

ALABAMA FARM CREDIT, ACA

**2019
Quarterly Report
Third Quarter**



For the Quarter Ended September 30, 2019

REPORT OF MANAGEMENT

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



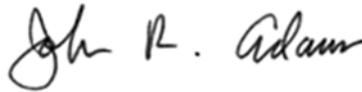
Mel Koller, Chief Executive Officer/President
November 7, 2019



Matthew Christjohn, DVM, Chairman, Board of Directors
November 7, 2019



Karri H. Sumrall, Chief Financial Officer/Ex. Vice President
November 7, 2019



John R. Adams, CPA, Chairman, Audit Committee
November 7, 2019

**ASSOCIATION NEW MODEL
MANAGEMENT’S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Association New Model (Agricultural Credit Association), referred to as the Association, for the quarter ended September 30, 2019. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2018 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:

In January 2019, the Association approved a patronage distribution to its stockholders. The Association was able to distribute \$9,380,495 to its members due to strong earnings during 2018. The distribution was made in March 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 fixed, adjustable and indexed-based interest rates with loan maturities ranging up to 30 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, 2019, including nonaccrual loans and sales contracts, were \$856,783,162 compared to \$794,416,124 at December 31, 2018, reflecting an increase of 7.9 percent. A summary of credit quality at September 30, 2019, compared to December 31, 2018 is as follows:

	September 30, 2019	December 31, 2018
Total loans		
Acceptable	97.4	98.4
OAEM	1.2	0.6
Substandard/doubtful	1.4	1.0
	100.0 %	100.0 %

The Association’s largest commodity concentration in its loan portfolio continues to be poultry, which is approximately 46.8 percent or \$400,934,329. The Association has 30.4 percent of its poultry portfolio guaranteed, which helps to reduce loss exposure in this commodity. The industry is presently stable with market prices for poultry showing some positive signs of increased demand for poultry products. Production in 2019 has remained steady thus far as markets both in the States and overseas continue to show signs of increased demand for poultry meat supplies. Some integrators are offering new grower contracts in order to meet their market demands, with egg and chick placements in Alabama continuing to increase year-over-year, on a weekly basis. This is due primarily to export markets (i.e. Cuba, Mexico and India) improving, along with higher price meat from hogs and cattle, causing more demand for less expensive poultry. The Association continues to experience some isolated concerns in its portfolio as evidenced by some due date changes to better match the individual growers’ batch sales. Management feels that this loan servicing is due primarily to changes in poultry markets where integrators are adjusting their bird size/placements as the market dictates or completing upgrades as required by the integrator. Management anticipates these concerns will correct themselves with the increased demand for poultry.

Avian Influenza, or bird flu, continues to be of concern to the Association, however there have been no known Avian Influenza cases in 2019 within the Association’s territory. The State Department of Agriculture and Industries, as well as all poultry integrators, have mandatory strict biosecurity requirements for all farms. The Association also has bio security guidelines for poultry farm inspections during high risk conditions. The Association will continue to monitor any changes regarding outbreaks and any impact to the loan portfolio on an ongoing basis during the upcoming winter months.

Agricultural income has been stable to improving over the past few years, with good growing conditions and commodity prices. Weather conditions in 2019 have seen above average moisture over most of the Association’s territory. Cow/calf prices are expected to slightly improve or hold steady for the remainder of 2019, which should also be beneficial to cow/calf operators in the Association’s lending territory.

Prices for utilities, gas, electricity and water continue to put downward pressure on the growers' net income. This is somewhat offset by previous and projected increases in grower contracts paid by all the major integrators within the Association's territory. Poultry farm sales for the remainder of 2019 are projected to remain stable. Feed costs to the integrators are also expected to remain at a more normal or reasonable level for the remainder of 2019, due to lower costs for corn and soybeans.

Timber markets for the remainder of 2019 are expected to improve with industry leaders projecting increasing demand for wood products. The new pine lumber mill in Demopolis, Alabama has commenced production, along with the announcement of Georgia-Pacific to build a new lumber production facility in Talladega, Alabama. These projects have increased demand and has helped prices for pine saw timber within Central and West Central Alabama, along with an increase in demand from overseas markets.

Overall land values have seen a slight improvement or remained stable in most all areas of the Association's territory based on the current economic climate. The agricultural economy, in general for the area, is expected to remain stable in 2019. The Association's credit quality remained steady at 98.6 percent non adverse loan volume at September 30, 2019.

With a favorable lending package, we are prepared to experience steady growth in the years ahead. We will continue to work with our borrowers as all market segments make corrections with minimal restructuring. We will also continue to work within our policies and procedures to mitigate any risk that may arise. The Association's remaining 2019 goal will be to increase its presence in the agricultural and rural credit market and uphold its position as the premier agricultural lender for the area. The Association intends to maintain the same emphasis on providing sound, constructive, short-, intermediate- and long-term credit to the agricultural and rural sector within its territory.

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, 2019		December 31, 2018	
	Amount	%	Amount	%
Nonaccrual	\$ 5,907,182	73.1%	\$ 4,983,487	71.4%
90 days past due and still accruing interest	230,654	2.9%	-	0.0%
Formally restructured	1,021,297	12.6%	967,847	13.9%
Other property owned, net	919,973	11.4%	1,024,659	14.7%
Total	\$ 8,079,106	100.0%	\$ 6,975,993	100.0%

High-risk assets increased by \$1,103,113, or 15.8 percent, primarily due to the increase nonaccrual loans, an increase in loans 90 days past due and still accruing interest and loans formally restructured, offset by a decrease in other property owned, net. Nonaccrual loans as a percentage of total loans outstanding were 0.7 percent at September 30, 2019, compared to 0.6 percent at December 31, 2018. Since December 31, 2018, the Association moved 31 loans, to 17 borrowers, totaling \$4,489,687 to nonaccrual status due to delinquency and cash flow issues. Additionally, the Association acquired three properties, cattle and three pieces of equipment totaling \$887,208 and have written down the value of two properties totaling \$43,089 based on current sales contracts executed. The Association had disposed of five properties, cattle and three pieces of equipment during the nine months ended September 30, 2019. At September 30, 2019, the Association held three properties totaling \$919,973, which consisted primarily of approximately 155.3 acres of land. Management continues to be alert to portfolio trends and has attempted to identify and report problem loans as quickly as possible. Management strives to implement proactive steps and allocate resources to work with distressed borrowers to either work through temporary repayment problems or to orderly liquidate collateral to repay the loan when the borrower's operation is no longer viable.

Impaired loans consist of all high-risk assets except other property owned. At September 30, 2019 and December 31, 2018, loans that were considered impaired were \$7,159,133 and \$5,951,334, respectively, representing 0.8 percent and 0.7 percent of total loan volume, respectively. The Association recorded \$1,825 in recoveries and \$284,617 in charge-offs for the nine months ended September 30, 2019, and \$929 in recoveries and no charge-offs for the same period in 2018. The Association's allowance for loan losses was 0.5 percent of total loans outstanding as of both September 30, 2019, and December 31, 2018.

Counterparty risk is continually monitored by management of the Association. The Association's primary counterparty risk comes from participation loans and from the poultry integrators to which its borrowers are associated. The Association has participation loans with other Farm Credit Associations and Farm Credit Banks, all of which are currently performing. Additionally, because the Association's portfolio has approximately a 46.8 percent concentration in poultry, it mitigates its inherent risks with poultry and the integrators by heavy utilization of government guarantees. Also, the Association's lending territory has multiple integrators which

would minimize the risk of counterparty failure or lack of performance. Management analyzes the financial position and performance of these integrators by regularly gathering updated financials and other reports that are made available to the public.

As disclosed in the Association's 2018 Annual Report, it is management's assertion that the allowance coverage is adequate based on historical losses, portfolio stress testing, risk analysis, mitigation of losses due to having first lien real estate with minimal price appreciation and having approximately \$146.4 million, or 17.1 percent, of its portfolio government guaranteed at September 30, 2019. Management continuously monitors high-risk assets in an effort to reduce their impact on the Association and will continue to work with all of the Association's high-risk borrowers to receive full payment on the debt. 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 lender.

Results of Operations:

The Association had net income of \$3,451,524 and \$10,905,138 for the three and nine months ended September 30, 2019, as compared to net income of \$3,633,923 and \$11,741,991 for the same period in 2018, reflecting a decrease of 5.0 and 7.1 percent. Net interest income was \$5,786,811 and \$17,147,428 for the three and nine months ended September 30, 2019, compared to \$5,462,930 and \$16,341,676 for the same period in 2018.

	Nine Months Ended			
	September 30, 2019		September 30, 2018	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 819,119,299	\$ 33,706,380	\$ 753,771,854	\$ 29,501,541
Interest-bearing liabilities	715,705,005	16,558,952	654,924,846	13,159,865
Impact of capital	<u>\$ 103,414,294</u>		<u>\$ 98,847,008</u>	
Net interest income	<u>\$ 17,147,428</u>		<u>\$ 16,341,676</u>	
	2019		2018	
	Average Yield		Average Yield	
Yield on loans	5.5%		5.2%	
Cost of interest-bearing liabilities	3.1%		2.7%	
Interest rate spread	2.4%		2.5%	
Net interest income as a percentage of average earning assets	2.8%		2.9%	

	Nine months ended: September 30, 2019 vs. September 30, 2018		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 2,557,599	\$ 1,647,240	\$ 4,204,839
Interest expense	1,221,289	2,177,798	3,399,087
Net interest income	<u>\$ 1,336,310</u>	<u>\$ (530,558)</u>	<u>\$ 805,752</u>

Net interest income for the three months and nine months ended September 30, 2019, increased by \$323,881 and \$805,752, or 5.9 and 4.9 percent, respectively, from the same periods of 2018, primarily due to an increase in average loan volume and interest rates, offset by an increase in average outstanding debt and an increase in cost of funds on the Association's note with the Farm Credit Bank of Texas. Average loan volume for the third quarter of 2019 was \$819,119,299, compared to \$753,771,854 in the third quarter of 2018. The average net interest rate spread on the loan portfolio for the third quarter of 2019 was 2.4 percent, compared to 2.5 percent in the third quarter of 2018.

Noninterest income for the three months and nine months ended September 30, 2019 increased by \$132,220 and \$166,745, or 17.2 and 6.6 percent, respectively, as compared to the same periods in 2018. This increase was due primarily to the Association's increase in patronage income and loan fees offset by a decrease in other noninterest income and by the recording of a gain on other property owned, net, during the same period in the prior year due to reversal of deferred gain due to a change in accounting principle. The Association recorded a loss on other property owned, net, during the current period of 2018.

Noninterest expenses for the three and nine months ended September 30, 2019 increased by \$429,232 and \$1,215,162, or 17.2 and 17.2 percent, respectively, as compared to the same periods in 2018. The increases were due primarily to increases in salaries and employee benefits and purchased services, and the above-mentioned loss on other property owned, net. The increase in salaries and employee benefits is due primarily to the addition of several new employees to accommodate the growth of the Association. The increase in purchased services was due to increased accounting and auditing expenses and contract services that were not incurred in the prior year.

The Association's return on average assets for the nine months ended September 30, 2019, was 1.7 percent compared to 2.0 percent for the same period in 2018. The Association's return on average equity for the nine months ended September 30, 2019, was 11.9 percent, compared to 13.5 percent for the same period in 2018.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	September 30, 2019	December 31, 2018
Note payable to the bank	\$ 753,617,059	\$ 686,711,154
Accrued interest on note payable	1,910,711	1,735,047
Total	\$ 755,527,770	\$ 688,446,201

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$753,617,059 as of September 30, 2019, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.1 percent at September 30, 2019. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2018, is due to an increase in the Association's loan portfolio as a result of increased loan demand in its 27-county territory and increase in capital market loans. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$103,767,853 at September 30, 2019. The maximum amount the Association may borrow from the Bank as of September 30, 2019, was \$830,000,000 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources:

The Association's capital position increased by \$11,006,762 at September 30, 2019, compared to December 31, 2018. The Association's debt as a percentage of members' equity was 5.9:1 as of September 30, 2019, compared to 6.0:1 as of December 31, 2018.

Risk-adjusted:	Regulatory Conservation			Total	As of September 30, 2019
	Minimums	Buffer			
Common equity tier 1 ratio	4.5%	2.5%	7.0%	14.6%	
Tier 1 capital ratio	6.0%	2.5%	8.5%	14.6%	
Total capital ratio	8.0%	2.5%	10.5%	15.1%	
Permanent capital ratio	7.0%	0.0%	7.0%	14.7%	
<hr/>					
Non-risk-adjusted:					
Tier 1 leverage ratio	4.0%	1.0%	5.0%	13.1%	
UREE leverage ratio	1.5%	0.0%	1.5%	14.3%	

Risk-adjusted:	Regulatory Conservation			As of
	Minimums	Buffer	Total	December 31, 2018
Common equity tier 1 ratio	4.5%	2.5%	7.0%	15.7%
Tier 1 capital ratio	6.0%	2.5%	8.5%	15.7%
Total capital ratio	8.0%	2.5%	10.5%	16.2%
Permanent capital ratio	7.0%	0.0%	7.0%	15.7%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.0%	1.0%	5.0%	13.8%
UREE leverage ratio	1.5%	0.0%	1.5%	15.0%

Farm Credit Administration regulations require us 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, 2019, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

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

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

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

In August 2017, the FASB issued guidance entitled “Targeted Improvements to Accounting for Hedging Activities.” The guidance better aligns an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance became effective for interim and annual periods beginning after December 15, 2018. The Association does not currently participate in hedging activities; therefore, there is no impact of adoption on the Association’s financial condition.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020,

with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance did not materially impact the Association’s financial condition and results of operations but did impact lease disclosures. The Association adopted this guidance on January 1, 2019 and upon adoption, did not record any right to use assets, lease liability or adjustment to retained earnings due to the immaterial amount of the Association’s lease transactions.

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 2018 Annual Report of Association New Model 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 quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Alabama Farm Credit, ACA, P.O. Box 639, Cullman, Alabama 35056 or calling (256) 737-7128 The annual and quarterly stockholder reports for the Association are also available on its website at www.alabamafarmcredit.com. Copies of the Association’s quarterly stockholder reports can also be requested by e-mailing karri.sumrall@albamafarmcredit.com.

ALABAMA FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2019 (unaudited)	December 31, 2018
<u>ASSETS</u>		
Cash	\$ 201,779	\$ 48,700
Loans	856,783,162	794,416,124
Less: allowance for loan losses	<u>4,355,000</u>	<u>4,010,000</u>
Net loans	852,428,162	790,406,124
Accrued interest receivable	11,594,280	8,701,345
Investment in and receivable from the Farm		
Credit Bank of Texas:		
Capital stock	13,155,480	13,155,480
Other	2,653,091	1,159,553
Other property owned, net	919,973	1,024,659
Premises and equipment, net	5,206,839	4,460,346
Other assets	<u>1,417,147</u>	<u>1,286,394</u>
Total assets	<u><u>\$ 887,576,751</u></u>	<u><u>\$ 820,242,601</u></u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 753,617,059	\$ 686,711,154
Accrued interest payable	1,910,711	1,735,047
Drafts outstanding	361,603	1,303,900
Patronage distributions payable	1,127	9,383,761
Other liabilities	<u>3,736,151</u>	<u>4,165,401</u>
Total liabilities	<u><u>759,626,651</u></u>	<u><u>703,299,263</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,906,595	2,798,455
Unallocated retained earnings	125,071,346	114,166,208
Accumulated other comprehensive loss	<u>(27,841)</u>	<u>(21,325)</u>
Total members' equity	<u>127,950,100</u>	<u>116,943,338</u>
Total liabilities and members' equity	<u><u>\$ 887,576,751</u></u>	<u><u>\$ 820,242,601</u></u>

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
<u>INTEREST INCOME</u>				
Loans	\$ 11,595,674	\$ 10,254,825	\$ 33,706,380	\$ 29,501,541
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	5,808,863	4,791,895	16,558,952	13,159,865
Net interest income	5,786,811	5,462,930	17,147,428	16,341,676
<u>PROVISION FOR LOAN LOSSES</u>				
	306,793	97,525	627,792	33,604
Net interest income after provision for loan losses	5,480,018	5,365,405	16,519,636	16,308,072
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	753,923	684,440	2,123,127	1,802,550
Loan fees	119,410	63,827	297,270	215,325
Financially related services income	2,437	5,708	6,789	12,347
Gain on other property owned, net	-	-	-	77,510
Gain on sale of premises and equipment, net	25,167	14,742	65,871	65,749
Other noninterest income	-	-	186,219	339,050
Total noninterest income	900,937	768,717	2,679,276	2,512,531
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,655,932	1,493,756	5,031,888	4,223,134
Directors' expense	118,384	95,595	322,175	273,702
Purchased services	240,470	58,146	518,503	273,155
Travel	243,281	221,435	487,081	437,397
Occupancy and equipment	136,747	129,308	378,733	370,845
Communications	57,537	65,768	161,167	187,193
Advertising	33,373	82,825	158,548	233,654
Public and member relations	51,233	50,605	218,829	169,380
Supervisory and exam expense	69,741	64,468	198,676	174,843
Insurance Fund premiums	129,296	116,523	375,695	339,273
Business insurance	31,426	-	94,874	105,773
Other components of net periodic postretirement benefit cost	18,515	24,109	55,545	72,326
Loss on other property owned, net	37,708	6,684	25,658	-
Other noninterest expense	105,788	90,977	266,402	217,937
Total noninterest expenses	2,929,431	2,500,199	8,293,774	7,078,612
NET INCOME	3,451,524	3,633,923	10,905,138	11,741,991
Other comprehensive income:				
Change in postretirement benefit plans	(2,172)	2,694	(6,516)	8,082
COMPREHENSIVE INCOME	\$ 3,449,352	\$ 3,636,617	\$ 10,898,622	\$ 11,750,073

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Retained Earnings Unallocated</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2017	\$ 2,687,255	\$ 107,956,718	\$ (506,307)	\$ 110,137,666
Comprehensive income	-	11,741,991	8,082	11,750,073
Capital stock/participation certificates issued	333,385	-	-	333,385
Capital stock/participation certificates retired	(235,685)	-	-	(235,685)
Balance at September 30, 2018	<u>\$ 2,784,955</u>	<u>\$ 119,697,314</u>	<u>\$ (498,225)</u>	<u>\$ 121,984,044</u>
Balance at December 31, 2018	\$ 2,798,455	\$ 114,166,208	\$ (21,325)	\$ 116,943,338
Comprehensive income	-	10,905,138	(6,516)	10,898,622
Capital stock/participation certificates issued	347,700	-	-	347,700
Capital stock/participation certificates retired	(239,560)	-	-	(239,560)
Balance at September 30, 2019	<u>\$ 2,906,595</u>	<u>\$ 125,071,346</u>	<u>\$ (27,841)</u>	<u>\$ 127,950,100</u>

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

ASSOCIATION NEW MODEL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Alabama Farm 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 Blount, Calhoun, Cherokee, Clay, Cleburne, Colbert, Cullman, DeKalb, Etowah, Fayette, Franklin, Jackson, Jefferson, Lamar, Lauderdale, Lawrence, Limestone, Madison, Marion, Marshall, Morgan, Randolph, Shelby, St. Clair, Talladega, Walker and Winston 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, 2018, as contained in the 2018 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 generally accepted accounting principles (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 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, 2018, as contained in the 2018 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 ending December 31, 2018. Descriptions of the significant accounting policies are included in the 2018 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 August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost.” The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance is not expected to 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 becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018. The adoption of this guidance will not impact the Association’s financial condition or its results of operations, but will impact the fair value measurements disclosures.

In August 2017, the FASB issued guidance entitled “Targeted Improvements to Accounting for Hedging Activities.” The guidance better aligns an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments

in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance became effective for interim and annual periods beginning after December 15, 2018. The Association does not currently participate in hedging activities; therefore, there is no impact of adoption on the Association’s financial condition.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance did not materially impact the Association’s financial condition and results of operations but did impact lease disclosures. The Association adopted this guidance on January 1, 2019 and upon adoption, did not record any right to use assets, lease liability or adjustment to retained earnings due to the immaterial amount of the Association’s lease transactions.

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, 2019, 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, 2019 Amount	December 31, 2018 Amount
Production agriculture:		
Real estate mortgage	\$ 696,008,012	\$ 650,500,490
Production and intermediate term	106,405,600	89,442,720
Agribusiness:		
Processing and marketing	33,270,222	32,667,110
Farm-related business	1,603,113	2,161,726
Communication	2,046,588	2,061,951
Energy	-	30,426
Rural residential real estate	17,449,627	17,551,701
Total	\$ 856,783,162	\$ 794,416,124

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES (continued):

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2019:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 714,593	\$ -	\$ -	\$ -	\$ 714,593	\$ -
Production and intermediate term	14,276,497	-	-	-	14,276,497	-
Agribusiness	33,066,319	-	-	-	33,066,319	-
Communication	2,046,588	-	-	-	2,046,588	-
Total	<u>\$ 50,103,997</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,103,997</u>	<u>\$ -</u>

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 advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were \$43,614,086 and \$31,723,232 at September 30, 2019, and December 31, 2018, respectively.

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

	September 30, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	\$ 4,561,456	\$ 4,751,770
Production and intermediate term	1,059,649	231,717
Rural residential real estate	286,077	-
Total nonaccrual loans	<u>5,907,182</u>	<u>4,983,487</u>
Accruing restructured loans:		
Real estate mortgage	1,021,297	967,847
Total accruing restructured loans	<u>1,021,297</u>	<u>967,847</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	178,155	-
Production and intermediate term	52,499	-
Total accruing loans 90 days or more past due	<u>230,654</u>	<u>-</u>
Total nonperforming loans	7,159,133	5,951,334
Other property owned	919,973	1,024,659
Total nonperforming assets	<u>\$ 8,079,106</u>	<u>\$ 6,975,993</u>

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES (continued):

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, 2019	December 31, 2018
Real estate mortgage		
Acceptable	97.7 %	98.4 %
OAEM	0.9	0.6
Substandard/doubtful	1.4	1.0
	100.0	100.0
Production and intermediate term		
Acceptable	97.1	98.1
OAEM	0.8	0.4
Substandard/doubtful	2.1	1.5
	100.0	100.0
Agribusiness		
Acceptable	90.4	100.0
OAEM	9.6	-
Substandard/doubtful	-	-
	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	98.1	98.8
OAEM	-	-
Substandard/doubtful	1.9	1.2
	100.0	100.0
Total loans		
Acceptable	97.4	98.4
OAEM	1.2	0.6
Substandard/doubtful	1.4	1.0
	100.0 %	100.0 %

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES (continued):

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

September 30, 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	\$ 6,024,793	\$ 1,526,529	\$ 7,551,322	\$ 698,199,007	\$ 705,750,329	\$ 178,155
Production and intermediate term	1,237,757	524,237	1,761,994	106,370,924	108,132,918	52,499
Processing and marketing	-	-	-	33,330,778	33,330,778	-
Farm-related business	-	-	-	1,610,481	1,610,481	-
Communication	-	-	-	2,046,818	2,046,818	-
Rural residential real estate	184,711	168,719	353,430	17,152,688	17,506,118	-
Total	\$ 7,447,261	\$ 2,219,485	\$ 9,666,746	\$ 858,710,696	\$ 868,377,442	\$ 230,654

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	\$ 8,336,375	\$ 698,974	\$ 9,035,349	\$ 648,635,359	\$ 657,670,708	\$ -
Production and intermediate term	1,186,262	177,726	1,363,988	89,504,549	90,868,537	-
Processing and marketing	-	-	-	32,707,317	32,707,317	-
Farm-related business	-	-	-	2,167,163	2,167,163	-
Communication	-	-	-	2,062,210	2,062,210	-
Energy	-	-	-	30,473	30,473	-
Rural residential real estate	589,387	-	589,387	17,021,674	17,611,061	-
Total	\$ 10,112,024	\$ 876,700	\$ 10,988,724	\$ 792,128,745	\$ 803,117,469	\$ -

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

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of September 30, 2019, the total recorded investment of troubled debt restructured loans was \$1,372,934, including \$351,637 classified as nonaccrual and \$1,009,546 classified as accrual, with specific allowance for loan losses of \$8,049. Troubled debt restructurings are analyzed for allowance for loan losses using the specific analysis method. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring at June 30, 2019 or December 31, 2018.

The following table presents additional information regarding troubled debt restructurings that occurred during the three and nine months ended September 30, 2019. 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. Loans formally restructured prior to January 1, 2019, totaled \$947,791.

For the Three Months Ended September 30, 2019	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 200,133	\$ 200,133
Rural residential real estate	117,358	117,358
Total	\$ 317,491	\$ 317,491

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES (continued):

For the Nine Months Ended September 30, 2019	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 318,055	\$ 318,055
Rural residential real estate	117,358	117,358
Total	\$ 435,413	\$ 435,413

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no charge-offs recorded at the modification date for the nine months ending September 30, 2019.

The predominant form of concession granted for troubled debt restructuring includes the extension of terms due to cash flow constrictions enabling the borrower to fund the original payment amount. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table at:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Real estate mortgage	\$ 1,255,576	\$ 967,847	\$ 234,279	\$ -
Rural residential real estate	117,358	-	117,358	-
Total	\$ 1,372,934	\$ 967,847	\$ 351,637	\$ -

Additional impaired loan information is as follows:

	September 30, 2019			December 31, 2018		
	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	\$ 270,674	\$ 283,909	\$ 18,293	\$ 1,654,533	\$1,655,783	\$ 147,132
Production and intermediate term	277,289	277,289	238,681	225,678	225,678	92,606
Total	\$ 547,963	\$ 561,198	\$256,974	\$ 1,880,211	\$1,881,461	\$ 239,738
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$5,476,285	\$ 5,484,121	\$ -	\$ 4,057,640	\$4,059,559	\$ -
Production and intermediate term	832,358	832,788	-	6,039	6,039	-
Rural residential real estate	286,077	286,619	-	-	-	-
Total	\$6,594,720	\$ 6,603,528	\$ -	\$ 4,063,679	\$4,065,598	\$ -
Total impaired loans:						
Real estate mortgage	\$5,746,959	\$ 5,768,030	\$ 18,293	\$ 5,712,173	\$5,715,342	\$ 147,132
Production and intermediate term	1,109,647	1,110,077	238,681	231,717	231,717	92,606
Rural residential real estate	286,077	286,619	-	-	-	-
Total	\$7,142,683	\$ 7,164,726	\$256,974	\$ 5,943,890	\$5,947,059	\$ 239,738

^a Unpaid principal balance represents the recorded principal legal balance of the loan.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES (continued):

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2019		September 30, 2018		September 30, 2019		September 30, 2018	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	\$ 147,963	\$ -	\$ 277,037	\$ -	\$ 727,246	\$ -	\$ 335,188	\$ -
Production and intermediate term	63,437	-	5,874	-	132,092	-	15,405	-
Total	\$ 211,400	\$ -	\$ 282,911	\$ -	\$ 859,338	\$ -	\$ 350,593	\$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	\$4,978,065	\$ 33,305	\$4,389,592	\$ 39,636	\$4,467,764	\$ 83,279	\$3,215,153	\$ 89,245
Production and intermediate term	769,402	3,420	263,175	1,077	260,077	8,475	137,144	4,586
Rural residential real estate	118,465	-	-	-	56,923	-	-	-
Total	\$5,865,932	\$ 36,725	\$4,652,767	\$ 40,713	\$4,841,687	\$ 91,754	\$3,352,297	\$ 93,831
Total impaired loans:								
Real estate mortgage	\$5,126,028	\$ 33,305	\$4,666,629	\$ 39,636	\$5,195,010	\$ 83,279	\$3,550,341	\$ 89,245
Production and intermediate term	832,839	3,420	269,049	1,077	392,169	8,475	152,549	4,586
Rural residential real estate	118,465	-	-	-	56,923	-	-	-
Total	\$6,077,332	\$ 36,725	\$4,935,678	\$ 40,713	\$5,701,025	\$ 91,754	\$3,702,890	\$ 93,831

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, 2019	\$ 3,816,789	\$ 189,294	\$ 58,241	\$ 823	\$ -	\$ 15,853	\$ 4,081,000
Charge-offs	(32,793)	-	-	-	-	-	(32,793)
Provision for loan losses	74,674	228,084	3,969	(2)	-	68	306,793
Balance at September 30, 2019	\$ 3,858,670	\$ 417,378	\$ 62,210	\$ 821	\$ -	\$ 15,921	\$ 4,355,000
Balance at December 31, 2018	\$ 3,708,667	\$ 243,636	\$ 40,895	\$ 1,819	\$ -	\$ 14,983	\$ 4,010,000
Charge-offs	(284,617)	-	-	-	-	-	(284,617)
Recoveries	1,825	-	-	-	-	-	1,825
Provision for loan losses	432,795	173,742	21,315	(998)	-	938	627,792
Balance at September 30, 2019	\$ 3,858,670	\$ 417,378	\$ 62,210	\$ 821	\$ -	\$ 15,921	\$ 4,355,000
Ending Balance:							
Individually evaluated for impairment	\$ 18,293	\$ 238,681	\$ -	\$ -	\$ -	\$ -	\$ 256,974
Collectively evaluated for impairment	3,840,377	178,697	62,210	821	-	15,921	4,098,026
Balance at September 30, 2019	\$ 3,858,670	\$ 417,378	\$ 62,210	\$ 821	\$ -	\$ 15,921	\$ 4,355,000
Balance at June 30, 2018	\$ 3,514,729	\$ 141,841	\$ 48,198	\$ 1,828	\$ 33	\$ 11,371	\$ 3,718,000
Recoveries	929	-	-	-	-	-	929
Provision for loan losses	105,952	(8,782)	(2,316)	(4)	(33)	2,708	97,525
Balance at September 30, 2018	\$ 3,621,610	\$ 133,059	\$ 45,882	\$ 1,824	\$ -	\$ 14,079	\$ 3,816,454
Balance at December 31, 2017	\$ 3,581,175	\$ 145,525	\$ 37,427	\$ 2,226	\$ -	\$ 11,647	\$ 3,778,000
Charge-offs	(4,012)	-	-	-	-	-	(4,012)
Recoveries	2,862	-	-	-	-	-	2,862
Provision for loan losses	40,246	(6,712)	(1,814)	(402)	(113)	2,399	33,604
Other	1,339	(5,754)	10,269	-	113	33	6,000
Balance at September 30, 2018	\$ 3,621,610	\$ 133,059	\$ 45,882	\$ 1,824	\$ -	\$ 14,079	\$ 3,816,454
Ending Balance:							
Individually evaluated for impairment	\$ 132,248	\$ 15,964	\$ -	\$ -	\$ -	\$ -	\$ 148,212
Collectively evaluated for impairment	3,489,362	117,095	45,882	1,824	-	14,079	3,668,242
Balance at September 30, 2018	\$ 3,621,610	\$ 133,059	\$ 45,882	\$ 1,824	\$ -	\$ 14,079	\$ 3,816,454

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES (continued):

	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, 2019	\$705,750,329	\$108,132,918	\$34,941,259	\$ 2,046,818	\$ -	\$17,506,118	\$868,377,442
Individually evaluated for impairment	\$ 5,746,960	\$ 1,109,646	\$ -	\$ -	\$ -	\$ 286,077	\$ 7,142,683
Collectively evaluated for impairment	\$700,003,369	\$107,023,272	\$34,941,259	\$ 2,046,818	\$ -	\$17,220,041	\$861,234,759
Ending Balance at							
December 31, 2018	\$657,670,708	\$ 90,868,537	\$34,874,480	\$ 2,062,210	\$ 30,473	\$17,611,061	\$803,117,469
Individually evaluated for impairment	\$ 5,719,617	\$ 231,717	\$ -	\$ -	\$ -	\$ -	\$ 5,951,334
Collectively evaluated for impairment	\$651,951,091	\$ 90,636,820	\$34,874,480	\$ 2,062,210	\$ 30,473	\$17,611,061	\$797,166,135

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 and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Conservation			As of	
	Minimums	Buffer	Total	September 30, 2019	
Common equity tier 1 ratio	4.5%	2.5%	7.0%	14.6%	
Tier 1 capital ratio	6.0%	2.5%	8.5%	14.6%	
Total capital ratio	8.0%	2.5%	10.5%	15.1%	
Permanent capital ratio	7.0%	0.0%	7.0%	14.7%	
Non-risk-adjusted:					
Tier 1 leverage ratio	4.0%	1.0%	5.0%	13.1%	
UREE leverage ratio	1.5%	0.0%	1.5%	14.3%	
Risk-adjusted:	Regulatory Conservation			As of	
	Minimums	Buffer	Total	December 31, 2018	
Common equity tier 1 ratio	4.5%	2.5%	7.0%	15.7%	
Tier 1 capital ratio	6.0%	2.5%	8.5%	15.7%	
Total capital ratio	8.0%	2.5%	10.5%	16.2%	
Permanent capital ratio	7.0%	0.0%	7.0%	15.7%	
Non-risk-adjusted:					
Tier 1 leverage ratio	4.0%	1.0%	5.0%	13.8%	
UREE leverage ratio	1.5%	0.0%	1.5%	15.0%	

NOTE 3 — CAPITAL (continued):

Calculations of the risk-adjusted capital ratios as September 30, 2019 and December 31, 2018 are included in the following table:

September 30, 2019 (dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	122,357	122,357	122,357	122,357
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,884	2,884	2,884	2,884
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	4,112	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(13,155)	(13,155)	(13,155)	(13,155)
	<u>112,086</u>	<u>112,086</u>	<u>116,198</u>	<u>112,086</u>
Denominator:				
Risk-adjusted assets excluding allowance	780,639	780,639	780,639	780,639
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(13,155)	(13,155)	(13,155)	(13,155)
Allowance for loan losses	-	-	-	(4,057)
	<u>767,484</u>	<u>767,484</u>	<u>767,484</u>	<u>763,427</u>
December 31, 2018 (dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	119,946	119,946	119,946	119,946
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,791	2,791	2,791	2,791
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	3,864	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(11,984)	(11,984)	(11,984)	(11,984)
	<u>110,753</u>	<u>110,753</u>	<u>114,617</u>	<u>110,753</u>
Denominator:				
Risk-adjusted assets excluding allowance	719,778	719,778	719,778	719,778
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(11,984)	(11,984)	(11,984)	(11,984)
Allowance for loan losses	-	-	-	(3,816)
	<u>707,794</u>	<u>707,794</u>	<u>707,794</u>	<u>703,978</u>

NOTE 3 — CAPITAL (continued):

Calculations of the non-risk-adjusted capital ratios as September 30, 2019 and December 31, 2018 are included in the following table:

	Tier 1 leverage ratio	UREE leverage ratio
September 30, 2019 (dollars in thousands)		
Numerator:		
Unallocated retained earnings	122,357	122,357
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	2,884	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(13,155)	-
	<u>112,086</u>	<u>122,357</u>
Denominator:		
Total Assets	872,740	872,740
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(17,088)	(17,088)
	<u>855,652</u>	<u>855,652</u>
December 31, 2018 (dollars in thousands)		
Numerator:		
Unallocated retained earnings	119,946	119,946
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	2,791	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(11,984)	-
	<u>110,753</u>	<u>119,946</u>
Denominator:		
Total Assets	816,743	816,743
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(16,168)	(16,168)
	<u>800,575</u>	<u>800,575</u>

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes, is as follows:

Accum Other Comp Income (Loss)			
September 30, 2019			
	<u>Before Tax</u>	<u>Deferred Tax</u>	<u>Net of Tax</u>
Nonpension postretirement benefits	\$ (27,841)	\$ -	\$ (27,841)
Total	<u>\$ (27,841)</u>	<u>\$ -</u>	<u>\$ (27,841)</u>
	<u>Before Tax</u>	<u>Deferred Tax</u>	<u>Net of Tax</u>
September 30, 2018			
Nonpension postretirement benefits	\$ (498,225)	\$ -	\$ (498,225)
Total	<u>\$ (498,225)</u>	<u>\$ -</u>	<u>\$ (498,225)</u>

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 "Salaries and employee benefits" 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:

	<u>2019</u>	<u>2018</u>
Accumulated other comprehensive loss at January 1	\$ (21,325)	\$ (506,307)
Amortization of prior service credit included in salaries and employee benefits	-	(13,959)
Amortization of actuarial (gain) loss included in salaries and employee benefits	(6,516)	22,041
Other comprehensive income (loss), net of tax	(6,516)	8,082
Accumulated other comprehensive loss at September 30	<u>\$ (27,841)</u>	<u>\$ (498,225)</u>

NOTE 4 — INCOME TAXES:

Alabama Farm Credit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Alabama Farm Credit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Alabama Farm Credit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. 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.

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 2018 Annual Report to Stockholders for a more complete description.

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

<u>September 30, 2019</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	<u>\$ 85,471</u>	<u>-</u>	<u>-</u>	<u>\$ 85,471</u>
Total assets	<u>85,471</u>	<u>-</u>	<u>-</u>	<u>85,471</u>

<u>December 31, 2018</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	<u>\$ 76,804</u>	<u>-</u>	<u>-</u>	<u>\$ 76,804</u>
Total assets	<u>76,804</u>	<u>-</u>	<u>-</u>	<u>76,804</u>

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

<u>September 30, 2019</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans*	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,314</u>	<u>\$ 20,314</u>	<u>\$ -</u>
Other property owned	<u>-</u>	<u>-</u>	<u>924,700</u>	<u>924,700</u>	<u>(25,658)</u>

<u>December 31, 2018</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans*	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,640,473</u>	<u>\$ 1,640,473</u>	<u>\$ -</u>
Other property owned	<u>-</u>	<u>-</u>	<u>1,060,801</u>	<u>1,060,801</u>	<u>35,583</u>

*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.

NOTE 5 — FAIR VALUE MEASUREMENTS (continued):

Valuation Techniques

As more fully discussed in Note 13 to the 2018 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. For a more complete description, see Notes to the 2018 Annual Report to Stockholders.

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 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, 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. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

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.

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

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	
	<u>2019</u>	<u>2018</u>
Service cost	\$ 7,228	\$ 10,159
Interest cost	20,686	21,414
Amortization of prior service credits	(2,171)	(4,652)
Amortization of net actuarial loss	-	7,347
Net periodic benefit cost	<u>\$ 25,743</u>	<u>\$ 34,268</u>

Nine months ended September 30 :

	Other Benefits	
	<u>2019</u>	<u>2018</u>
Service cost	\$ 21,684	\$ 30,477
Interest cost	62,058	64,242
Amortization of prior service credits	(6,513)	(13,958)
Amortization of net actuarial loss	-	22,042
Net periodic benefit cost	<u>\$ 77,229</u>	<u>\$ 102,803</u>

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2019, was \$1,823,939 and is included in "Other Liabilities" in the balance sheet.

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

The structure of the district's defined benefit pension plan is characterized as multiemployer 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 Association previously disclosed in its financial statements for the year ended December 31, 2018, that it expected to contribute \$349,429 to the district's defined benefit pension plan in 2019. The Association contributed the entire amount in January 2019 and as of September 30, 2019, has amortized \$262,072 of expense to salaries and benefits. The Association does not presently anticipate additional contributions to fund the defined benefit pension plan in 2019.

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 7, 2019, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 7, 2019.