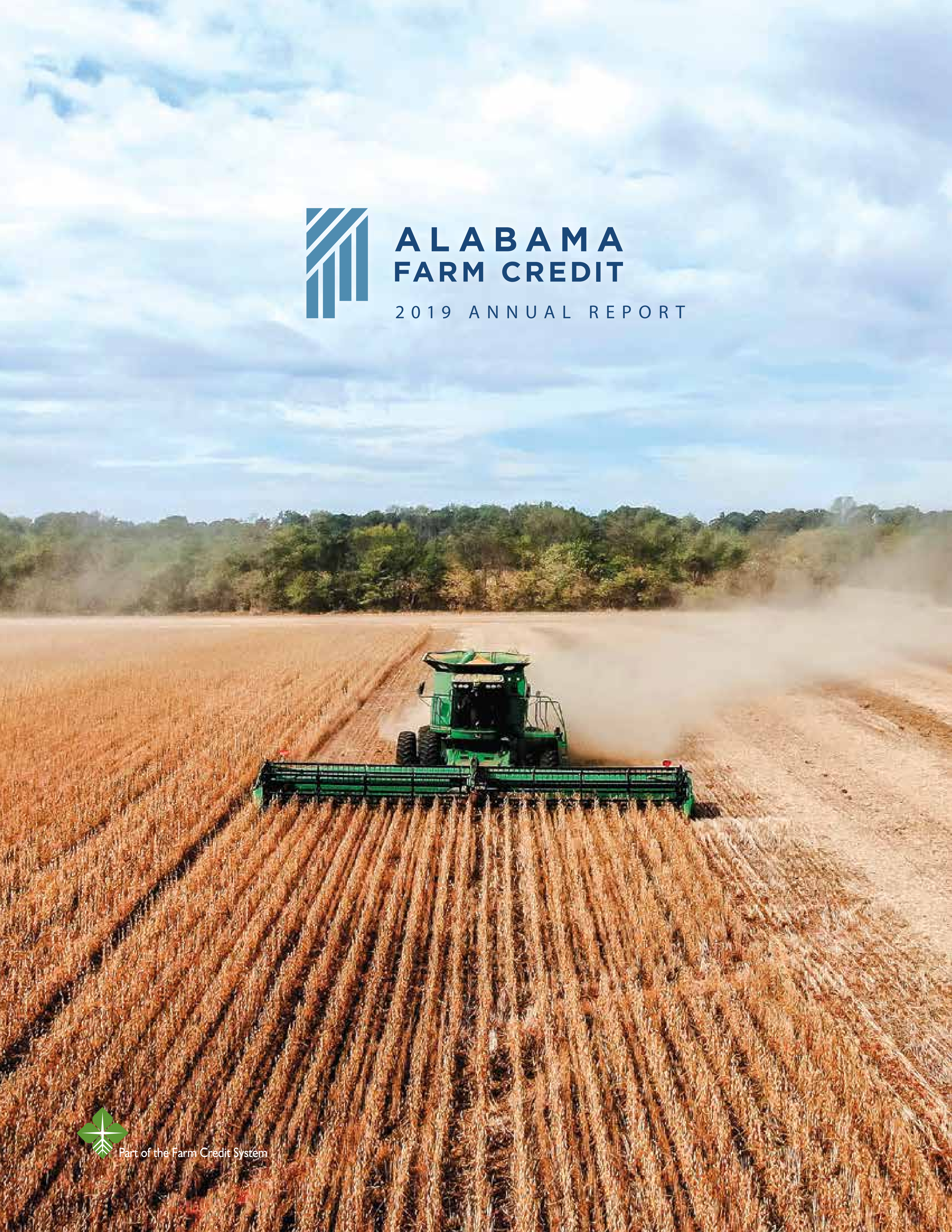

ALABAMA FARM CREDIT

2019 ANNUAL REPORT

Part of the Farm Credit System

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REPORT OF MANAGEMENT

The consolidated financial statements of Alabama Farm Credit, ACA (the Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who also conduct a review of internal controls to the extent necessary to comply with auditing standards solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The board of directors has overall responsibility for the Association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously.

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

Mel Koller, Chief Executive Officer/President
March 9, 2020

Matthew Christjohn, DVM, Chairman, Board of Directors
March 9, 2020

Karri H. Sumrall, Chief Financial Officer/Ex. Vice President
March 9, 2020

John R. Adams, CPA, Chairman, Audit Committee
March 9, 2020

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of John R. Adams, CPA, Larry Don McGee and Matthew J. Christjohn, DVM, who are directors of Alabama Farm Credit, ACA. In 2019, seven committee meetings were held. The committee oversees the scope of Alabama Farm Credit, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Alabama Farm Credit, ACA's website. The committee approved the appointment of PricewaterhouseCoopers LLP (PwC) for 2019.

Management is responsible for Alabama Farm Credit, ACA's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the committee. PwC is responsible for performing an independent audit of Alabama Farm Credit, ACA's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The committee's responsibilities include monitoring and overseeing these processes.

In this context, the committee reviewed and discussed Alabama Farm Credit, ACA's audited consolidated financial statements for the year ended December 31, 2019 (audited consolidated financial statements) with management and PwC. The committee also reviews with PwC the matters required to be discussed by authoritative guidance "The Auditor's Communication with Those Charged with Governance," and both PwC's and Alabama Farm Credit, ACA's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PwC its independence from Alabama Farm Credit, ACA. The committee also reviewed the nonaudit services provided by PwC and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and PwC such other matters and received such assurances from them as the committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in Alabama Farm Credit, ACA's Annual Report to Stockholders for the year ended December 31, 2019.

John R. Adams, CPA, Chairman
March 9, 2020

Larry Don McGee, Member
March 9, 2020

Matthew Christjohn, DVM, Member
March 9, 2020

ALABAMA FARM CREDIT, ACA

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

	2019	2018	2017	2016	2015
Balance Sheet Data					
Assets					
Cash	**$ 12**	$ 49	$ 339	$ 11	$ 42
Loans	**884,970**	794,416	729,419	672,097	624,847
Less: allowance for loan losses	**4,295**	4,010	3,778	3,698	3,782
Net loans	**880,675**	790,406	725,641	668,399	621,065
Investment in and receivable from the Farm Credit Bank of Texas	**15,909**	14,315	12,519	11,733	10,275
Other property owned, net	**920**	1,025	2,492	2,064	1,454
Other assets	**15,731**	14,448	12,570	11,647	10,676
Total assets	**$ 913,247**	$ 820,243	$ 753,561	$ 693,854	$ 643,512
Liabilities					
Obligations with maturities of one year or less	**$ 15,234**	$ 14,854	$ 14,784	$ 14,187	$ 12,050
Obligations with maturities greater than one year	**775,298**	688,446	628,639	575,404	533,625
Total liabilities	**790,532**	703,300	643,423	589,591	545,675
Members' Equity					
Capital stock and participation certificates	**2,953**	2,798	2,687	2,518	2,416
Unallocated retained earnings	**119,986**	114,166	107,957	101,909	95,672
Accumulated other comprehensive income (loss)	**(224)**	(21)	(506)	(164)	(251)
Total members' equity	**122,715**	116,943	110,138	104,263	97,837
Total liabilities and members' equity	**$ 913,247**	$ 820,243	$ 753,561	$ 693,854	$ 643,512
Statement of Income Data					
Net interest income	**$ 22,981**	$ 21,809	$ 21,321	$ 20,609	$ 19,204
(Provision for loan losses) or loan loss reversal	**(551)**	(242)	(100)	11	(198)
Income from the Farm Credit Bank of Texas	**3,758**	3,159	2,602	2,496	2,277
Other noninterest income	**681**	762	384	370	335
Noninterest expense	**(11,168)**	(9,897)	(9,159)	(8,799)	(7,967)
Net income	**$ 15,701**	$ 15,591	$ 15,048	$ 14,687	$ 13,651
Key Financial Ratios for the Year					
Return on average assets	**1.8%**	2.0%	2.0%	2.2%	2.2%
Return on average members' equity	**12.5%**	13.2%	13.5%	14.0%	14.0%
Net interest income as a percentage of average earning assets	**2.8%**	2.9%	3.1%	3.2%	3.3%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%

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

	2019	2018	2017	2016	2015
Key Financial Ratios at Year End *					
Members' equity as a percentage of total assets	**13.4%**	14.3%	14.6%	15.0%	15.2%
Debt as a percentage of members' equity	**644.2%**	601.4%	584.2%	565.5%	557.7%
Allowance for loan losses as a percentage of loans	**0.5%**	0.5%	0.5%	0.6%	0.6%
Common equity tier 1 ratio	**14.4%**	15.7%	16.0%	n/a	n/a
Tier 1 capital ratio	**14.4%**	15.7%	16.0%	n/a	n/a
Total capital ratio	**15.0%**	16.2%	16.6%	n/a	n/a
Permanent capital ratio	**14.5%**	15.7%	16.1%	16.8%	16.8%
Tier 1 leverage ratio	**13.0%**	13.8%	14.2%	n/a	n/a
UREE leverage ratio	**14.2%**	15.0%	15.4%	n/a	n/a
Net Income Distribution					
Patronage dividends:					
Cash	**$ 9,380**	$ 8,999	$ 8,450	$ 6,179	$ 6,455

*Effective January 1, 2017 the new regulatory capital ratios were implemented by the Association. The Association’s ratios remained well above the regulatory minimums, including the conservation and leverage buffers at December 31, 2019. For more information, see Note 9 in the accompanying consolidated financial statements, “Members Equity” included in this annual report.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Unaudited)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Alabama Farm Credit, ACA, including its wholly-owned subsidiaries, Alabama Farm Credit, PCA and Alabama Farm Credit, FLCA (Association) for the years ended December 31, 2019, 2018 and 2017, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's audit committee.

Forward-Looking Information:

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will" or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease-related and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government and government-sponsored enterprises;
- actions taken by the Federal Reserve System in implementing monetary policy;
- disruptions to information technology systems and services; and
- cyber-security risks such as unauthorized access to sensitive information or disruption of business operations.

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 paid in March 2019. Also in December 2019, the Association accrued a $9,880,729 patronage distribution to its stockholders. The payment resolution was approved in January 2020 and will be disbursed in March 2020. The Association was able to return these funds to its members due to strong earnings over the past three years.

In December 2019, the Association received a direct loan patronage of $3,358,345 from the Farm Credit Bank of Texas ("Bank"), representing 46.1 basis points on the average daily balance of the Association's direct loan with the Bank. During 2019, the Association also received $399,681 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

During 2019, the Association required charge-offs of $287,401 and received $1,825 in recoveries. Also, during 2019, the Association acquired six properties from various counties in north Alabama. The Association sold eight properties during 2019, resulting in a net decrease of $104,686, including a gain of $36,105. At December 31, 2019, the Association held three properties with a carrying value of $919,973, net of allowance, in Other Property Owned, net, on the balance sheet.

For more than 30 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loans are available to eligible borrowers with competitive fixed, adjustable, and index-based interest rates with loan maturities up to 30 years. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The composition of the Association's loan portfolio, including principal less funds held of $884,970,381, $794,416,124 and $729,419,322 as of December 31, 2019, 2018 and 2017, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses" included in this annual report. The Association increased total loan volume by $90,554,257 or 11.4 percent compared to 2018. These increases are the result of an increase in capital markets activity, an overall improvement of economic and financial markets and increased demand for loans within the Association's territory.

The Association's largest commodity concentration in its loan portfolio continues to be poultry, which is approximately 47.1 percent or $416,533,817. The industry is presently stable, with market prices for poultry showing some positive signs of increased demand for poultry products. Production in 2019 remained steady to increasing 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 increasing slightly each week. The Association has 30.5 percent of its poultry portfolio guaranteed, which helps to reduce loss exposure in this commodity. Projections for 2020 could show some isolated limitations due to continued uncertain economic conditions driving commodity price fluctuation. Poultry growers continue to operate with thin margins. The Association continues to experience some isolated concerns in this segment of 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. 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 were no known Avian Influenza cases in 2019 within the Association's territory, or thus far in 2020. 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 fairly good growing conditions and commodity prices. Weather conditions for 2019 had average moisture over most of the Association's territory. Cow/calf prices are expected to slightly improve or hold steady in 2020, 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 2020 are projected to remain stable. Feed costs to the integrators remained at a more normal or reasonable level in 2019, due to lower costs for corn and soybeans.

Timber markets in 2019 remained steady for pine and hardwood pulpwood, and to a lesser extent hardwood saw timber. Indicators for 2020 are for timber prices to remain stable, with industry leaders projecting steady demand for wood products in 2020. Westervelt Company has announced a new timber mill in Thomasville, Alabama. The timber industry overall has experienced a resurgence from a strong national economy. This industry continues to closely balance demand and production. Certain hardwood saw timber and pine pulpwood products have led the way for products in demand by the market. Alabama produces a substantial amount of pine for pulpwood products.

Overall land values have seen a slight improvement or remained stable in most areas of the Association's territory based on the current economic climate. The agricultural economy, in general for the area, remained stable in 2019. The Association's credit quality experienced a slight decline to 98.6 percent non-adverse loan volume at 2019 year-end, compared to 99.0 and 99.4 percent non-adverse loan volume at year-end 2018 and 2017, respectively.

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

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

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 2020 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.

Purchase and Sales of Loans:

During 2019, 2018 and 2017, the Association was participating in loans with other lenders. As of December 31, 2019, 2018 and 2017, these participations totaled $51,589,942, $39,973,017 and $31,529,243, or 5.8 percent, 5.0 percent and 4.3 percent of loans, respectively. There were no participations purchased from entities outside the District during the years ended December 2019, 2018 and 2017. The increase in volume in 2019 was the result of the Association purchasing new participation loans in addition to refinancing of or draws on existing lines of credit during the year. The Association had also sold participations of $5,413,216, $0 and $0 as of December 31, 2019, 2018 and 2017.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net.

The following table illustrates the Association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2019		2018		2017	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 7,014,680**	**79.0%**	$ 4,983,487	71.4%	$ 2,707,313	43.7%
90 days past due and still accruing interest	**145,715**	**1.6%**	-	0.0%	-	0.0%
Formally restructured	**802,565**	**9.0%**	967,847	13.9%	1,007,403	16.2%
Other property owned, net	**919,973**	**10.4%**	1,024,659	14.7%	2,491,876	40.1%
Total	**$ 8,882,933**	**100.0%**	$ 6,975,993	100.0%	$ 6,206,592	100.0%

High-risk assets increased in 2019 by $1,906,940, or 27.3 percent, as compared to 2018. During 2019, 37 loans to 21 borrowers totaling $5,922,751 were moved to nonaccrual status while seven loans total $877,208 were moved from nonaccrual to other property owned, and no loans were reinstated to accrual status. Nonaccrual loans decreased by an additional $3,014,350 from repayments and charge-offs.

At December 31, 2019, 2018 and 2017, loans that were considered impaired were $7,962,960, $5,951,334 and $3,714,716, representing 0.9 percent, 0.7 percent and 0.5 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The Association had five properties in other property owned at the beginning of 2019. During 2019, the Association acquired six additional properties from various counties in north Alabama. The Association sold eight properties during 2019, resulting in a net decrease of $104,686, including a gain of $36,105. At December 31, 2019, the Association held three properties with a carrying value of $919,973, net of allowance, which consisted of 155.3 acres of land.

Counterparty risk is continually monitored by management of the Association. The Association's primary counterparty risk comes from poultry integrators with which its borrowers are associated and participation loans. Because the Association has approximately 47.1 percent of its portfolio concentrated in poultry, it mitigates inherent risks in the poultry markets and the integrators by heavy utilization of government guarantees. At December 31, 2019, approximately 30.5 percent, or $128.8 million, of the Association's poultry loans were government guaranteed. 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. The Association, in the normal course of business, has participation loans with other Farm Credit associations and Farm Credit banks.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender.

To help mitigate and diversify credit risk, the Association has employed practices including credit guarantees and engaging in loan participations. At December 31, 2019, the Association had approximately $152,046,994, or 17.2 percent, of its portfolio that had guarantees with the Farm Service Agency (FSA) or the Small Business Administration (SBA).

Allowance for Loan Losses:

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

	2019	2018	2017
Allowance for loan losses	**$ 4,295,000**	$ 4,010,000	$ 3,778,000
Allowance for loan losses to total loans	**0.5%**	0.5%	0.5%
Allowance for loan losses to nonaccrual loans	**61.2%**	80.5%	139.5%
Allowance for loan losses to impaired loans	**53.9%**	67.4%	101.7%
Net charge-offs to average loans	**0.0%**	0.0%	0.0%

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowance for loan losses including but not limited to: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, borrower repayment capacity, depth of lender staff, and/or past trends, and weather-related influences.

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of $4,295,000, $4,010,000 and $3,778,000 at December 31, 2019, 2018 and 2017, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. The $285,000 increase compared to 2018 is primarily due to an increase in loan volume and an increase in specific allowances on impaired loans. 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 to no price appreciation and, as mentioned above, having approximately $152,046,994, or 17.2 percent, of its portfolio that had guarantees with the FSA or the SBA.

Results of Operations:

The Association's net income for the year ended December 31, 2019, was $15,700,714 as compared to $15,591,380 for the year ended December 31, 2018, reflecting an increase of $109,334, or 0.7 percent. The Association's net income for the year ended December 31, 2017 was $15,048,411. Net income increased $542,969, or 3.6 percent, in 2018 versus 2017.

Net interest income for 2019, 2018 and 2017 was $22,980,921, $21,809,331 and $21,321,396, respectively, reflecting increases of $1,171,590, or 5.4 percent, for 2019 versus 2018 and $487,935, or 2.3 percent, for 2018 versus 2017. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2019		2018		2017	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 832,372,553**	**$ 45,447,408**	$ 762,226,287	$ 40,035,598	$ 697,982,969	$ 35,255,631
Interest-bearing liabilities	**728,060,921**	**22,466,487**	662,413,401	18,226,267	603,303,802	13,934,239
Impact of capital	**$ 104,311,632**		$ 99,812,886		$ 94,679,167	
Net interest income		**$ 22,980,921**		$ 21,809,331		$ 21,321,392

	2019 Average Yield	2018 Average Yield	2017 Average Yield
Yield on loans	**5.5%**	5.3%	5.1%
Cost of interest-bearing liabilities	**3.1%**	2.8%	2.4%
Interest rate spread	**2.4%**	2.5%	2.7%

	2019 vs. 2018			2018 vs. 2017		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 3,684,433**	**$ 1,727,377**	**$ 5,411,810**	$ 3,244,994	$ 1,534,972	$ 4,779,966
Interest expense	**1,806,292**	**2,433,928**	**4,240,220**	1,365,254	2,926,775	4,292,029
Net interest income	**$ 1,878,141**	**$ (706,551)**	**$ 1,171,590**	$ 1,879,740	$ (1,391,803)	$ 487,937

Interest income for 2019 increased by $5,411,810, or 13.5 percent, compared to 2018, primarily due to an increase in average loan volume as a result of the active lending environment during 2019. This increase was offset by a slight decrease in loan yields. Interest expense for 2019 increased by $4,240,220, or 23.3 percent, compared to 2018 primarily due to the increase in average loan volume and an increase in interest rates on the Association's direct note with the Bank. The interest rate spread decreased by 13 basis points to 2.4 percent in 2019 from 2.5 percent in 2018, primarily due to the increase in interest rates on the Association's direct note and competitive market for loans within the Association territory. The interest rate spread increased/decreased by 24 basis points to 2.5 percent in 2018 from 2.7 percent in 2017, primarily due to the increase in interest rates on the Association's direct note and competitive market for loans within the Association territory.

Noninterest income for 2019 increased by $517,085, or 13.2 percent, compared to 2018, due primarily to an increase in patronage income from the Bank in the amount of $598,674, or 19.0 percent, and an increase in loan fees of $130,928, or 44.8 percent, compared to 2018. This increase is offset by a decrease in other noninterest income of $151,610, or 44.7 percent. This decrease is due to the Association receiving a lower refund distribution from the Farm Credit Services Insurance Corporation (FCSIC) as compared to 2018.

Noninterest income for 2018 increased by $935,068, or 31.3 percent, compared to 2017, due primarily to an increase in patronage income from the Bank in the amount of $557,085, or 21.4 percent, as compared to 2017. Additionally, the Association received an allocation of excess insurance fund balances in the allocated insurance reserve accounts (AIRAs) in the amount of $333,007 from the Farm Credit Services Insurance Corporation that was not received in 2017.

Provisions for loan losses increased by $308,485, or 127.4 percent, compared to 2018, due primarily to an increase in loan volume and an increase in the specific allowance on impaired loans. The Association's risk factors used in the calculation of the allowance were based on a conservative review of high-risk assets, actual loss history, delinquencies and an estimate of expected and inherent losses over the next 12 to 18 months.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. The increase in operating expenses of $1,270,856, or 12.8 percent, in 2019 as compared to 2018 was due primarily to an increase in salaries and benefits and purchased services. The increase in salaries and benefits was due to the additional personnel that were hired in 2019 due to the increased growth the Association has incurred. The increase in purchased services is due to increases in accounting, the Association's rebranding effort and other professional fees. These increases were offset by a decrease in advertising expenses. The decrease in advertising expenses was due to a reallocation of those resources to the Association's rebranding effort.

The increase in operating expenses of $737,901, or 8.1 percent, in 2018 as compared to 2017 was due primarily to an increase in salaries and benefits, occupancy and equipment and other expenses, offset by a decrease in purchased services and insurance fund premiums. Additionally, the Association recognized a gain on other property owned in 2018 as compared to a loss in 2017. The increase in salaries and benefits is due to additional personnel that were hired in 2018 due to the change in the lending business process in early 2018. The increase in occupancy and equipment is due to the renovations of one office and increased equipment and other expenses to accommodate increased staffing. The increase in other expenses was due primarily to an increase in the FCA examination fee and other miscellaneous expenses. The decrease in purchased services was due primarily to a decrease in legal costs and the timing of billings from service providers. The decrease in insurance fund premiums was due to a decrease in basis points from 16 in 2017 to 13 basis points in 2018.

Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of $1,616,459, $1,364,326 and $1,285,121 for 2019, 2018 and 2017, respectively, in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs consisted of salaries and benefits totaling $1,415,480 related to the origination of loans.

For the year ended December 31, 2019, the Association's return on average assets was 1.8 percent, as compared to 2.0 percent and 2.0 percent for the years ended December 31, 2018 and 2017, respectively. For the year ended December 31, 2019, the Association's return on average members' equity was 12.6 percent, as compared to 13.2 percent and 13.5 percent for the years ended December 31, 2018 and 2017, respectively. The decline is primarily due to tighter net interest margins on an increased loan volume.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank may have an effect on the operations of the Association.

Liquidity and Funding Sources:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $773,309,208, $686,711,154 and $627,339,627 as of December 31, 2019, 2018 and 2017, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.0 percent, 2.9 percent and 2.4 percent at December 31, 2019, 2018 and 2017, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2018, is due to the Association's loan portfolio growth. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $104,390,456, $108,505,559 and $102,749,906 at December 31, 2019, 2018 and 2017, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2019, was $890,417,499 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

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

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

Capital Resources:

The Association's capital position remains strong, with total members' equity of $122,714,993, $116,943,338 and $110,137,666 at December 31, 2019, 2018 and 2017, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2019, 2018 and 2017 was 13.5 percent, 15.7 percent and 16.1 percent, respectively.

Under the new regulations, the Association is required to maintain a minimum Common Equity Tier 1 (CET1), Tier 1 Capital and Total Capital ratios of 4.5 percent, 6.0 percent and 8.0 percent, along with a capital conservation buffer of 2.5 percent applicable to each ratio, respectively. The 2.5 percent capital conservation buffer will be phased in over a three-year period ending on December 31, 2019. The Association's Common Equity Tier 1 ratio was 14.4 percent and Tier 1 Capital ratio was 14.4 percent, and total capital ratio was 15.0 percent at December 31, 2019. Under the new regulations, the Association is required to maintain a minimum Tier 1 Leverage ratio of 4.0 percent, along with a leverage buffer of 1.0 percent, and a minimum Unallocated Retained Earnings Equivalents (UREE) leverage ratio of 1.5 percent. The Association's Tier 1 Leverage ratio was 13.0 percent and UREE Leverage ratio was 14.2 percent at December 31, 2019. The CET1 capital ratio is an indicator of the institution's highest quality of capital and consists of unallocated retained earnings, qualifying common cooperative equities (CCEs) that meet the required holding periods and paid-in capital. The Tier 1 Capital ratio is a measure of the institution's quality of capital and financial strength. The Total Capital Ratio is supplementary to the Tier 1 Capital ratio, the components of which include qualifying CCEs subject to certain holding periods, third-party capital subject to certain holding periods and limitations, and allowance and reserve for credit losses subject to certain limitations. The Tier 1 leverage ratio is used to measure the amount of leverage an institution has incurred against its capital base, of which at least 1.5 percent must be Unallocated Retained Earnings (URE) and URE equivalents. This is the UREE Leverage ratio.

The following table represents the Association's capital ratios for the years at December 31:

Risk-adjusted:	Regulatory Minimums	Conservation Buffer	Total	As of December 31, 2019
Common equity tier 1 ratio	4.5%	2.5%	7.0%	14.4%
Tier 1 capital ratio	6.0%	2.5%	8.5%	14.4%
Total capital ratio	8.0%	2.5%	10.5%	15.0%
Permanent capital ratio	7.0%	0.0%	7.0%	14.5%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.0%	1.0%	5.0%	13.0%
UREE leverage ratio	1.5%	0.0%	1.5%	14.2%

Risk-adjusted:	Regulatory Minimums	Conservation Buffer	Total	As of 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%

Risk-adjusted:	Regulatory Minimums	Conservation Buffer	Total	As of December 31, 2017
Common equity tier 1 ratio	4.5%	2.5%	7.0%	16.0%
Tier 1 capital ratio	6.0%	2.5%	8.5%	16.0%
Total capital ratio	8.0%	2.5%	10.5%	16.6%
Permanent capital ratio	7.0%	0.0%	7.0%	16.1%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.0%	1.0%	5.0%	14.2%
UREE leverage ratio	1.5%	0.0%	1.5%	15.4%

A summary of the new capital ratio requirements and comparative results for the Association as of December 31, 2019, are presented in Note 9 to the consolidated financial statements, "Member's Equity," included in this annual report.

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 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.

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. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The institution qualifies for the delay in the adoption date. The Association continues to evaluate 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. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations but did impact lease disclosures. The Association adopted this guidance 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.

Regulatory Matters:

At December 31, 2019, the Association was not under written agreements with the Farm Credit Administration.

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

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

The regulation became effective January 1, 2019.

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

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

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

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

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

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

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

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

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

The comment period ended on May 22, 2019.

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

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

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

The comment period ended on June 3, 2019.

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

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

The comment period ended on November 18, 2019.

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

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

The comment period ended on November 22, 2019.

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

The comment period ended on December 9, 2019.

Relationship With the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank."

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all district associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 12 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank bills District expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Over the past 30 years, regardless of the state of the agricultural economy, your Association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

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Report of Independent Auditors

To the Board of Directors of Alabama Farm Credit, ACA

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 9, 2020

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ALABAMA FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2019	2018	2017
Assets			
Cash	**$ 11,941**	$ 48,700	$ 339,393
Loans	**884,970,381**	794,416,124	729,419,322
Less: allowance for loan losses	**4,295,000**	4,010,000	3,778,000
Net loans	**880,675,381**	790,406,124	725,641,322
Accrued interest receivable	**9,531,469**	8,701,345	7,538,556
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**14,420,355**	13,155,480	11,970,985
Other	**1,488,780**	1,159,553	547,617
Other property owned, net	**919,973**	1,024,659	2,491,876
Premises and equipment	**5,244,611**	4,460,346	4,081,885
Other assets	**954,503**	1,286,394	949,182
Total assets	**$ 913,247,013**	$ 820,242,601	$ 753,560,816
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 773,309,208**	$ 686,711,154	$ 627,339,627
Accrued interest payable	**1,988,958**	1,735,047	1,299,309
Drafts outstanding	**764,851**	1,303,900	1,145,124
Patronage distributions payable	**9,881,855**	9,383,761	9,001,174
Other liabilities	**4,587,148**	4,165,401	4,637,916
Total liabilities	**790,532,020**	703,299,263	643,423,150
Members' Equity			
Capital stock and participation certificates	**2,952,910**	2,798,455	2,687,255
Unallocated retained earnings	**119,986,193**	114,166,208	107,956,718
Accumulated other comprehensive loss	**(224,110)**	(21,325)	(506,307)
Total members' equity	**122,714,993**	116,943,338	110,137,666
Total liabilities and members' equity	**$ 913,247,013**	$ 820,242,601	$ 753,560,816

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2019	2018	2017
Interest Income			
Loans	**$ 45,447,408**	$ 40,035,598	$ 35,255,632
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**22,466,487**	18,226,267	13,934,238
Net interest income	**22,980,921**	21,809,331	21,321,394
Provision for Loan Losses	**550,576**	242,091	99,956
Net interest income after provision for losses	**22,430,345**	21,567,240	21,221,438
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	**3,758,026**	3,159,352	2,602,267
Loan fees	**423,290**	292,362	245,234
Financially related services income	**9,244**	17,390	17,641
Gain on other property owned, net	**-**	35,583	-
Gain on sale of premises and equipment, net	**60,190**	77,368	40,347
Other noninterest income	**187,440**	339,050	80,548
Total noninterest income	**4,438,190**	3,921,105	2,986,037
Noninterest Expenses			
Salaries and employee benefits	**6,705,155**	5,893,474	5,049,172
Directors' expense	**363,252**	347,862	346,184
Purchased services	**761,364**	426,577	512,017
Travel	**645,702**	608,035	560,437
Occupancy and equipment	**571,392**	529,049	463,594
Communications	**218,688**	245,544	197,322
Advertising	**202,795**	371,254	344,971
Public and member relations	**363,532**	266,031	273,949
Supervisory and exam expense	**268,417**	239,311	224,609
Insurance Fund premiums	**517,268**	462,296	692,260
Business insurance premiums	**126,520**	105,773	97,626
Other components of net periodic postretirement benefit cost	**74,062**	96,434	59,251
Loss on other property owned, net	**39,805**	-	94,907
Other noninterest expense	**309,869**	305,325	242,765
Total noninterest expenses	**11,167,821**	9,896,965	9,159,064
NET INCOME	**15,700,714**	15,591,380	15,048,411
Other comprehensive income (loss):			
Change in postretirement benefit plans	**(202,785)**	484,982	(342,209)
COMPREHENSIVE INCOME	**$ 15,497,929**	$ 16,076,362	$ 14,706,202

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2016	$ 2,518,190	$ 101,909,008	$ (164,098)	$ 104,263,100
Comprehensive income	-	15,048,411	(342,209)	14,706,202
Capital stock/participation certificates issued	432,215	-	-	432,215
Capital stock/participation certificates retired	(263,150)	-	-	(263,150)
Patronage dividends:				
Cash	-	(9,000,701)	-	(9,000,701)
Balance at December 31, 2017	2,687,255	107,956,718	(506,307)	110,137,666
Comprehensive income	-	15,591,380	484,982	16,076,362
Capital stock/participation certificates issued	418,695	-	-	418,695
Capital stock/participation certificates retired	(307,495)	-	-	(307,495)
Patronage paid	-	(1,395)	-	(1,395)
Patronage dividends:				
Cash	-	(9,380,495)	-	(9,380,495)
Balance at December 31, 2018	2,798,455	114,166,208	(21,325)	116,943,338
Comprehensive income	-	15,700,714	(202,785)	15,497,929
Capital stock/participation certificates issued	513,215	-	-	513,215
Capital stock/participation certificates retired	(358,760)	-	-	(358,760)
Patronage dividends:				
Cash	-	(9,880,729)	-	(9,880,729)
Balance at December 31, 2019	**$ 2,952,910**	**$ 119,986,193**	**$ (224,110)**	**$ 122,714,993**

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	**$ 15,700,714**	$ 15,591,380	$ 15,048,411
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**550,576**	242,091	99,955
Provision for acquired property	**43,089**	85,317	108,117
Gain on other property owned, net	**(36,105)**	(181,390)	(61,874)
Gain on sale of other property owned, net			
Depreciation	**420,870**	349,399	304,143
Accretion of net premiums in investments	**(228,246)**	(238,653)	(195,271)
Gain on sale of premises and equipment, net	**(60,190)**	(76,843)	(40,347)
Collections on loans serviced for others			
Remittances on loans serviced for others			
Increase in accrued interest receivable	**(830,124)**	(1,162,789)	(362,700)
(Increase) decrease in other receivables from the Farm Credit Bank of Texas	**(329,227)**	(611,936)	35,022
Decrease (increase) in other assets	**689,079**	5,645	(57,814)
Increase in accrued interest payable	**253,911**	435,738	267,758
Increase in other liabilities	**238,962**	11,467	243,571
Net cash provided by operating activities	**16,413,309**	14,449,426	15,388,971
Cash flows from investing activities:			
Increase in loans, net	**(91,859,614)**	(63,843,090)	(58,158,733)
Cash recoveries of loans previously charged off	**1,825**	3,833	3,830
Proceeds from purchase of investment in the Farm Credit Bank of Texas	**(1,264,875)**	(1,184,495)	(821,060)
Purchases of premises and equipment	**(1,278,987)**	(808,502)	(656,301)
Proceeds from sales of premises and equipment	**134,042**	157,485	74,769
Proceeds from sales of other property owned	**986,716**	292,450	371,418
Net cash used in investing activities	**(93,280,893)**	(65,382,319)	(59,186,077)

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2019	2018	2017
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	**86,598,054**	59,371,527	52,966,850
(Decrease) increase in drafts outstanding	**(539,049)**	158,776	(561,253)
Issuance of capital stock and participation certificates	**513,215**	418,695	424,505
Retirement of capital stock and participation certificates	**(358,760)**	(307,495)	(255,440)
Patronage distributions paid	**(9,382,635)**	(8,999,303)	(8,449,512)
Net cash provided by financing activities	**76,830,825**	50,642,200	44,125,150
Net (decrease) increase in cash	**(36,759)**	(290,693)	328,044
Cash at the beginning of the year	**48,700**	339,393	11,349
Cash at the end of the year	**$ 11,941**	$ 48,700	$ 339,393
Supplemental schedule of noncash investing and financing activities:			
Net decrease (increase) in unrealized (gains) losses in investment securities	**$ -**	$ 142,329	$ (4,454)
Financed sales of other property owned	**-**	1,125,155	196,331
Loans exchanged for agricultural mortgage-backed securities			
Loans transferred to other property owned	**877,208**	259,297	1,210,985
Loans charged off	**287,401**	12,924	2,186
Accumulated other comprehensive income (loss)	**202,785**	484,982	(342,209)
Patronage distributions declared	**9,880,729**	9,380,495	9,000,701
Net increase (decrease) in FSA receivable	**(368,992)**	(80,204)	19,675
Increase in reserve for unfunded commitments	**20,000**	1,000	(22,000)
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 22,176,434**	$ 17,790,529	$ 13,934,237
Income taxes	**-**	-	-

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

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Alabama Farm Credit, ACA (Agricultural Credit Association), and its wholly-owned subsidiaries, Alabama Farm Credit, PCA and Alabama Farm Credit, FLCA (collectively called "the Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes. 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 (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2019, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

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

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

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2 percent level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

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

The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Reclassifications
Certain amounts in prior years' financial statements have been reclassified to conform to current financial statement presentation. The consolidated financial statements include the accounts of the Association.

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

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

A. Recently Issued or Adopted Accounting Pronouncements:

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

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. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The institution qualifies for the delay in the adoption date. The Association continues to evaluate 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. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations but did impact lease disclosures. The Association adopted this guidance 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.

B. Cash: Cash, as included in the financial statements, represents cash on hand and deposits at banks.

C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and net deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged off at the time they are determined to be uncollectible.

A concession is generally granted in order to minimize the Association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The Bank and related associations use a two-dimensional loan rating model based on an internally generated combined System risk-rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk-rating methodology is a key component of the Association's allowance for loan losses evaluation and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowances for loan losses including but not limited to: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, borrower repayment capacity, depth of lender staff, and/or past trends, and weather-related influences. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

Transfers of an entire financial asset, group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Association, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Association does not maintain effective control over the transferred assets.

The Association purchases loan participations from other System entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. Currently, the Association does not sell portions of certain large loans to other System entities with established lending limits.

D. Capital Stock Investment in the Farm Credit Bank of Texas: The Association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the Association's proportional utilization of the Bank compared to other district associations. The Bank requires a minimum stock investment of 2.0 percent of the Association's average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

   If needed to meet regulatory capital adequacy requirements, the board of directors of the Bank may increase the percentage of stock held by an association from 2.0 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5.0 percent of the average outstanding balance of borrowings from the Bank.

E. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, and is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the consolidated balance sheet. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the statements of comprehensive income.

F. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.

G. Advance Conditional Payments: The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors.

H. Employee Benefit Plans: Employees of the Association participate in either the District defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. Also, the Association sponsors a nonqualified defined contribution 401(k) plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

   Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2019, made on their behalf into various investment alternatives. The Association recognized pension costs for the DC plan of $267,584, $232,047 and $197,991 for the years ended December 31, 2019, 2018 and 2017, respectively.

   The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. For the DB plan, the Association recognized pension costs of $349,429, $381,833 and $439,953 for the years ended December 31, 2019, 2018 and 2017, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were $199,407, $188,897 and $162,842 for the years ended December 31, 2019, 2018 and 2017, respectively.

The CEO and certain executive or highly compensated employees in the Association are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (supplemental 401(k) plan). This plan allows district employers to elect to participate in any or all of the following benefits:

- Restored Employer Contributions – to allow "make-up" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year
- Elective Deferrals – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan
- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule

The Association made contributions to this plan in the amount of $6,182 for the year ended December 31, 2019. No contributions were made to the plan for the years ended December 31, 2018 and 2017. There were no payments made from the supplemental 401(k) plan to active employees during 2019, 2018 or 2017.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities on the consolidated balance sheet.

Employees hired prior to January 1, 2004 and who are at least 55 years of age (or at least age 50 with 30 years of service) may retire and have their medical premium paid on a percentage of cost-sharing basis predicated on length of employment service. For more information on the Association's employee benefit plans, see Note 11, "Employee Benefit Plans."

I. Income Taxes: The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Deferred taxes are provided on the Association's taxable income on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

J. Patronage Refunds From the Farm Credit Bank of Texas: The Association records patronage refunds from the Bank on an accrual basis.

K. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and the supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

The fair value disclosures are presented in Note 13, "Fair Value Measurements."

L. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

	2019		2018		2017	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 717,351,760**	**81.1%**	$650,500,490	81.9%	$619,995,606	85.0%
Production and intermediate term	**106,958,345**	**12.1%**	89,442,720	11.2%	70,227,903	9.6%
Agribusiness:						
Processing and marketing	**39,059,508**	**4.4%**	32,667,110	4.1%	25,616,273	3.5%
Farm-related business	**2,045,447**	**0.2%**	2,161,726	0.3%	949,469	0.2%
Rural residential real estate	**17,516,906**	**2.0%**	17,551,701	2.2%	12,630,071	1.7%
Communication	**2,038,415**	**0.2%**	2,061,951	0.3%	-	0.0%
Energy	**-**	**0.0%**	30,426	0.0%	-	0.0%
Total	**$ 884,970,381**	**100.0%**	$794,416,124	100.0%	$729,419,322	100.0%

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 33,780,301	$ 5,413,216	$ -	$ -	$ 33,780,301	$ 5,413,216
Production and intermediate term	15,070,870	-	-	-	15,070,870	-
Communication	2,038,415	-	-	-	2,038,415	-
Real estate mortgage	700,356	-	-	-	700,356	-
Total	$ 51,589,942	$ 5,413,216	$ -	$ -	$ 51,589,942	$ 5,413,216

A Geographic Distribution of loans as of December 31, 2019 is as follows:

County	**2019**	2018	2017
De Kalb	**19.5%**	18.6%	19.1%
Marshall	**8.7%**	9.3%	9.7%
Lawrence	**7.0%**	7.6%	7.7%
Cullman	**5.7%**	5.0%	5.6%
Morgan	**4.5%**	3.7%	3.8%
Franklin	**4.4%**	4.0%	4.4%
Jackson	**4.3%**	4.8%	5.1%
Limestone	**4.3%**	3.9%	3.8%
Blount	**4.3%**	4.5%	4.0%
Madison	**4.2%**	4.2%	4.1%
Other counties with less than 4%	**30.4%**	31.6%	30.0%
Other states	**2.7%**	2.8%	2.7%
Totals	**100.0%**	**100.0%**	**100.0%**

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized, and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

Operation/Commodity	2019 Amount	2019 %	2018 Amount	2018 %	2017 Amount	2017 %
Poultry and eggs	**$ 415,341,089**	**46.9%**	$ 367,403,162	46.2%	$ 334,040,092	45.8%
Livestock, except dairy and poultry	**141,897,402**	**16.0%**	132,877,075	16.7%	120,437,892	16.5%
Timber	**97,701,789**	**11.0%**	83,484,297	10.5%	67,752,888	9.3%
Field crops except cash grains	**84,046,564**	**9.5%**	69,559,969	8.8%	56,846,501	7.8%
Cash grains	**52,094,457**	**5.9%**	59,529,810	7.5%	52,060,618	7.1%
Rural home loans	**17,516,906**	**2.0%**	17,551,701	2.2%	41,865,717	5.7%
Other	**76,372,174**	**8.7%**	64,010,110	8.1%	56,415,614	7.8%
Total	**$ 884,970,381**	**100.0%**	$ 794,416,124	100.0%	$ 729,419,322	100.0%

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

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

The following table presents information relating to impaired loans:

	December 31, 2019	2018	2017
Nonaccrual Loans:			
Current as to Principal and Interest	$ 4,011,249	$ 2,030,114	$ 1,860,744
Past Due	3,003,431	2,953,373	846,569
Total Nonaccrual Loans	$ 7,014,680	$ 4,983,487	$ 2,707,313
Impaired Accrual Loans:			
Restructured Accrual Loans	$ 802,565	$ 967,847	$ 1,007,403
Accrual Loans 90 Days or More Past Due	145,715	-	-
Total Impaired Accrual Loans	948,280	967,847	1,007,403
Total Impaired Loans	$ 7,962,960	$ 5,951,334	$ 3,714,716

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

		December 31, 2019		December 31, 2018		December 31, 2017
Nonaccrual loans:						
Real estate mortgage	**$**	**5,818,982**	$	4,751,770	$	2,675,292
Production and intermediate term		**923,236**		231,717		32,021
Rural residential real estate		**272,462**		-		-
Total nonaccrual loans		**7,014,680**		4,983,487		2,707,313
Accruing restructured loans:						
Real estate mortgage		**802,565**		967,847		1,007,403
Total accruing restructured loans		**802,565**		967,847		1,007,403
Accruing loans 90 days or more past due:						
Production and intermediate term		**145,715**		-		-
Total accruing loans 90 days or more past due		**145,715**		-		-
Total nonperforming loans		**7,962,960**		5,951,334		3,714,716
Other property owned		**919,973**		1,024,659		2,491,876
Total nonperforming assets	**$**	**8,882,933**	$	6,975,993	$	6,206,592

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

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

The following table shows loans and related accrued interest classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2019		2018		2017	
Real estate mortgage						
Acceptable	**97.9**	%	98.4	%	98.3	%
OAEM	**0.7**		0.6		1.0	
Substandard/doubtful	**1.4**		1.0		0.7	
	100.0		100.0		100.0	
Production and intermediate term						
Acceptable	**97.5**		98.0		99.1	
OAEM	**0.7**		0.4		0.8	
Substandard/doubtful	**1.8**		1.5		0.1	
	100.0		100.0		100.0	
Processing and marketing						
Acceptable	**93.0**		100.0		100.0	
OAEM	**7.0**		-		-	
Substandard/doubtful	**-**		-		-	
	100.0		100.0		100.0	
Farm-related business						
Acceptable	**100.0**		100.0		100.0	
OAEM	**-**		-		-	
Substandard/doubtful	**-**		-		-	
	100.0		100.0		100.0	
Communication						
Acceptable	**100.0**		100.0		-	
OAEM	**-**		-		-	
Substandard/doubtful	**-**		-		-	
	100.0		100.0		-	
Energy						
Acceptable	**-**		100.0		-	
OAEM	**-**		-		-	
Substandard/doubtful	**-**		-		-	
	-		100.0		-	
Rural residential real estate						
Acceptable	**98.0**		98.8		100.0	
OAEM	**0.2**		-		-	
Substandard/doubtful	**1.8**		1.2		-	
	100.0		100.0		100.0	
Total Loans						
Acceptable	**97.6**		98.4		98.4	
OAEM	**1.0**		0.6		1.0	
Substandard/doubtful	**1.4**		1.0		0.6	
	100.0	%	100.0	%	100.0	%

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

December 31, 2019:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or less than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 8,057,138**	**$ 1,426,873**	**$ 9,484,011**	**$ 715,796,007**	**$ 725,280,018**	**$ -**
Production and intermediate term	**441,879**	**637,107**	**1,078,986**	**107,348,332**	**108,427,318**	**145,715**
Processing and marketing	**-**	**-**	**-**	**39,129,264**	**39,129,264**	**-**
Farm-related business	**-**	**-**	**-**	**2,054,590**	**2,054,590**	**-**
Communication	**-**	**-**	**-**	**2,038,617**	**2,038,617**	**-**
Rural residential real estate	**39,374**	**-**	**39,374**	**17,532,669**	**17,572,043**	**-**
Total	**$ 8,538,391**	**$ 2,063,980**	**$10,602,371**	**$ 883,899,479**	**$ 894,501,850**	**$ 145,715**

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	-
Agribusiness:						
Processing and marketing	-	-	-	32,707,317	32,707,317	-
Farm-related business	-	-	-	2,167,163	2,167,163	-
Rural residential real estate	589,387	-	589,387	17,021,674	17,611,061	-
Communication	-	-	-	2,062,210	2,062,210	-
Energy	-	-	-	30,473	30,473	-
Total	$ 10,112,024	$ 876,700	$ 10,988,724	$ 792,128,745	$ 803,117,469	$ -

December 31, 2017:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 5,314,383	$ 842,421	$ 6,156,804	$ 620,417,696	$ 626,574,500	$ -
Production and intermediate term	154,573	4,147	158,720	70,966,247	71,124,967	-
Agribusiness:						
Processing and marketing	-	-	-	25,640,420	25,640,420	-
Farm-related business	-	-	-	950,911	950,911	-
Rural residential real estate	-	-	-	12,667,080	12,667,080	-
Total	$ 5,468,956	$ 846,568	$ 6,315,524	$ 730,642,354	$ 736,957,878	$ -

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

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

As of December 31, 2019, the total recorded investment of troubled debt restructured loans was $1,336,674, including $534,109 classified as nonaccrual and $802,565 classified as accrual, with specific allowance for loan losses of $9,542. 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 December 31, 2019.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the years ended December 31, 2019, 2018 and 2017. The pre-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

December 31, 2019:	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
Troubled debt restructurings:		
Real estate mortgage	**$ 314,915**	**$ 314,915**
Production and intermediate term	**192,180**	**192,180**
Rural residential real estate	**112,569**	**112,569**
Total	**$ 619,664**	**$ 619,664**

December 31, 2017:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 118,192	$ 118,192
Total	$ 118,192	$ 118,192

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 at the modification date for the year ending December 31, 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 the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

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

Troubled debt restructurings that subsequently defaulted:	**Recorded Investment at December 31, 2019**	Recorded Investment at December 31, 2018	Recorded Investment at December 31, 2017
Real estate mortgage	**$ 115,321**	$ -	$ -
Rural residential real estate	**112,569**	-	-
Total	**$ 227,890**	$ -	$ -

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

	Loans Modified as TDRs		
	December 31, 2019	December 31, 2018	December 31, 2017
Troubled debt restructurings:			
Real estate mortgage	**$ 1,031,925**	$ 967,847	$ 1,007,403
Production and intermediate term	**192,180**	-	-
Rural residential real estate	**112,569**	-	-
Total	**$ 1,336,674**	$ 967,847	$ 1,007,403

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2019	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 1,319,597	$ 1,319,600	$ 117,106	$ 716,121	$ -
Production and intermediate term	257,184	257,184	255,294	154,141	-
Total	$ 1,576,781	$ 1,576,784	$ 372,400	$ 870,262	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 5,297,737	$ 5,314,725	$ -	$ 4,577,652	$ 94,933
Production and intermediate term	808,401	808,666	-	399,316	10,799
Rural residential real estate	272,461	272,600	-	113,292	5,881
Total	$ 6,378,599	$ 6,395,991	$ -	$ 5,090,260	$ 111,613
Total impaired loans:					
Real estate mortgage	$ 6,617,334	$ 6,634,325	$ 117,106	$ 5,293,773	$ 94,933
Production and intermediate term	1,065,585	1,065,850	255,294	553,457	10,799
Rural residential real estate	272,461	272,600	-	113,292	5,881
Total	$ 7,955,380	$ 7,972,775	$ 372,400	$ 5,960,522	$ 111,613

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

	Recorded Investment at 12/31/2018	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 1,654,533	$ 1,655,783	$ 147,132	$ 659,717	$ -
Production and intermediate term	225,678	225,678	92,606	62,854	-
Total	$ 1,880,211	$ 1,881,461	$ 239,738	$ 722,571	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 4,057,640	$ 4,059,559	$ -	$ 3,778,009	$ 109,944
Production and intermediate term	6,039	6,039	-	132,169	6,024
Total	$ 4,063,679	$ 4,065,598	$ -	$ 3,910,178	$ 115,968
Total impaired loans:					
Real estate mortgage	$ 5,712,173	$ 5,715,342	$ 147,132	$ 4,437,726	$ 109,944
Production and intermediate term	231,717	231,717	92,606	195,023	6,024
Total	$ 5,943,890	$ 5,947,059	$ 239,738	$ 4,632,749	$ 115,968

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

	Recorded Investment at 12/31/2017	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 506,268	$ 506,268	$ 18,903	$ 160,616	$ -
Production and intermediate term	32,021	32,136	31,037	9,025	-
Total	$ 538,289	$ 538,404	$ 49,940	$ 169,641	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,168,044	$ 3,178,177	$ -	$ 3,135,213	$ 62,436
Production and intermediate term	-	-	-	131,196	-
Rural residential real estate	-	-	-	295	-
Total	$ 3,168,044	$ 3,178,177	$ -	$ 3,266,704	$ 62,436
Total impaired loans:					
Real estate mortgage	$ 3,674,312	$ 3,684,445	$ 18,903	$ 3,295,829	$ 62,436
Production and intermediate term	32,021	32,136	31,037	140,221	-
Rural residential real estate	-	-	-	295	-
Total	$ 3,706,333	$ 3,716,581	$ 49,940	$ 3,436,345	$ 62,436

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

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

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

	2019	2018	2017
Interest income which would have been recognized under the original terms	**$ 498,201**	$ 403,730	$ 181,026
Less: interest income recognized	**(111,613)**	(115,968)	(62,436)
Foregone interest income	**$ 386,588**	$ 287,762	$ 118,590

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2018	$ 3,708,667	$ 243,636	$ 40,895	$ 1,819	$ -	$ 14,983	$ 4,010,000
Charge-offs	(287,401)	-	-	-	-	-	(287,401)
Recoveries	1,825	-	-	-	-	-	1,825
Provision for loan losses	369,767	177,084	4,218	(1,002)	(101)	610	550,576
Other	(8,649)	7,215	21,333	-	101	-	20,000
Balance at December 31, 2019	$ 3,784,209	$ 427,935	$ 66,446	$ 817	$ -	$ 15,593	$ 4,295,000
Ending Balance: individually evaluated for impairment	$ 117,106	$ 255,294	$ -	$ -	$ -	$ -	$ 372,400
Ending Balance: collectively evaluated for impairment	$ 3,667,102	$ 172,642	$ 66,446	$ 817	$ -	$ 15,593	$ 3,922,600
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2019	$ 725,280,018	$ 108,427,318	$ 41,183,854	$ 2,038,617	$ -	$ 17,572,043	$ 894,501,850
Ending balance for loans individually evaluated for impairment	$ 6,617,334	$ 1,065,585	$ -	$ -	$ -	$ 272,461	$ 7,955,380
Ending balance for loans collectively evaluated for impairment	$ 718,662,684	$ 107,361,733	$ 41,183,854	$ 2,038,617	$ -	$ 17,299,582	$ 886,546,470

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2017	$ 3,583,400	$ 145,526	$ 37,427	$ -	$ -	$ 11,647	$ 3,778,000
Charge-offs	(8,912)	(4,012)	-	-	-	-	(12,924)
Recoveries	3,833	-	-	-	-	-	3,833
Provision for loan losses	130,592	111,553	(4,901)	1,819	(275)	3,303	242,091
Other	(246)	(9,431)	8,369	-	275	33	(1,000)
Balance at December 31, 2018	$ 3,708,667	$ 243,636	$ 40,895	$ 1,819	$ -	$ 14,983	$ 4,010,000
Ending Balance: individually evaluated for impairment	$ 147,132	$ 92,606	$ -	$ -	$ -	$ -	$ 239,738
Ending Balance: collectively evaluated for impairment	$ 3,561,535	$ 151,030	$ 40,895	$ 1,819	$ -	$ 14,983	$ 3,770,262
Recorded Investment in Loans Outstanding:							
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
Ending balance for loans individually evaluated for impairment	$ 5,719,617	$ 231,717	$ -	$ -	$ -	$ -	$ 5,951,334
Ending balance for loans collectively evaluated for impairment	$ 651,951,091	$ 90,636,820	$ 34,874,480	$ 2,062,210	$ 30,473	$ 17,611,061	$ 797,166,135

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2016	$ 3,601,697	$ 56,604	$ 27,089	$ 2,450	$ 313	$ 10,247	$ 3,698,400
Charge-offs	(2,186)	-	-	-	-	-	(2,186)
Recoveries	3,830	-	-	-	-	-	3,830
Provision for loan losses	(15,965)	104,255	14,929	(2,450)	(1,976)	1,163	99,956
Other	(3,976)	(15,333)	(4,591)	-	1,663	237	(22,000)
Balance at December 31, 2017	$ 3,583,400	$ 145,526	$ 37,427	$ -	$ -	$ 11,647	$ 3,778,000
Ending Balance: individually evaluated for impairment	$ 18,902	$ 31,037	$ -	$ -	$ -	$ -	$ 49,939
Ending Balance: collectively evaluated for impairment	$ 3,564,498	$ 114,489	$ 37,427	$ -	$ -	$ 11,647	$ 3,728,061
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2017	$ 626,574,500	$ 71,124,967	$ 26,591,331	$ -	$ -	$ 12,667,080	$ 736,957,878
Ending balance for loans individually evaluated for impairment	$ 3,682,695	$ 32,021	$ -	$ -	$ -	$ -	$ 3,714,716
Ending balance for loans collectively evaluated for impairment	$ 622,891,805	$ 71,092,946	$ 26,591,331	$ -	$ -	$ 12,667,080	$ 733,243,162

NOTE 4 — INVESTMENT IN THE FARM CREDIT BANK OF TEXAS

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. Estimating the fair value of the Association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The Association owned 4.3 percent, 4.2 percent and 4.0 percent of the issued stock of the bank as of December 31, 2019, 2018 and 2017. As of those dates, the Bank's assets totaled $25.7 billion, $24.5 billion and $22.8 billion and members' equity totaled $1.8 billion, $1.8 billion and $1.7 billion. The Bank's earnings were $203.0 million, $190.5 million and $196.0 million during 2019, 2018 and 2017.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2019	2018	2017
Land and improvements	**$ 818,080**	$ 818,080	$ 746,869
Building and improvements	**4,542,502**	3,527,384	3,186,422
Furniture and equipment	**722,522**	608,764	585,758
Computer equipment and software	**269,668**	217,488	220,898
Automobiles	**1,018,084**	853,111	858,084
Construction in progress	**9,067**	350,309	300,944
	7,379,923	6,375,136	5,898,975
Accumulated depreciation	**(2,135,312)**	(1,914,790)	(1,817,090)
Total	**$ 5,244,611**	$ 4,460,346	$ 4,081,885

The Association leases office space in Moulton, Alabama, on a month-to-month basis. The Association does not have a binding contract, and the lease can be terminated by the Association at any time without prejudice. Lease expense was $600 for each of the three years ended December 31, 2019, 2018 and 2017. There are no minimum annual lease payments for the next five years.

The Association also enters into operating leases for office equipment for all branch offices. Lease expense was $47,042, $39,618 and $58,677 for the years ended December 31, 2019, 2018 and 2017. Minimum annual lease payments for the next three years are as follows:

	Operating
2020	$ 13,752
2021	6,981
2022	1,261
Total	$ 21,994

NOTE 6 — OTHER PROPERTY OWNED, NET:

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

	2019	2018	2017
Gain (loss) on sale, net	**$ 36,105**	$ 181,390	$ 66,791
Carrying value adjustments	**(43,089)**	(85,317)	(108,117)
Operating income (expense), net	**(32,821)**	(60,490)	(53,581)
Net gain (loss) on other property owned	**$ (39,805)**	$ 35,583	$ (94,907)

The Association had five properties in other property owned at the beginning of 2019. During 2019, the Association acquired six additional properties from various counties in north Alabama. The Association sold eight properties during 2019, resulting in a net decrease of $104,686, including a gain of $36,105. At December 31, 2019, the Association held three properties with a carrying value of $919,973, net of allowance, which consisted of 155.3 acres of land.

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

		2019		2018		2017
Guaranteed loan receivables	**$**	**420,852**	$	826,906	$	452,412
Investment in FCS Association captive insurance		**376,891**		342,704		376,337
Other		**156,760**		116,784		120,433
Total	**$**	**954,503**	$	1,286,394	$	949,182

Other liabilities comprised the following at December 31:

		2019		2018		2017
Accumulated postretirement benefit obligation	**$**	**2,036,244**	$	1,773,138	$	2,170,598
Accounts payable, other		**1,429,725**		1,126,114		1,229,050
FCS insurance premium		**517,268**		462,296		692,260
Accrued annual leave		**323,291**		302,904		271,968
Other		**280,620**		500,949		274,040
Total	**$**	**4,587,148**	$	4,165,401	$	4,637,916

NOTE 8 — NOTE PAYABLE TO THE BANK:

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

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2019, 2018 and 2017, was $773,309,208 at 3.0 percent, $686,711,154 at 2.9 percent and $627,339,627 at 2.4 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2019, 2018 and 2017, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2019, was $890,417,499, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2019, 2018 and 2017, the Association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 9 — MEMBERS' EQUITY:

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

Protection of certain borrower equity is provided under the Act that requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988 or were issued or allocated prior to October 6, 1988. If an association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class A capital stock (for farm loans) and participation certificates (for rural home and farm-related business loans) is equal to 2.0 percent of the loan amount, prior to 2004. In March 2004, on new loans only, the Association changed its stock investment requirement to the lesser of 2.0 percent of the loan amount, or $1,000. In November 2005, the board of directors approved a stock reduction to equalize the stock of all borrowers to 2.0 percent or $1,000, whichever is less.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

Each owner of Class A capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our board of directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2019, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class A to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the Association's board of directors. At December 31, 2019, 2018 and 2017, the Association had no Class C stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A capital stock and participation certificates. In the event of liquidation of the Association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the Association's obligations to external parties and to the Bank would be distributed to the Association's stockholders.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2019, 2018 and 2017, respectively:

Date Declared	Date Paid	Patronage
December 31 2019	**March 2020**	**$9,880,431**
December 31, 2018	March 2019	$9,380,495
December 31, 2017	March 2018	$9,000,701

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the banks and associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past. As of December 31, 2019, the Association is not prohibited from retiring stock or distributing earnings.

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

Risk-adjusted:	Regulatory Minimums	Conservation Buffer*	Total	As of December 31, 2019
Common equity tier 1 ratio	4.5%	2.5%	7.0%	14.4%
Tier 1 capital ratio	6.0%	2.5%	8.5%	14.4%
Total capital ratio	8.0%	2.5%	10.5%	15.0%
Permanent capital ratio	7.0%	0.0%	7.0%	14.5%
Non-risk-adjusted:				
Tier 1 leverage ratio**	4.0%	1.0%	5.0%	13.0%
UREE leverage ratio	1.5%	0.0%	1.5%	14.2%

*The 2.5 percent capital conservation buffer for the risk-adjusted ratios will be phased in over a three-year period ending on December 31, 2019.

**Must include the regulatory minimum requirement for the URE and UREE Leverage ratio

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of seven years, allocated equities held for a minimum of seven years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of five years, allocated equities held for a minimum of five years, subordinated debt and limited-life preferred stock greater than five years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.

- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

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

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**125,387**	**125,387**	**125,387**	**125,387**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,933**	**2,933**	**2,933**	**2,933**
Allowance for loan losses and reserve for credit losses subject to certain limitations*			**4,407**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(13,170)**	**(13,170)**	**(13,170)**	**(13,170)**
	115,150	115,150	119,557	115,150
Denominator:				
Risk-adjusted assets excluding allowance				
Regulatory Adjustments and Deductions:	**810,496**	**810,496**	**810,496**	**810,496**
Regulatory deductions included in total capital	**(13,170)**	**(13,170)**	**(13,170)**	**(13,170)**
Allowance for loan losses				**(4,351)**
	797,326	797,326	797,326	792,975

*Capped at 1.25 percent of risk-adjusted assets

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

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**125,387**	**125,387**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**2,933**	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(13,170)**	-
	115,150	**125,387**
Denominator:		
Total Assets	**904,091**	**904,091**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(17,753)**	**(17,753)**
	886,338	886,338

The FCA's capital adequacy regulations require the Association to achieve permanent capital and common equity tier 1 capital of at least 7.0 percent of risk-adjusted assets and off-balance-sheet commitments (less than 14 months). Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met.

As described in Note 2, "Summary of Significant Accounting Policies," included in this annual report, the Bank may increase the percentage of stock held by an association from 2.0 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5.0 percent of the average outstanding balance of borrowings from the Bank. Currently, the required stock investment in the Bank is 2.0 percent of the average borrowings from the previous 12 months. This stock investment reduces the amount of Association capital available for inclusion in the Association's capital adequacy calculations.

An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

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

	2019	2018	2017
Class A stock	**562,673**	531,887	510,344
Participation certificates	**27,909**	27,804	27,107
Total	**590,582**	559,691	537,451

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

Accumulated Other Comprehensive Income (Loss)			
December 31, 2019	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ (224,110)**	**$ -**	**$ (224,110)**
December 31, 2018	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ (21,325)	$ -	$ (21,325)
December 31, 2017	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ (506,307)	$ -	$ (506,307)

The Association's accumulated other comprehensive loss relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive income (loss) and the location on the income statement for the year ended December 31:

	2019	2018	2017
Accumulated other comprehensive loss at January 1	**$ (21,325)**	$(506,307)	$(164,098)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(202,785)**	484,982	(342,209)
Accumulated other comprehensive loss at December 31	**$(224,110)**	$ (21,325)	$(506,307)

NOTE 10 — INCOME TAXES:

The provision for (benefit from) income taxes follows for the years ended December 31:

	2019	2018	2017
Federal tax at statutory rate	**$ 3,297,150**	$ 3,274,190	$ 5,266,944
State tax, net	**1,020,546**	1,013,440	978,147
Effect of nontaxable FLCA subsidiary	**(4,608,421)**	(4,609,468)	(6,525,747)
Change due to tax rate change		-	573,450
Change in valuation allowance	**290,725**	321,838	(292,794)
Provision for (benefit from) income taxes	**$ -**	$ -	$ -

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

	2019	2018	2017
Deferred Tax Assets			
Allowance for loan losses	**$ 119,234**	$ 75,899	$ 38,575
Loss carryforwards	**1,891,822**	1,654,714	1,375,393
Deferred origination fees	**(272,073)**	(282,355)	(287,550)
Net deferred tax assets	**1,738,983**	1,448,258	1,126,418
Deferred tax asset valuation allowance	**(1,738,983)**	(1,448,258)	(1,126,418)
Net deferred tax asset (liability)	**$ -**	$ -	$ -

At December 31, 2019, the Association had a net operating loss carryover of $6,879,353 available to offset against future taxable income that will begin to expire in 2030. Due to the changes in tax law in 2018, $1,877,924 of the net operating loss carryover can be carried forward indefinitely, while the remaining $5,001,429 will expire 20 years from the time it was originally incurred.

The Association recorded valuation allowances of $1,738,983, $1,448,258 and $1,126,418 during 2019, 2018 and 2017, respectively. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

The Association adopted FASB guidance on accounting for uncertainty in income taxes when the Association became an ACA in 2010. Upon adoption, the Association did not need to recognize a tax liability for any uncertain tax positions and, at December 31, 2019, 2018 and 2017, the Association did not recognize a tax liability for any uncertain tax positions.

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

NOTE 11 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the Association participate in either the defined benefit retirement plan (DB plan) or the defined contributions plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. These plans are described more fully in section I of Note 2, "Summary of Significant Accounting Policies." The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon district combination only. The Association records current contributions to the DB plan as an expense in the current year.

The CEO and certain executive or highly-compensated employees in the Association are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (supplemental 401(k) plan). This plan allows district employers to elect to participate in any or all of the following benefits:

- Restored Employer Contributions – to allow "make-up" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year
- Elective Deferrals – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan
- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule

The Association made contributions to this plan in the amount of $6,182 for the year ended December 31, 2019. No contributions were made to the plan for the years ended December 31, 2018 and 2017. There were no payments made from the supplemental 401(k) plan to active employees during 2019, 2018 and 2017.

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

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

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

The following table includes additional information regarding the funded status of the plan, the Association's contributions, and the percentage of Association contribution to total plan contributions for the years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
Funded status of plan	**66.2** %	68.0 %	69.7 %
Association's contribution	**$ 349,429**	$ 381,833	$ 439,953
Percentage of Association's contribution to total contributions	**4.3** %	3.9 %	3.8 %

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

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. Employees hired prior to January 1, 2004 and who are at least 55 years of age (or at least age 50 with 30 years of service) may retire and have their medical premium paid on a percentage of cost sharing basis predicated on length of employment service. Employees hired before this date, that have reached the age requirement and have 25 years of service, will receive 100 percent of their medical premium paid. Employees hired after January 1, 2004, will be eligible for access only to retiree medical benefits for themselves, but will be responsible for 100 percent of the premium.

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

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	**2019**	2018	2017
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 1,773,138**	$ 2,170,598	$ 1,790,034
Service cost	**28,912**	40,636	28,068
Interest cost	**82,744**	85,656	81,262
Plan amendments	**-**	(84,822)	-
Plan participants' contributions	**3,105**	2,587	2,759
Actuarial loss (gain)	**194,103**	(389,382)	320,198
Benefits paid	**(45,758)**	(52,135)	(51,723)
Accumulated postretirement benefit obligation, end of year	**$ 2,036,244**	$ 1,773,138	$ 2,170,598
Change in Plan Assets			
Plan assets at fair value, beginning of year	**$ -**	$ -	$ -
Employer contributions	**42,653**	49,548	48,964
Plan participants' contributions	**3,105**	2,587	2,759
Benefits paid	**(45,758)**	(52,135)	(51,723)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (2,036,244)**	$ (1,773,138)	$ (2,170,598)
Amounts Recognized in Statement of Financial Position			
Current liabilities	**$ (51,612)**	$ (63,057)	$ (69,147)
Noncurrent liabilities	**(1,984,632)**	(1,710,081)	(2,101,451)
	$ (2,036,244)	$ (1,773,138)	$ (2,170,598)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss	**$ 300,250**	$ 106,147	$ 524,918
Prior service credit	**(76,140)**	(84,822)	(18,611)
Total	**$ 224,110**	$ 21,325	$ 506,307
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2019**	12/31/2018	12/31/2017
Discount rate	**3.45%**	4.75%	4.00%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**6.90%/6.40%**	7.30%/6.90%	7.70%/6.90%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2028/2029**	2026/2027	2026

Total Cost	**2019**	2018	2017
Service cost	**$ 28,912**	$ 40,636	$ 28,068
Interest cost	**82,744**	85,656	81,262
Amortization of:			
Unrecognized prior service credit	**(8,682)**	(18,611)	(24,811)
Unrecognized net loss	**-**	29,389	2,800
Net postretirement benefit cost	**$ 102,974**	$ 137,070	$ 87,319
Accounting for settlements/curtailments/special termination benefits	**$ -**	$ -	$ -
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	**$ 194,103**	$ (389,382)	$ 320,198
Amortization of net actuarial loss (gain)	**-**	(29,389)	24,811
Prior service credit	**-**	(84,822)	(2,800)
Amortization of prior service cost	**8,682**	18,611	-
Total recognized in other comprehensive income	**$ 202,785**	$ (484,982)	$ 342,209
AOCI Amounts Expected to be Amortized Into Expense in 2020			
Unrecognized prior service credit	**$ (8,682)**	$ (8,682)	$ (18,611)
Unrecognized net loss	**9,229**	-	29,389
Total	**$ 547**	$ (8,682)	$ 10,778
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	**12/31/2018**	12/31/2017	12/31/2016
Discount rate	**4.75%**	4.00%	4.60%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**7.30%/6.90%**	7.70%/6.90%	6.75%/6.50%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2026/2027**	2026/2026	2025

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2020	**$ 51,612**
Fiscal 2021	**48,255**
Fiscal 2022	**55,237**
Fiscal 2023	**55,545**
Fiscal 2024	**61,401**
Fiscal 2025–2029	**369,842**
Expected Contributions	
Fiscal 2020	**$ 51,612**

NOTE 12 — RELATED PARTY TRANSACTIONS:

Directors of the Association, except for any director-elected directors, are required to be borrowers/stockholders of the Association. Also, in the ordinary course of business, the Association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors, or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons at December 31, 2019, 2018 and 2017 for the Association amounted to $24,262,195, $20,239,488 and $19,033,009. During 2019, 2018 and 2017, $10,818,214, $7,939,814 and $6,067,172 of new loans were made, and repayments totaled $8,376,297, $8,360,532 and $4,327,098, respectively. In the opinion of management, no such loans outstanding at December 31, 2019, 2018 and 2017 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled $568,986, $524,975 and $745,804 in 2019, 2018 and 2017, respectively.

The Association entered into a transaction for the hosting of the Athens' Branch customer appreciation dinner in 2019, 2018 and 2017 with Tate Farms, of which Stewart McGill is a partner. Mr. McGill had no interest in the transaction. Total amount paid to Tate Farms for the catering, rental and customer giveaways totaled $15,150, $13,300 and $9,450, respectively. The Association has utilized the Tate Farms venue for this annual event since 2013, which was prior to Mr. McGill becoming a board member in 2016.

The Association received patronage payments from the Bank totaling $3,758,026, $3,159,352 and $2,602,267 during 2019, 2018 and 2017, respectively.

NOTE 13 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," for additional information.

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following represent a brief summary of the valuation techniques used by the Association for assets and liabilities:

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, 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.

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

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

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

Information about other financial instruments fair value measurements:

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

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

December 31, 2019	**Fair Value Measurement Using**			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets:				
Assets held in nonqualified benefit trusts	**90,544**	**-**	**-**	**90,544**
Total assets	**$ 90,544**	**$ -**	**$ -**	**$ 90,544**

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

December 31, 2017	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in nonqualified benefit trusts	64,142	-	-	64,142
Total assets	$ 64,142	$ -	$ -	$ 64,142

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

December 31, 2019	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$1,204,381**	**$ 1,204,381**
Other property owned	**-**	**-**	**947,147**	**947,147**

December 31, 2018	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$1,640,473	$ 1,640,473
Other property owned	-	-	1,060,801	1,060,801

December 31, 2017	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 488,350	$ 488,350
Other property owned	-	-	2,573,808	2,573,808

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

	December 31, 2019				
	Fair Value Measurement Using				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 11,941**	**$ 11,941**	**$ -**	**$ -**	**$ 11,941**
Net loans	**879,471,000**	**-**	**-**	**886,814,514**	**886,814,514**
Total Assets	**$879,482,941**	**$ 11,941**	**$ -**	**$886,814,514**	**$886,826,455**
Liabilities:					
Note payable to Bank	**$773,309,208**	**$ -**	**$ -**	**$779,737,608**	**$779,737,608**
Total Liabilities	**$773,309,208**	**$ -**	**$ -**	**$779,737,608**	**$779,737,608**

	December 31, 2018				
	Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 48,700	$ 48,700	$ -	$ -	$ 48,700
Net loans	788,765,651	-	-	774,464,019	774,464,019
Total Assets	$ 788,814,351	$ 48,700	$ -	$ 774,464,019	$ 774,512,719
Liabilities:					
Note payable to Bank	$ 686,711,154	$ -	$ -	$ 674,319,173	$ 674,319,173
Total Liabilities	$ 686,711,154	$ -	$ -	$ 674,319,173	$ 674,319,173

	December 31, 2017				
	Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 339,393	$ 339,393	$ -	$ -	$ 339,393
Net loans	725,641,322	-	-	715,202,710	715,202,710
Total Assets	$ 725,980,715	$ 339,393	$ -	$ 715,202,710	$ 715,542,103
Liabilities:					
Note payable to Bank	$ 627,339,627	$ -	$ -	$ 618,361,862	$ 618,361,862
Total Liabilities	$ 627,339,627	$ -	$ -	$ 618,361,862	$ 618,361,862

NOTE 14 — COMMITMENTS AND CONTINGENCIES

In addition to those commitments and contingencies discussed in Note 2, "Summary of Significant Accounting Policies," the Association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2019, $68,629,512 of commitments and no commercial letters of credit were outstanding.

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

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. At December 31, 2019, $385,454 of standby letters of credit were issued primarily in conjunction with participation loans. The fair value of these obligations at December 31, 2019 is based on fees for the unexpired period remaining, which are negligible.

NOTE 15 — REGULATORY ENFORCEMENT MATTERS

The Association has not received notice for any cease and desist orders, temporary cease and desist orders, supervisory or other written agreements, notices of charges, prohibitions and removals of officers and directors, civil money penalties, and other enforcement matters which have or could have a significant impact on the financial statements as of December 31, 2019.

NOTE 16 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2019				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 5,669**	**$ 5,672**	**$ 5,787**	**$ 5,853**	**$ 22,981**
(Provision for) reversal of loan losses	**(90)**	**(231)**	**(307)**	**77**	**(551)**
Noninterest expense, net	**(1,709)**	**(1,858)**	**(2,028)**	**(1,134)**	**(6,729)**
Net income	**$ 3,870**	**$ 3,583**	**$ 3,452**	**$ 4,796**	**$ 15,701**

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 5,468	$ 5,410	$ 5,463	$ 5,468	$ 21,809
(Provision for) reversal of loan losses	33	31	(98)	(208)	(242)
Noninterest expense, net	(1,309)	(1,525)	(1,731)	(1,411)	(5,976)
Net income	$ 4,192	$ 3,916	$ 3,634	$ 3,849	$ 15,591

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 5,280	$ 5,240	$ 5,359	$ 5,442	$ 21,321
(Provision for) reversal of loan losses	(13)	(107)	(29)	49	(100)
Noninterest expense, net	(1,561)	(1,673)	(1,570)	(1,369)	(6,173)
Net income	$ 3,706	$ 3,460	$ 3,760	$ 4,122	$ 15,048

NOTE 17 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 9, 2020, which is the date the financial statements were issued or available to be issued and has determined that there were no other events requiring disclosure.

DISCLOSURE INFORMATION AND INDEX

(Unaudited)

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report.

The descriptions of significant developments that had or could have a material impact on earnings, interest rates to borrowers, patronage, or dividends and acquisitions or dispositions of material assets, changes in the reporting entity, changes in patronage policies or practices and financial assistance provided by or to the Association through loss sharing or capital preservation agreements or from any other source, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

The Alabama Farm Credit, ACA (the Association) serves its 27-county territory through its main administrative and lending office at 1740 Eva Road NE, Cullman, Alabama 35055. Additionally, there are five branch lending offices located throughout the territory. The Association owns the office buildings in Albertville, Athens, Cullman, Talladega and Tuscumbia, free of debt. The Association leases an outpost in Moulton.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 8, "Note Payable to the Bank," Note 11, "Employee Benefit Plans," and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 14 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The Association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (Bank), as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the Association.

The annual and quarterly stockholder reports of the Farm Credit Bank of Texas (the Bank) are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 465-1881. Copies of the Bank annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports are also available on its website at *www.farmcreditbank.com*.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Alabama Farm Credit, ACA, P.O. Box 639, Cullman, Alabama 35056 or calling (256) 737-7128. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *karri.sumrall@alabamafarmcredit.com*. The Association's annual stockholder report is available on its website at *www.alabamafarmcredit.com* 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

SELECTED FINANCIAL DATA

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

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

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

DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES	YEARS IN CURRENT POSITION
Matthew J. Christjohn, DVM	Chairman (Member-elected)	2005	2020	
Stewart McGill	Vice-Chairman (Member-elected)	2016	2022	
Larry Don McGee	Member-Elected	1997	2021	
Danny R. Baugh	Member-Elected	2015	2021	
Rickey Cornutt	Member-Elected	2017	2020	
David Daily	Member-Elected	2019	2022	
John R. Adams, CPA	Director-Elected Member	2006	2021	
Hugh C. Harris	Director-Elected Member	2014	2020	
Melvin "Mel" K. Koller	President / Chief Executive Officer	2018		1.6 years
Jody L. Campbell	Executive Vice President / Chief Risk Officer	2019		0.8 years
Karri H. Sumrall, CPA	Executive Vice President / Chief Financial Officer	2003		16.5 years
C. Greg Copeland	Senior Vice President	1989		5.3 years

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

Matthew J. Christjohn, **DVM**, age 49. Dr. Christjohn is the owner and operator of Large Animal Veterinary Services, LLC, a practice concentrating on livestock, mainly cattle. The business covers territory in Alabama, Georgia, Florida and Oklahoma. Dr. Christjohn received his Animal & Dairy Science degree from Auburn University in 1992, Doctor of Veterinary Medicine degree from Auburn University in 1995 and Master of Business Administration from the University of Phoenix in January 2008. In addition to his business, he presently owns and operates a 360-acre cattle farm in Wedowee, Alabama, operating as Sandy Creek Ranch, LLP. Dr. Christjohn is a member of the American and Alabama Veterinary Medical Associations, Society for Theriogenology, American Association of Bovine Practitioners, Academy of Veterinary Consultants, National Cattlemen's Beef Association, Alabama Cattlemen's Association, and the Florida Cattlemen's Association. Dr. Christjohn was elected Chairman of the board in 2017 and is also a member of the Association's audit committee.

Stewart McGill, age 38. Mr. McGill is one of four managing partners and operators of Tate Farms General Partnership (Tate Farms). Tate Farms is located in Madison County and includes approximately 6,000 acres of cotton, corn, soybeans, wheat, and pumpkins, as well as an Agritourism business that hosts approximately 70,000 guests each fall. Mr. McGill is also a crop insurance agent with State Tate Crop Insurance. He is a member of the Alabama Farmers Federation and is also a member of the Association's compensation committee.

Larry Don McGee, age 69. Mr. McGee is a full-time poultry and cattle farmer from Jackson County. He owns and operates 500 acres in Jackson and DeKalb counties. He has approximately 200 head of brood cows along with three pullet houses with a capacity of 21,000. He has been the owner/operator of L&D Farms for the past 32 years. He is a member of DeKalb County Cattlemen's Association and the Alabama Poultry and Egg Association. Mr. McGee is also a member of the Association's audit committee.

Danny Ray Baugh, age 63. Mr. Baugh is a full-time cattle and poultry farmer from Marshall County. He owns and operates a 285-acre farm in Marshall County. Mr. Baugh runs an approximately 160-head cow-calf operation, along with a 200-acre hay operation on rented lands. He currently grows for Wayne Farms, operating eight broiler houses with a farm capacity of 176,000. Mr. Baugh retired from Albertville Municipal Utilities Board in 2005 as their water plant manager after 30 years of service. He is a member of the Alabama Poultry and Egg Association, Alabama Cattlemen's Association, Marshall County Farmers Cooperative and Marshall/Dekalb Electric Cooperative. Mr. Baugh is also a member of the Association's compensation committee.

Rickey Cornutt, age 57, Mr. Cornutt is a full-time row-crop and cattle farmer. He and his brother own Cornutt Farms, LLC in Marshall County, Alabama. Cornutt Farms, LLC consists of approximately 2,000 acres of owned and leased land of corn, soybeans, wheat and pastureland, and also operates a 300-head cow-calf operation. Additionally, Mr. Cornutt is a director of Marshall County Farmers Federation, Dekalb Farmers' Cooperative, Marshall County TVA Discretionary Fund Committee, State Board Committee of Soil and Water, Marshall County Conservation District, and State Board of Alabama Farmers' Cooperative. Mr. Cornutt is a member of the Association's compensation committee.

David Daily, age 49. Mr. Daily owns 400 Brood cows, does custom hay baling, and operates a small stocker operation in Russellville, Alabama. Mr. Daily's primary business is Agricultural Sales, as the part owner of Daily AG Products and Daily Farm Supply located in Paducah, Kentucky, which sells ag-lime and fertilizer in five states. He is currently a member of the Franklin County Cattlemen's Association and The Angus Association. Mr. Daily is also a member of the Association's compensation committee.

John R. Adams, CPA, age 60. Mr. Adams is a certified public accountant with over 38 years of experience in public accounting. He is a partner in a local accounting firm in Decatur, Alabama. Mr. Adams received his Bachelor of Science degree with a major in Accounting from the University of Alabama. He is a member of the American Institute of Certified Public Accountants, Alabama Society of Certified Public Accountants and National Society of Accountants for Cooperatives. Mr. Adams is also the chairman of the Association's audit committee.

Hugh C. Harris, age 68. Mr. Harris is a practicing attorney with over 43 years in the legal profession. Mr. Harris received both his undergraduate and juris doctorate degrees from the University of Alabama. He spent 11 years as deputy district attorney for Cullman County, Alabama, and has been in the private practice of law since 1987. He practices with the law firm of Bland, Harris & McClellan, in Cullman, Alabama, and is a member of the Cullman County Bar Association, Alabama State Bar and the Alabama Defense Lawyers Association. He serves as a director of the East Cullman Water Board and is an active member of the Alabama and Cullman Cattlemen's Association. Mr. Harris operates a small part-time cow-calf farm in Cullman County. Mr. Harris is also the chairman of the Association's compensation committee.

Melvin "Mel" K. Koller, age 38, President/Chief Executive Officer. Mr. Koller was employed by the Association as CEO in September 2018. Mr. Koller brings over 16 years experience within Agriculture Finance, with 12 of those years in the Farm Credit System. Before becoming Chief Executive Officer for the Association, he served as Vice President, Manager of the Association Direct Lending Unit for the Farm Credit Bank of Texas (FCBT). His background includes production lending portfolio management, participation lending, and software project management.

Jody L. Campbell, age 38, Executive Vice President/Chief Risk Officer. Mr. Campbell was employed by the Association in July 2019. Mr. Campbell worked at the FCBT for 11 years, where he was a Regional Vice President and held positions as a credit officer, portfolio risk and analytics manager, and an interest-rate risk analyst. Prior to his career with FCBT, he was an internal auditor for three years.

Karri H. Sumrall, CPA, age 48, Executive Vice President/Chief Financial Officer. Ms. Sumrall is a certified public accountant with over eight years of experience in public accounting with an emphasis in financial institutions and has over 16 years of experience with the Farm Credit System.

C. Greg Copeland, age 59, Senior Vice President/Branch Manager. Mr. Copeland has been the Branch Manager of the Albertville branch since January 1, 2009, and has a total of 35 years experience with the Farm Credit System.

COMPENSATION OF DIRECTORS

With the exception of the chairman, who receives $1,000 per month, directors were compensated for their service to the Association in the form of an honorarium at the rate of $800 per month and $600 per day for regular, special and committee meetings. Directors receive an additional $300 for special and committee meetings held on the same day as the regular meetings. Additionally, the directors receive $150 for each conference call meeting. Certain expenses incurred by directors while representing the Association in an official capacity were reimbursed. Mileage for attending official meetings during 2019 was paid at the IRS-approved rate of 58 cents per mile. A copy of the travel policy is available to stockholders of the Association upon request.

Director	Board Meetings	Other Official Activities	2019 Total Compensation
Matthew J. Christjohn, DVM	12	13	$ 31,050
Larry Don McGee	12	11	28,550
Loyd Rutherford	3	5	14,100
J. Stewart McGill	12	11	28,700
Danny Baugh	12	12	36,400
Rickey Cornutt	12	10	28,400
John R. Adams, CPA	12	13	29,450
Hugh C. Harris	12	13	29,950
David Daily	9	6	18,300
			$ 244,900

The aggregate compensation paid to directors in 2019, 2018 and 2017 was $244,900, $225,600 and $233,450, respectively. Additionally, no director received noncash compensation exceeding $5,000 in 2019, 2018 and 2017.

The primary function of the audit committee is to assist the board of directors in fulfilling its oversight responsibilities relating to the quality of financial reporting, the system of internal controls, the audit process, and the Association's process for monitoring compliance with laws and regulations and the code of conduct.

The primary function of the compensation committee is to provide assistance to the board of directors in fulfilling the board's responsibilities on matters relating to compensating the board and the Association's CEO, reviewing the compensation policies and plans for senior officers and employees, including incentive compensation plans and benefits, overseeing the Association's management succession planning and engaging in such other matters as may from time to time be specifically delegated to the committee by the board.

Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2019:

	Committee	
Director	Audit	Compensation
Matthew J. Christjohn, DVM	$ 4,350	$ -
Larry Don McGee	3,750	-
Loyd Rutherford	-	-
J. Stewart McGill	-	1,200
Danny Baugh	-	1,200
Rickey Cornutt	-	1,200
John R. Adams, CPA	4,350	-
Hugh C. Harris	-	1,200
David Daily	-	1,200
	$ 12,450	$ 6,000

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $118,352, $122,262 and $122,734 in 2019, 2018 and 2017, respectively.

COMPENSATION OF SENIOR OFFICERS

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

Association employees, including senior officers, can earn compensation above base salary through an annual success-sharing incentive plan. The term of the plan is each calendar year beginning January 1 through December 31. The plan is based upon the achievement of predetermined Association performance goals for return on equity, net loan growth, capital markets growth, weighted average probability of default, weighted average terms, net interest margins, credit quality, delinquent loan volume and individual performance. All employees that are full-time, or part-time with benefits, that have been employed at least three months are eligible to earn an individual incentive up to 31.5 percent of their annual salary based upon their performance evaluation, including individual performance objectives. The following criteria is also used for determining eligibility for the incentive pay: (1) the Association must not be in default of the General Financing Agreement with the Farm Credit Bank of Texas; (2) the Association cannot receive an annually combined overall rating of "unsatisfactory" on credit administration by the Internal Credit Review and/or FCA examinations; (3) the employee's branch office cannot receive an annually combined overall rating of "unsatisfactory" on credit administration by the Internal Credit Review; (4) there must be material income from operations beyond what is needed to fund the incentive plan; and (5) eligible employees must receive an annual performance rating of "meets" or better on his/her individual performance review.

Association employees have the opportunity to earn commissions on revenue generated from sales of credit life and term life insurance. The Association participates in a program with outside insurance companies to provide borrowers the opportunity to purchase the insurance. Employees who generate the insurance sales receive a portion of the commissions received by the Association. Amounts paid under these plans are paid no later than January following the close of the plan term and are included in "Other" in the table on the following page.

The Association provides certain employees use of Association automobiles. The employees' personal use of these automobiles is governed by the Association's board-approved travel and vehicle policy as well as IRS rules. Employees assigned a vehicle are required to maintain a business mileage log. Personal use of these vehicles is calculated and reported in compliance with current IRS regulations. Amounts for personal use of an Association vehicle are included in "Deferred/Perquisite" in the table below.

Employees who use their personal automobiles for business purposes were reimbursed during 2019 at the IRS-approved rate of 58 cents per mile. The Association's travel policy allows spousal travel in some instances. Travel expenses reimbursed for spousal travel are considered to be paid to the employee or director under a non-accountable plan and are therefore included in their gross income or IRS Form 1099 in accordance with IRS guidelines. Amounts relating to reimbursed travel expenses are included in "Deferred/Perquisite" in the table on the following page. As discussed in Note 2, "Summary of Significant Accounting Policies," and Note 11, "Employee Benefit Plans," the Association participates in the Farm Credit Benefits Alliance 401(k) Plan and the Defined Contribution (DC) Plan. Amounts contributed by the Association to the 401(k) and DC plans on behalf of the CEO and senior officers are included in the "Deferred/Perquisite" column in the compensation table on the following page.

Association policy allows for reimbursement of tuition and related education expenses incurred in connection with approved undergraduate and/or graduate level coursework. The program is available to all full-time, permanent employees. To the extent that these payments exceed the IRS maximum limits, these amounts are added to each respective employee's taxable earnings. The Association also provides group term life insurance to all employees in an amount equal to double the employees' respective salaries. To the extent that the value of this life insurance exceeds $50,000, an amount is added to each respective employee's taxable earnings using the IRS-approved calculations. These payments are included in "Other" in the table on the following page.

Additionally, the Association employs a program for the health and well-being of its employees. All full-time, permanent employees are eligible to participate in the program, which allows for reimbursement of physical fitness related expenses up to $400 per year, per employee. These payments are included in "Other" in the table on the following page. Retirement gifts and any payout of unused annual leave at retirement are included in "Other" in the table on the following page. Neither the CEO nor any other senior officer received non-cash compensation exceeding $5,000 in 2019, 2018 or 2017. Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting Association business. A copy of the Association's travel policy is available to shareholders upon request.

Summary Compensation Table

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

Name of Individual or number in group (a)	Year	Salary (b)	Bonus (c)	Change in Pension Value (d)	Deferred/ Perquisite (e)	Other (f)	Total
Mel Koller, CEO	2019	**$ 325,013**	**$ 100,425**	**$ -**	**$ 46,307**	**$ 648**	**$ 472,393**
	2018	90,524	23,675	-	11,337	25,151	150,687
K. Ben Gore, CEO*		240,009	57,729	-	22,213	62,905	382,856
	2017	300,012	90,000	337,149	25,377	6,248	758,786
* Retired September 30, 2018							
Aggregate Number of Senior Officers (& other highly compensated employees)							
(5)	2019	$ 665,806	$ 202,725	$ 4,497	$ 82,193	$ 19,193	**$ 974,414**
(5)	2018	774,589	179,991	13,941	125,623	4,225	1,098,369
(5)	2017	754,528	215,803	276,631	112,442	4,737	1,364,141

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.
(b) Gross salary, including retention plan compensation for certain senior officers.
(c) Bonuses paid within the first 30 days of the subsequent calendar year.
(d) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.
(e) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits and spousal travel reimbursements in accordance with IRS guidelines.
(f) Amounts in the "Other" column include group term life insurance, service awards, retirement benefit pay, health and wellness reimbursements, moving allowance, insurance commission and annual leave payout.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate are available and will be disclosed to shareholders of the Association upon request.

The Association's voting shareholders have the authority to cast a vote in an advisory vote on the Association's CEO and/or senior officer compensation if 5 percent of the total voting stockholders submit a petition to do so. The petition and the advisory vote will be conducted in accordance with the Association's policies and procedures. If a vote were to occur in the future, the results would be shared with the shareholders. The results of any advisory vote are non-binding on the Association's compensation committee and the Association's board of directors. Also, if the compensation for either the CEO or the aggregate senior officer group increased 15 percent or more from the previous reporting period, the Association must hold an advisory vote. To date, no advisory votes on the Association's CEO and senior officer compensation have occurred.

Pension Benefits Table

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to a senior officer for the year ended December 31, 2019:

Pension Benefits Table:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2019
Aggregate Number of Senior Officers (& other highly compensated employees, if (2)	Farm Credit Bank of Texas Pension Plan	39.5	$ 3,169,843	$ -

Pension Benefits Table Narrative Disclosure

One of the other top paid employees or senior officers of the Association participate in the Farm Credit Bank of Texas Pension Plan (the "Pension Plan"), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation, and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 ("FAC60"). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.5 percent of (i) FAC60 in excess of Social Security covered compensation items and (ii) "Years of Benefit Service" (not to exceed 35). The present value of the senior officers' accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 65. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the senior officer is married on the date the annuity begins, that the spouse is exactly two years younger than the senior officer and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

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

The Association sponsors a defined contribution supplemental retirement plan eligible to employees whose compensation exceeds the IRS threshold of $125,000 in the preceding year. This plan would allow for an employee to restore their contributions restricted by IRS limits to salary, elective deferrals made by employees to defer compensation out to a future date, discretionary contributions made by the Association to a select group of employees and a retention feature using vesting schedules for discretionary contributions. This plan is a nonqualified 401(k) plan. The Association has made no contributions to the plan to date. Employees assigned Association automobiles reimburse the Association for personal miles at a board-established rate. Employees who use their personal automobiles for business purposes were reimbursed during 2019 at the IRS-approved rate of 58 cents per mile.

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

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

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

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

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

During the past five years, none of the Association's officers or directors have been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as a director or senior officer.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The Association's audit committee engaged the independent accounting firm of PricewaterhouseCoopers, LLC (PwC) to perform the annual audit of the Association's financial statements included in this annual report. The total fees paid per the 2019 audit engagement letter for professional services rendered for the Association by PwC were $77,946.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The Association had no relationships with unincorporated business entities at December 31, 2019.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers, LLC dated March 9, 2020, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. Our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the Association or its members.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

The Association is committed to meeting the needs of Young, Beginning and Small (YBS) farmers and ranchers and recognizes the need to support these operators to ensure a strong agricultural community for the future. Support of YBS lending activities is a priority in the Association. Additional employee time and other resources are combined with the most liberal application of the Association's underwriting standards possible to meet the credit needs of YBS farmers and ranchers. In addition, the Association actively supports other programs, events, scholarships and educational activities that benefit young people who will become the agricultural providers of tomorrow.

The Association sets minimum standards and monitors its YBS performance on a regular basis. These results are also compared to the demographics of the territory it serves as reflected in the USDA Census of Agriculture (Census).

Definitions for "young," "beginning" and "small" farmers and ranchers used by the Association are:

- Young: Age 35 or younger as of the loan date
- Beginning: 10 years or less of farming, ranching or aquatic experience as of the loan date
- Small: Less than $250,000 in annual gross sales of agricultural products

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

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

The 2012 USDA Census of Agriculture for Alabama indicates that 4.7 percent of farm operators are "young," 19.2 percent are "beginning" and 91.0 percent of the farms are "small." The Association's YBS lending goals per its 2018 business plan were as follows:

YBS Class	Percentage of Total Loans	Percentage of Loan Volume
Young	> 25%	> 25%
Beginning	> 45%	> 45%
Small	> 70%	> 55%

The Associations YBS loans, as a percentage of total loans outstanding as of December 31, are reflected in the table below for the past three years:

	2017		2018		2019	
	Percent of Total Loans	Percent of Loan Volume	Percent of Total Loans	Percent of Loan Volume	Percent of Total Loans	Percent of Loan Volume
Young	26.6%	28.0%	26.8%	29.1%	27.5%	28.7%
Beginning	50.0%	48.5%	50.4%	50.3%	51.7%	51.7%
Small	74.8%	56.8%	73.6%	55.4%	73.2%	52.2%

The Association's YBS loans, as a percentage of all loans closed each year, are reflected in the table below for the past three years:

	2017		2018		2019	
	Percent of New Loans	Percent of New Loan Volume	Percent of New Loans	Percent of New Loan Volume	Percent of New Loans	Percent of New Loan Volume
Young	25.4%	26.0%	28.8%	31.9%	29.4%	25.8%
Beginning	47.1%	45.5%	51.2%	53.8%	52.7%	52.9%
Small	71.2%	55.4%	68.6%	49.4%	71.4%	46.2%

For purposes of the above tables, a loan could be classified in more than one category depending upon the characteristics of the underlying borrower. The number and volume of loans in many cases falls into more than one category. For example, a 32-year-old farmer with farm income of $150,000 would be counted in the statistics for both “young” and “small” categories.

The Association continues to provide credit to YBS farmers and ranchers at high levels as reflected by the above comparative data. Emphasis on this area of the Association's lending business will continue to be a priority.

Alabama Farm Credit, ACA
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Cullman, Alabama 35056-0639

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