	15,959	-
Rural residential real estate	**-**	**-**	**-**	-	-	-
Total	**$ 4,629,255**	**$ 4,876,416**	**$ -**	$ 3,229,411	$ 3,400,473	$ -
Total impaired loans:						
Real estate mortgage	**$ 7,255,903**	**$ 7,507,822**	**$ 1,231,184**	$ 7,615,740	$ 7,832,557	$ 1,000,767
Production and intermediate term	**2,370,248**	**2,370,550**	**229,547**	789,891	790,428	141,311
Farm-related business	**-**	**-**	**-**	15,959	15,959	-
Rural residential real estate	**31,822**	**31,822**	**9,221**	38,125	38,126	16,230
Total	**$ 9,657,973**	**$ 9,910,194**	**$ 1,469,952**	$ 8,459,715	$ 8,677,070	$ 1,158,308

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

	For the Three Months Ended			
	September 30, 2020		September 30, 2019	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 4,631,154**	**$ -**	$ 3,050,521	$ 16,645
Production and intermediate term	**681,573**	**962**	158,064	-
Farm-related business	**-**	**-**	-	-
Rural residential real estate	**32,613**	**-**	-	-
Total	**$ 5,345,340**	**$ 962**	$ 3,208,585	$ 16,645
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 3,064,470**	**$ 1,473**	$ 5,822,532	$ 2,902
Production and intermediate term	**1,670,704**	**3,983**	409,270	327
Farm-related business	**-**	**-**	15,959	-
Rural residential real estate	**-**	**-**	41,841	-
Total	**$ 4,735,174**	**$ 5,456**	$ 6,289,602	$ 3,229
Total impaired loans:				
Real estate mortgage	**$ 7,695,624**	**$ 1,473**	$ 8,873,053	$ 19,547
Production and intermediate term	**2,352,277**	**4,945**	567,334	327
Farm-related business	**-**	**-**	15,959	-
Rural residential real estate	**32,613**	**-**	41,841	-
Total	**$ 10,080,514**	**$ 6,418**	$ 9,498,187	$ 19,874

	For the Nine Months Ended			
	September 30, 2020		September 30, 2019	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 4,456,799**	**$ 6,967**	$ 2,226,328	$ 38,149
Production and intermediate term	**465,084**	**8,932**	200,582	793
Farm-related business	**-**	**-**	-	-
Rural residential real estate	**34,490**	**-**	7,357	185
Total	**$ 4,956,373**	**$ 15,899**	$ 2,434,267	$ 39,127
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 3,654,913**	**$ 22,939**	$ 5,066,197	$ 51,822
Production and intermediate term	**1,171,948**	**7,193**	314,913	5,482
Farm-related business	**3,329**	**-**	16,831	-
Rural residential real estate	**105,746**	**2,011**	46,902	390
Total	**$ 4,935,936**	**$ 32,143**	$ 5,444,843	$ 57,694
Total impaired loans:				
Real estate mortgage	**$ 8,111,712**	**$ 29,906**	$ 7,292,525	$ 89,971
Production and intermediate term	**1,637,032**	**16,125**	515,495	6,275
Farm-related business	**3,329**	**-**	16,831	-
Rural residential real estate	**140,236**	**2,011**	54,259	575
Total	**$ 9,892,309**	**$ 48,042**	$ 7,879,110	$ 96,821

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at June 30, 2020	$ 7,165,652	$ 734,276	$ 113,495	$ 2,101	$ 7,016	$ 94,078	$ 8,116,618
Charge-offs	-	-	-	-	-	-	-
Recoveries	7,665	-	-	-	-	-	7,665
Provision for loan losses	160,644	98,334	81,076	(5)	(39)	(27,273)	312,737
Other	-	(4,723)	(16,660)	-	-	264	(21,119)
Balance at September 30, 2020	$ 7,333,961	$ 827,887	$ 177,911	$ 2,096	$ 6,977	$ 67,069	$ 8,415,901
Balance at December 31, 2019	$ 7,175,026	$ 378,935	$ 101,231	$ 2,159	$ 2,389	$ 98,455	$ 7,758,195
Charge-offs	-	-	-	-	-	-	-
Recoveries	27,992	-	-	-	-	-	27,992
Provision for loan losses	130,886	445,031	96,379	(63)	2,811	(31,979)	643,065
Other	57	3,921	(19,699)	-	1,777	593	(13,351)
Balance at September 30, 2020	$ 7,333,961	$ 827,887	$ 177,911	$ 2,096	$ 6,977	$ 67,069	$ 8,415,901
Ending Balance:							
Individually evaluated for impairment	$ 1,211,936	$ 564,631	$ -	$ -	$ -	$ 12,120	$ 1,788,687
Collectively evaluated for impairment	6,122,025	263,256	177,911	2,096	6,977	54,949	6,627,214
Balance at September 30, 2020	$ 7,333,961	$ 827,887	$ 177,911	$ 2,096	$ 6,977	$ 67,069	$ 8,415,901
Balance at June 30, 2019	$ 6,977,622	$ 378,812	$ 52,856	$ 2,213	$ 329	$ 100,337	$ 7,512,169
Charge-offs	-	-	-	-	-	(6,722)	(6,722)
Recoveries	19,361	-	-	-	-	-	19,361
Provision for loan losses	106,374	4,532	17,257	(5)	-	(9,895)	118,263
Other	(176)	(11,306)	(2,568)	-	879	(969)	(14,140)
Balance at September 30, 2019	$ 7,103,181	$ 372,038	$ 67,545	$ 2,208	$ 1,208	$ 82,751	$ 7,628,931
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	34,594	-	-	-	-	-	34,594
Provision for loan losses	186,017	31,714	29,953	(60)	-	51,214	298,838
Other	128	(24,375)	(5,429)	-	1,208	(231)	(28,699)
Balance at September 30, 2019	$ 7,103,181	$ 372,038	$ 67,545	$ 2,208	$ 1,208	$ 82,751	$ 7,628,931
Ending Balance:							
Individually evaluated for impairment	$ 1,275,178	$ 144,911	$ -	$ -	$ -	$ 31,683	$ 1,451,772
Collectively evaluated for impairment	5,828,003	227,127	67,545	2,208	1,208	51,068	6,177,159
Balance at September 30, 2019	$ 7,103,181	$ 372,038	$ 67,545	$ 2,208	$ 1,208	$ 82,751	$ 7,628,931

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at September 30, 2020	$ 921,272,115	$ 133,602,874	$ 49,071,420	$ 2,614,353	$ 3,320,642	$ 38,951,599	$ 1,148,833,003
Individually evaluated for impairment	$ 12,853,515	$ 2,778,958	$ 4,631,884	$ -	$ -	$ 59,551	$ 20,323,908
Collectively evaluated for impairment	$ 908,418,600	$ 130,823,916	$ 44,439,536	$ 2,614,353	$ 3,320,642	$ 38,892,048	$ 1,128,509,095
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
Individually evaluated for impairment	$ 13,125,547	$ 1,902,058	$ 15,959	$ -	$ -	$ 130,087	$ 15,173,651
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

NOTE 3 — CAPITAL

The Association’s board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association’s permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan 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.

Regulatory Capitalization Requirements

Select Capital Ratios

Risk-adjusted:	Regulatory Minimums	Conservation Buffer*	Total	As of September 30, 2020
Common equity tier 1 ratio	4.50%	2.50%	7.00%	15.83%
Tier 1 capital ratio	6.00%	2.50%	8.50%	15.83%
Total capital ratio	8.00%	2.50%	10.50%	16.54%
Permanent capital ratio	7.00%	0.00%	7.00%	15.95%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	16.20%
UREE leverage ratio	1.50%	0.00%	1.50%	17.35%

Risk-adjusted Capital Ratios

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	197,552,812	197,552,812	197,552,812	197,552,812
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,231,952	4,231,952	4,231,952	4,231,952
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	8,214,172	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(17,377,430)	(17,377,430)	(17,377,430)	(17,377,430)
	184,407,334	184,407,334	192,621,506	184,407,334
Denominator:				
Risk-adjusted assets excluding allowance	1,181,998,669	1,181,998,669	1,181,998,669	1,181,998,669
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(17,377,430)	(17,377,430)	(17,377,430)	(17,377,430)
Allowance for loan losses	-	-	-	(8,123,881)
	1,164,621,239	1,164,621,239	1,164,621,239	1,156,497,358

Non-risk-adjusted Capital Ratios

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	197,552,812	197,552,812
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	4,231,952	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(17,377,430)	-
Other regulatory required deductions	-	-
	184,407,334	197,552,812
Denominator:		
Total Assets	1,161,599,972	1,161,599,972
Regulatory Adjustments and Deductions:		-
Regulatory deductions included in tier 1 capital	(23,230,253)	(23,230,253)
	1,138,369,719	1,138,369,719

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. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in “Other components of net periodic postretirement benefit cost” in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2020	**2019**
Accumulated other comprehensive (loss) income at January 1	**$ (375,423)**	$ 19,978
Amortization of prior service costs (credit) included in salaries and employee benefits	**144**	(15,165)
Other comprehensive income (loss), net of tax	**144**	(15,165)
Accumulated other comprehensive (loss) income at September 30	**$ (375,279)**	$ 4,813

NOTE 4 — INCOME TAXES

Alabama Ag Credit, ACA and its PCA subsidiary, Alabama Ag Credit, PCA (Associations) are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management’s estimate, that they will not be realized. The Association has recorded a full valuation allowance against its deferred tax asset as of September 30, 2020 based on management’s estimate that it is more likely than not that the deferred tax asset will not be realized. For the three and nine months ended September 30, 2020 and 2019, the Association had no taxable income. The subsidiary, Alabama Ag Credit, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 5 — FAIR VALUE MEASUREMENTS

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 to the 2019 Annual Report to Stockholders for a more complete description.

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

September 30, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$123,421	$ -	$ -	$ 123,421

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

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

September 30, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$7,221,233	$7,221,233

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

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Information About Nonrecurring Level 3 Fair Value Measurements

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

Valuation Techniques

As more fully discussed in Note 13 to the 2019 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities.

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 FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans were collateral-dependent. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy. As of September 30, 2020, the Association had no other property owned in the consolidated balance sheet.

NOTE 6 — EMPLOYEE BENEFIT PLANS

Employee Retirement Plans: As discussed in Note 2 and Note 11 to the 2019 Annual Report to Stockholders, employees of the Association participate in either the Texas Farm Credit District's (District) defined benefit pension plan (DB Plan) or the District's defined contribution plan (DC Plan).

The structure of the DB Plan is characterized as multi-employer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The annual contribution is paid in January of each year and amortized into expense on a monthly basis; unamortized contributions are included in "Other Assets" in the consolidated balance sheet. The following table represents DB contributions made, amounts amortized into expense, and the remaining unamortized contributions amounts as of September 30:

	2020	2019
DB contribution	**$ 320,565**	$ 522,220
YTD amortization	**240,424**	391,665
Net periodic benefit	**$ 80,141**	$ 130,555

Association contributions to the DC Plan are expensed as incurred. For the nine months ended September 30, 2020 and 2019, the Association recognized pension costs for the DC Plan of $266,900 and $248,424, respectively.

Employees are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Contributions to the 401(k) plan are expensed as incurred. The Association's contributions to the 401(k) plan were $186,403 and $177,822 for the nine months ended September 30, 2020 and 2019, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer, and consequently, the liability for these benefits is included in the consolidated balance sheet. The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three and nine months ended September 30:

Three months ended September 30 :

	Other Benefits	
	2020	2019
Service cost	**$ 15,458**	$ 13,043
Interest cost	**25,479**	29,375
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(5,056)**	(5,055)
Amortization of net actuarial (gain) loss	**5,104**	-
Total non-service cost	**25,527**	24,320
Net periodic benefit cost	**$ 40,985**	$ 37,363

Nine months ended September 30 :

	Other Benefits	
	2020	2019
Service cost	**$ 46,374**	$ 39,129
Interest cost	**76,437**	88,125
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(15,168)**	(15,165)
Amortization of net actuarial (gain) loss	**15,312**	-
Total non-service cost	**76,581**	72,960
Net periodic benefit cost	**$ 122,955**	$ 112,089

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

The Association’s liability for the unfunded accumulated obligation for these benefits at September 30, 2020, was $3,072,880 and is included in “Other Liabilities” in the balance sheet.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 8 — SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 3, 2020 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 3, 2020.