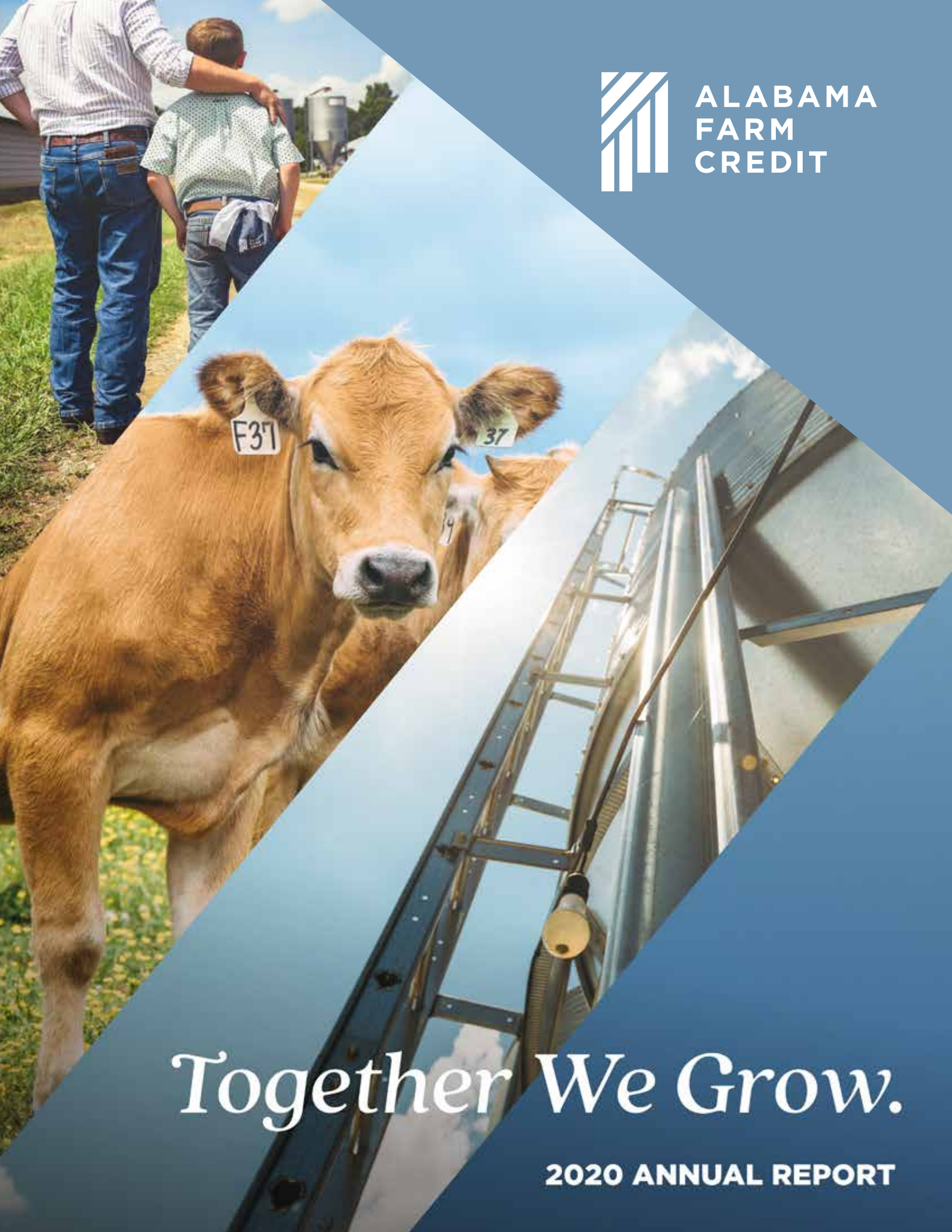




ALABAMA
FARM
CREDIT



Together We Grow.

2020 ANNUAL REPORT

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**ALABAMA
FARM
CREDIT**

Growing Together in 2020



It was a challenging year in agriculture. But we persevered.

We faced unprecedented challenges brought by the coronavirus pandemic. Yet we emerged a stronger Alabama Farm Credit. For the first time, the association reached \$1 billion in assets — an incredible feat, even in the best of times. Our success didn't stop there. In this report, you'll learn about our growth in net income, revenue, dividend and membership.

Each milestone we achieved reflects the trust our member-owners have in us. We're incredibly humbled you chose us for your rural financing needs.

Our success is your success. That's one of the advantages of financing with us. Thanks to our strong financial results, we returned a record-setting \$10.8 million dividend to our borrowers. That dividend effectively reduced your interest rate for 2020 by 1.2 percentage points.

As we look to the future, we're continually evolving to meet the needs of our customers. But the concept of agility is not new to you. In a year like no other, you met an extraordinary demand for a consistent, uninterrupted supply of food and other essential items. But no matter how strong you are — mentally, physically or financially — it helps to have a lender who understands you.

I'm confident our best days are ahead. However, if the going gets tough, reach out to us. Whether you need a word of encouragement, have financial questions or want to share some good news, we're here for you at every turn and turnrow.

Thank you for your business. We wish you much success.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mel Koller'. The signature is fluid and cursive, with a large initial 'M' and 'K'.

Mel Koller
Chief Executive Officer

Growing Forward

ALABAMA FARM CREDIT IS NOW A BILLION-DOLLAR COOPERATIVE

When he joined Alabama Farm Credit in 2018, Chief Executive Officer Mel Koller had a goal in mind. He wanted the association to reach \$1 billion in assets. Two years later, mission accomplished. The growth was facilitated by a changing marketplace, superior customer service and a 20% increase in membership.

“Reaching \$1 billion in assets was a longtime goal fulfilled,” says Koller. “It showcases not only that we are serving more members than ever before, but it ensures the ability for Alabama Farm Credit to meet your needs from an ag credit perspective.”

“Our goal is to build a strong association for all of North Alabama.”



Mel Koller, CEO

NEW HEADQUARTERS ALLOWS ASSOCIATION TO MEET GROWING DEMANDS

Alabama Farm Credit will move to its new headquarters in downtown Cullman in summer 2021.

The lender purchased the building, formerly a Wells Fargo, for its ample square footage and prime location. Located at 300 Second Ave. SW, the office sits at the corner of U.S. Highway 278 and Alabama Highway 31. It is across from the Cullman Area Chamber of Commerce.

“We’re excited to move our operational headquarters to downtown Cullman,” says Mel Koller, Alabama Farm Credit chief executive officer. “The association has grown tremendously over the past few years, and this facility will give us space to continue to maximize our efforts to serve our member-owners and the Cullman community.”

The new location will house administrative employees and the agribusiness lending team.



BUILDING STRONGER COMMUNITIES

Alabama Farm Credit only does what it does because of our customers and their support.

We told their stories through our “Borrower of the Month” video series, Landscapes magazine features and on social media.

While focusing on member needs, we worked to sustain communities through various programs. Throughout the year, we’ve put the seventh co-op principle — concern for community — to practice.

In 2020, we supported communities in the following ways:

- Cooked 1,000 steak dinners for essential workers in response to the coronavirus pandemic
- Contributed \$10,000 to FFA and \$5,000 to 4-H for college scholarships
- Delivered meals to our farmers during harvest season
- Donated \$10,000 to Auburn University College of Agriculture and \$5,000 to the College of Agricultural, Life and Natural Sciences at Alabama A&M University
- Provided a life-saving grain bin rescue tube to a local fire department
- Gave 200 large round bales of hay to South Alabama cattle producers who lost hay and pasture to two hurricanes

Board of Directors



Matthew Christjohn,
Chairman



Stewart McGill,
Vice Chairman



John Adams



Danny Baugh



Ricky Cornutt



David Daily



Hugh Harris



Larry Mcgee

Senior Management



Mel Koller, CEO



Jody Campbell, CRO

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.



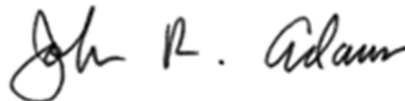
Mel Koller, Chief Executive Officer/President
March 12, 2021



Matthew Christjohn, DVM, Chairman, Board of Directors
March 12, 2021



Heather Smith, Interim Chief Financial Officer/Controller
March 12, 2021



John R. Adams, CPA, Chairman, Audit Committee
March 12, 2021

REPORT OF AUDIT COMMITTEE

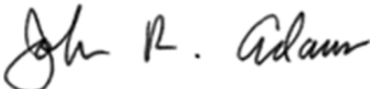
The Audit Committee (committee) is composed of John R. Adams, CPA, Larry Don McGee, Matthew J. Christjohn, DVM, and J. Stewart McGill who are directors of Alabama Farm Credit, ACA. In 2020, seven committee meetings were held. The committee oversees the scope of Alabama Farm Credit, ACA's system of internal 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 2020.

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, 2020 (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, 2020.



John R. Adams, CPA, Chairman
March 12, 2021



Larry Don McGee, Member
March 12, 2021



Matthew Christjohn, DVM, Member
March 12, 2021



J. Stewart McGill, Member
March 12, 2021

ALABAMA FARM CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(unaudited)

(dollars in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Balance Sheet Data</u>					
<u>Assets</u>					
Cash	\$ 11	\$ 12	\$ 49	\$ 339	\$ 11
Loans	974,928	884,970	794,416	729,419	672,097
Less: allowance for loan losses	4,039	4,295	4,010	3,778	3,698
Net loans	970,889	880,675	790,406	725,641	668,399
Investment in and receivable from the Farm Credit Bank of Texas	16,623	15,909	14,315	12,519	11,733
Other property owned, net	546	920	1,025	2,492	2,064
Other assets	18,047	15,731	14,448	12,570	11,647
Total assets	<u>\$ 1,006,116</u>	<u>\$ 913,247</u>	<u>\$ 820,243</u>	<u>\$ 753,561</u>	<u>\$ 693,854</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 15,909	\$ 15,234	\$ 14,854	\$ 14,784	\$ 14,187
Obligations with maturities greater than one year	859,434	775,298	688,446	628,639	575,404
Total liabilities	875,343	790,532	703,300	643,423	589,591
<u>Members' Equity</u>					
Capital stock and participation certificates	3,126	2,953	2,798	2,687	2,518
Unallocated retained earnings	127,741	119,986	114,166	107,957	101,909
Accumulated other comprehensive loss	(94)	(224)	(21)	(506)	(164)
Total members' equity	130,773	122,715	116,943	110,138	104,263
Total liabilities and members' equity	<u>\$ 1,006,116</u>	<u>\$ 913,247</u>	<u>\$ 820,243</u>	<u>\$ 753,561</u>	<u>\$ 693,854</u>
<u>Statement of Income Data</u>					
Net interest income	\$ 25,208	\$ 22,981	\$ 21,809	\$ 21,321	\$ 20,609
(Provision for loan losses)					
loan loss reversal	(116)	(551)	(242)	(100)	11
Income from the Farm Credit Bank of Texas	4,975	3,758	3,159	2,602	2,496
Other noninterest income	1,166	681	762	384	370
Noninterest expense	(12,675)	(11,168)	(9,897)	(9,159)	(8,799)
Net income	<u>\$ 18,558</u>	<u>\$ 15,701</u>	<u>\$ 15,591</u>	<u>\$ 15,048</u>	<u>\$ 14,687</u>
<u>Key Financial Ratios for the Year</u>					
Return on average assets	2.0%	1.8%	2.0%	2.0%	2.2%
Return on average members' equity	13.8%	12.5%	13.2%	13.5%	14.0%
Net interest income as a percentage of average earning assets	2.7%	2.8%	2.9%	3.1%	3.2%
Net charge-offs (recoveries) as a percentage of average loans	0.0%	0.0%	0.0%	0.0%	0.0%

ALABAMA FARM CREDIT, ACA

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Key Financial Ratios at Year End *</u>					
Members' equity as a percentage of total assets	13.0%	13.4%	14.3%	14.6%	15.0%
Debt as a percentage of members' equity	669.4%	644.2%	601.4%	584.2%	565.5%
Allowance for loan losses as a percentage of loans	0.4%	0.5%	0.5%	0.5%	0.5%
Common equity tier 1 ratio	13.6%	14.4%	15.7%	16.0%	n/a
Tier 1 capital ratio	13.6%	14.4%	15.7%	16.0%	n/a
Total capital ratio	14.0%	15.0%	16.2%	16.6%	n/a
Permanent capital ratio	12.6%	14.5%	15.7%	16.1%	16.8%
Tier 1 leverage ratio	12.5%	13.0%	13.8%	14.2%	n/a
UREE leverage ratio	13.7%	14.2%	15.0%	15.4%	n/a
<u>Net Income Distribution</u>					
Patronage dividends:					
Cash	\$ 9,880	\$ 9,380	\$ 8,999	\$ 8,450	\$ 6,179

*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, 2020. 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, 2020, 2019 and 2018, 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 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 2020, the Association approved a patronage distribution to its stockholders. The Association was able to distribute \$9,880,431 to its members due to strong earnings during 2019. The distribution was paid in March 2020. Also, in December 2020, the Association accrued a \$10,803,145 patronage distribution to its stockholders. The payment resolution was approved in January 2021 and will be disbursed in March 2021. The Association was able to return these funds to its members due to strong earnings over the past three years.

In December 2020, the Association received a direct loan patronage of \$4,624,897 from the Farm Credit Bank of Texas (“Bank”), representing 57.0 basis points on the average daily balance of the Association’s direct loan with the Bank. During 2020, the Association also received \$348,442 in patronage payments from the Bank, based on the Association’s stock investment in the Bank.

During 2020, the Association required charge-offs of \$398,439 and received \$30,643 in recoveries. Also, during 2020, the Association acquired four properties from various counties in north Alabama. The Association sold four properties during 2019, resulting in a net decrease of \$373,780, including a loss of \$9,724. At December 31, 2020, the Association held three properties with a carrying value of \$546,193, net of allowance, in other property pwned, 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.

COVID Discussion:

The United States has been operating under a presidentially declared emergency since March 13, 2020, due to the Coronavirus Disease 2019 (also referred to as COVID-19). The Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Loan volume increased during 2020 resulting from taking advantage of the low interest rate environment. There were no significant changes to funding strategies, and the Association maintained compliance with all interest rate risk measures. The Association has closely monitored its loan portfolio overall and has adjusted its portfolio monitoring and servicing practices. The credit quality of the Association's loan portfolio remained strong. As of December 31, 2020, the Association allocated a portion of its qualitative general reserve of approximately \$1.0 million for specific sectors of its portfolio due to uncertainty from the unemployment rates due to the COVID-19 pandemic. Capital levels remained strong to support any adversity or continuing loan demand.

Operationally, the Association continued to function as normal during these challenging times. The Association's internal controls over financial reporting and disclosure controls and procedures continued to operate effectively, with no material changes to the controls or financial systems having occurred or contemplated.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster certain programs offered by the United States Department of Agriculture (USDA). On April 17, 2020, the USDA announced a \$19 billion Coronavirus Food Assistance Program (CFAP), that provides a \$16 billion program of direct payments for agricultural producers that have been impacted by the decline in commodity prices and the disruption in food supply chains related to COVID-19, and a \$3 billion food purchase and distribution program. The CARES Act also appropriated funds for the Paycheck Protection Program (PPP), a guaranteed loan program administered by the U.S. Small Business Administration (SBA). The purpose of the program is to support payroll and certain other financial needs of small businesses during the COVID-19 pandemic. The impact of the support programs for agriculture and related industries is undeterminable at this point in time.

The USDA announced on September 18, 2020, that it would provide additional direct assistance of up to \$14.0 billion to farmers and ranchers who continue to face market disruptions and associated costs due to COVID-19. Eligible farmers, including row crop, livestock, and specialty crop producers, could sign up for aid at USDA Farm Service Agency offices through mid-December 2020.

On December 27, 2020, the President of the United States signed the Consolidated Appropriations Act, 2021 (CAA) into law. According to Congressional Budget Office estimates, the CAA allocates approximately \$868 billion to stimulus and relief programs related to COVID-19, including direct payments to households, continuation of the PPP lending program and an extension of increased federal unemployment benefits. The Congressional Budget Office estimates that the bill provides approximately \$12.7 billion in support payments to producers of commodity crops, specialty crops, dairy, livestock, poultry, renewable fuels and timber. Additionally, the CAA authorizes funds to purchase agricultural products for distribution and provides supplemental funding for existing farm support programs. The impact of the support programs for agriculture and related industries is undeterminable at this point in time.

The Association has provided relief to Association borrowers affected by COVID-19 through a disaster relief program in the form of extending the terms of loan repayments and easing some loan documentation requirements. At December 31, 2020, the Association had 202 loans to 151 borrowers totaling \$57,448,348 in the program.

A surge in COVID-19 cases observed late in 2020 could potentially threaten the economic recovery in the short-term. According to data published by the Centers for Disease Control and Prevention (CDC), new cases of COVID-19 in the U.S. averaged more than 200,000 per day in December 2020. Significant work is underway to develop, approve, distribute, and administer vaccines to the U.S. population. However, the CDC estimates that less than 20.0 percent of the more than 14 million COVID-19 vaccine doses distributed in 2020 had been administered at year-end. The strength of the U.S. economy in 2021 will likely depend on the trajectory of the pandemic, including the impact of vaccination programs, and related legislative response.

According to the U.S. Bureau of Economic Analysis (BEA), U.S. real gross domestic product (GDP) declined at a seasonally adjusted annualized rate of 31.4 percent in the second quarter of 2020. Although real GDP increased substantially in the third quarter of 2020, rising at a rate of 33.4 percent, the U.S. economy has not fully recovered.

The U.S. unemployment rate decreased to 6.7 percent in November 2020 from 6.9 percent in the previous month. Although the unemployment rate has nearly doubled year-over-year, it is well below the peak of 14.7 percent observed in April. The unemployment rate in Alabama remained below the national average at an observed rate of 4.4 percent.

The United States Department of Agriculture (USDA) estimates that net farm income increased by about 43.0 percent in 2020, reaching \$119.6 billion. In inflation-adjusted terms, net farm income is expected to be below the peak observed in 2013, but about

32.0 percent above the 20-year average. Direct government payments are projected at about \$46.5 billion, accounting for a historically high level of around 39.0 percent of all farm income, up \$24.0 billion, or 107.0 percent, compared to 2019. COVID-19-related assistance programs, including the Coronavirus Food Assistance Programs (CFAP1 and CFAP2) and Paycheck Protection Program (PPP), are estimated to provide about \$32.4 billion in support to farmers during 2020.

According to USDA estimates, corn and soybean production rose during the 2020 crop season, while cotton production declined. USDA expects farmers to receive higher prices for corn, soybeans and cotton in the 2020-2021 marketing year. Milk prices have been historically volatile in 2020, due primarily to impacts associated with COVID-19. On an annual average basis, the all-milk price is estimated to fall from \$18.63 per hundredweight (cwt) in 2019 to \$18.25/cwt in 2020, and to \$16.60/cwt in 2021. Livestock prices have been volatile overall, but the outlook for 2021 is generally positive as the industry is expected to continue to adapt to changing conditions.

During 2021, agricultural producers may be negatively affected by several factors, including volatile commodity prices, export market disruptions, a slowing economy and weather-related challenges. The Bank and district are in the process of evaluating the potential impact of the historically low temperatures observed across the central U.S. in February 2021. While the assessment of the full effect on the Bank and district's borrowers is on-going, this most recent weather event is not expected to have a significant adverse impact on the Bank's or district's overall financial condition and results of operations. The district loan portfolio is well-supported by industry diversification and conservative advance rates. Additionally, a high percentage of the district's borrowers primarily rely on non-farm sources of income to repay their loans.

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 \$974,928,604, \$884,970,381 and \$794,416,124 as of December 31, 2020, 2019 and 2018, 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 \$89,958,223 or 10.2 percent compared to 2019. 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 44.1 percent or \$429,838,504. The industry is presently stable; however, integrators are experiencing some decline in margins due to lower prices for poultry products and higher feed prices. Production in 2020 declined during the start of the Coronavirus; however, recent production levels have returned to more typical levels. The Association continues to experience some isolated concerns in its portfolio as evidenced by some due date changes to better match the individual growers' batch sales.

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 2021 are projected to remain stable. Feed costs to the integrators have increased some towards the end of 2020 heading into 2021 potentially putting a strain on integrators' margins. While this may impact negatively for the poultry portfolio, this should lead to increased profitability for row crop farmers.

The Association has 31.7 percent of its poultry portfolio guaranteed, which helps to reduce loss exposure in this commodity. Projections for 2021 could show some isolated limitations due to continued uncertain economic conditions driving commodity price fluctuation. Poultry growers continue to operate with thin margins. 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 2020 within the Association's territory, or thus far in 2021. 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 2020 had average moisture over most of the Association's territory. Cow/calf prices are expected to slightly improve or hold steady in 2021, which should also be beneficial to cow-calf operators in the Association's lending territory. Timber markets in 2020 remained steady for pine and hardwood pulpwood, and to a lesser extent hardwood saw timber. Indicators for 2021 are for timber prices to remain stable, with industry leaders projecting steady demand for wood products in 2021. Westervelt Company has announced a new timber mill in Thomasville, Alabama. The timber industry has seen a massive buildup in supply since the Great Recession, which has helped to moderate prices over the past decade. The recent resurgence of lumber demand from increased homebuilding and home remodeling, coupled with additional lumbermills coming online in the next few years, should help to alleviate this backlog of supply and lead to increased profitability in the timber industry in the coming years. 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 2020. The Association's credit quality experienced a slight increase to 98.7 percent non-adverse loan volume at 2020 year-end, compared to 98.6 and 99.0 percent non-adverse loan volume at year-end 2019 and 2018, 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 2021 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 2020, 2019 and 2018, the Association was participating in loans with other lenders. As of December 31, 2020, 2019 and 2018, these participations totaled \$60,718,193, \$51,589,942 and \$39,973,017, or 6.2 percent, 5.8 percent and 5.0 percent of loans, respectively. There were no participations purchased from entities outside the district during the years ended December 2020, 2019 and 2018. The increase in volume in 2020 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 has also sold participations of \$5,712,714, \$5,413,216 and \$0 as of December 31, 2020, 2019 and 2018, respectively.

Risk Exposure:

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

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

	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 5,642,334	79.7%	\$ 7,014,680	79.0%	\$ 4,983,487	71.4%
90 days past due and still accruing interest	160,944	2.2%	145,715	1.6%	-	0.0%
Formally restructured	734,879	10.4%	802,565	9.0%	967,847	13.9%
Other property owned, net	546,193	7.7%	919,973	10.4%	1,024,659	14.7%
Total	\$ 7,084,350	100.0%	\$ 8,882,933	100.0%	\$ 6,975,993	100.0%

High-risk assets decreased in 2020 by \$1,798,583, or 20.2 percent, as compared to 2019. During 2020, 17 loans to eight borrowers totaling \$3,601,565 were moved to nonaccrual status while four loans totaling \$729,941 were moved from nonaccrual to other property owned, and four loans totaling \$745,860 were reinstated to accrual status. Nonaccrual loans decreased by an additional \$3,867,652 from repayments and charge-offs.

At December 31, 2020, 2019 and 2018, loans that were considered impaired were \$6,538,157, \$7,962,960 and \$5,951,334, representing 0.7 percent, 0.9 percent and 0.7 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The Association had three properties in other property owned at the beginning of 2020. During 2020, the Association acquired four additional properties from various counties in north Alabama. The Association sold four properties during 2020, resulting in a net decrease of \$373,780, including a loss of \$9,724. At December 31, 2020, the Association held three properties with a carrying value of \$546,193, net of allowance, which consisted of 60.0 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 44.1 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, 2020, approximately 31.7 percent, or \$139.2 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, 2020, the Association had approximately \$147,055,336, or 15.1 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:

	2020	2019	2018
Allowance for loan losses	\$ 4,039,303	\$ 4,295,000	\$ 4,010,000
Allowance for loan losses to total loans	0.4%	0.5%	0.5%
Allowance for loan losses to nonaccrual loans	71.6%	61.2%	80.5%
Allowance for loan losses to impaired loans	61.8%	53.9%	67.4%
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 \$4,039,303, \$4,295,000 and \$4,010,000 at December 31, 2020, 2019 and 2018, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. The \$255,697 decrease compared to 2019 is primarily due to a decrease 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 \$147,055,336, or 15.1 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, 2020, was \$18,557,663 as compared to \$15,700,714 for the year ended December 31, 2019, reflecting an increase of \$2,856,949, or 18.2 percent. The Association's net income for the year ended December 31, 2018 was \$15,591,380. Net income increased \$109,333, or 0.7 percent, in 2019 versus 2018.

Net interest income for 2020, 2019 and 2018 was \$25,208,042, \$22,980,921 and \$21,809,331, respectively, reflecting increases of \$2,227,121, or 9.7 percent, for 2020 versus 2019 and \$1,171,590, or 5.4 percent, for 2019 versus 2018. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2020		2019		2018	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 919,504,989	\$ 45,422,778	\$ 832,372,553	\$ 45,447,408	\$ 762,226,287	\$ 40,035,598
Interest-bearing liabilities	811,548,761	20,214,736	728,060,921	22,466,487	662,413,401	18,226,267
Impact of capital	<u>\$ 107,956,228</u>		<u>\$ 104,311,632</u>		<u>\$ 99,812,886</u>	
Net interest income		<u>\$ 25,208,042</u>		<u>\$ 22,980,921</u>		<u>\$ 21,809,331</u>

	2020	2019	2018
	Average Yield	Average Yield	Average Yield
Yield on loans	4.9%	5.5%	5.3%
Cost of interest-bearing liabilities	2.5%	3.1%	2.8%
Interest rate spread	2.5%	2.4%	2.5%

	2020 vs. 2019			2019 vs. 2018		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ 4,757,431	\$ (4,782,061)	\$ (24,630)	\$ 3,684,433	\$ 1,727,377	\$ 5,411,810
Interest expense	2,576,268	(4,828,019)	(2,251,751)	1,806,292	2,433,928	4,240,220
Net interest income	<u>\$ 2,181,163</u>	<u>\$ 45,958</u>	<u>\$ 2,227,121</u>	<u>\$ 1,878,141</u>	<u>\$ (706,551)</u>	<u>\$ 1,171,590</u>

Interest income for 2020 decreased by \$24,630, or 0.1 percent, compared to 2019, primarily due to a decrease in loan yields. This decrease was offset by an increase in average loan volume. Interest expense for 2020 decreased by \$2,251,751, or 10.0 percent, compared to 2019 due to a decrease in interest rates on the Association's direct note with the Bank. The interest rate spread increased by 7 basis points to 2.5 percent in 2020 from 2.4 percent in 2019, primarily due to the decrease in cost of funds on the Association's note with the Farm Credit Bank of Texas. 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.

Noninterest income for 2020 increased by \$1,702,614, or 38.4 percent, compared to 2019, due primarily to an increase in patronage income from the Bank in the amount of \$1,216,649, or 32.4 percent, compared to 2019.

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.

Provisions for loan losses decreased by \$434,780, or 79.0 percent, compared to 2019, due primarily to a decrease 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 loan 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 \$1,507,566, or 13.5 percent, in 2020 as compared to 2019 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 necessary to accommodate the growth and business model of the Association. The increase in purchased services is due to increases in accounting and auditing expenses and contract services that were not incurred in the prior year.

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.

Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of \$1,710,034, \$1,616,459 and \$1,364,326 for 2020, 2019 and 2018, respectively, in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs consisted of salaries and benefits totaling \$1,702,301 related to the origination of loans.

For the year ended December 31, 2020, the Association's return on average assets was 2.0 percent, as compared to 1.8 percent and 2.0 percent for the years ended December 31, 2019 and 2018, respectively. For the year ended December 31, 2020, the Association's return on average members' equity was 14.1 percent, as compared to 12.6 percent and 13.2 percent for the years ended December 31, 2019 and 2018, respectively. These increases are primarily due to a decrease in interest rates on the Association's direct loan with the Bank offset by an increase in patronage income from the Bank.

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 \$857,969,898, \$773,309,208 and \$686,711,154 as of December 31, 2020, 2019 and 2018, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.9 percent, 3.0 percent and 2.9 percent at December 31, 2020, 2019 and 2018, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2019, is due to 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 \$108,058,095, \$104,390,456 and \$108,505,559 at December 31, 2020, 2019 and 2018, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2020, was \$974,103,306 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

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

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

Capital Resources:

The Association's capital position remains strong, with total members' equity of \$130,772,485, \$122,714,994 and \$116,943,338 at December 31, 2020, 2019 and 2018, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 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, 2020, 2019 and 2018 was 12.6 percent, 13.5 percent and 15.7 percent, respectively.

Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. 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 13.6 percent and Tier 1 Capital ratio was 13.6 percent, and total capital ratio was 14.0 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 12.5 percent and UREE Leverage ratio was 13.7 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.

Risk-adjusted:	Regulatory Minimums	Regulatory	As of December 31, 2020
Common equity tier 1 ratio	4.5%	7.0%	13.6%
Tier 1 capital ratio	6.0%	8.5%	13.6%
Total capital ratio	8.0%	10.5%	14.0%
Permanent capital ratio	7.0%	7.0%	12.6%
Non-risk-adjusted:			
Tier 1 leverage ratio	4.0%	5.0%	12.5%
UREE leverage ratio	1.5%	1.5%	13.7%

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

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

A summary of the new capital ratio requirements and comparative results for the Association as of December 31, 2020, are presented in Note 9 to the consolidated financial statements, “Member’s Equity,” included in this annual report.

LIBOR Transition:

On December 18, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on the transition away from LIBOR, in which they emphasized that the IBA proposal is not intended to slow down the transition and that Farm Credit System institutions should continue reducing LIBOR exposures as soon as practicable. System institutions should adopt 2021 transition plans with steps and timeframes to accomplish the following:

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

The Association has a LIBOR Transition Plan in place to accomplish the above outlined processes.

Significant Recent Accounting Pronouncements:

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the

accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs. System entities have adopted this relief for qualifying loan modifications. In response to the CARES Act, the Farm Credit Administration issued guidance allowing for temporary relief from accounting and disclosure requirements for TDRs. This TDR guidance applied to modifications made beginning March 1, 2020 and terminated on December 31, 2020.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled “Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association is evaluating the impact of this guidance, however, and intends to implement practical expedients in the first quarter of 2021.

In December 2019, the Financial Accounting Standards Board (FASB) issued guidance entitled “Simplifying the Accounting for Income Taxes.” This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted, and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association’s financial condition or results of operations.

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

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

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

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

annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

Regulatory Matters:

At December 31, 2020, the Association was not under written agreements with the Farm Credit Administration.

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

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

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

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

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

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

On April 1, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on reporting troubled debt restructurings for customers affected by the national emergency declaration for the COVID-19 outbreak.

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

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

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

- Enhance the usefulness of high-risk loan categories;
- Replace the subjective measure of "reasonable doubt" used for reinstating loans to accrual status with a measurable standard;

- Improve the timely recognition of a change in a loan’s status; and
- Update existing terminology and make other grammatical changes.

This regulation became effective on October 21, 2020.

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

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

Relationship With the Bank:

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

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

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

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

Summary:

Over the past 31 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.



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, 2020, December 31, 2019, and December 31, 2018, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

March 12, 2021

ALABAMA FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2020	2019	2018
<u>Assets</u>			
Cash	\$ 10,700	\$ 11,941	\$ 48,700
Loans	974,928,604	884,970,381	794,416,124
Less: allowance for loan losses	4,039,303	4,295,000	4,010,000
Net loans	970,889,301	880,675,381	790,406,124
Accrued interest receivable	8,195,464	9,531,469	8,701,345
Investment in and receivable from the Farm			
Credit Bank of Texas:			
Capital stock	16,093,440	14,420,355	13,155,480
Other	529,095	1,488,780	1,159,553
Other property owned, net	546,193	919,973	1,024,659
Premises and equipment	9,264,719	5,244,611	4,460,346
Other assets	586,647	954,503	1,286,394
Total assets	\$ 1,006,115,559	\$ 913,247,013	\$ 820,242,601
<u>Liabilities</u>			
Note payable to the Farm Credit Bank of Texas	\$ 857,969,898	\$ 773,309,208	\$ 686,711,154
Accrued interest payable	1,468,034	1,988,958	1,735,047
Drafts outstanding	149	764,851	1,303,900
Patronage distributions payable	10,804,546	9,881,855	9,383,761
Other liabilities	5,100,447	4,587,148	4,165,401
Total liabilities	875,343,074	790,532,020	703,299,263
<u>Members' Equity</u>			
Capital stock and participation certificates	3,126,030	2,952,910	2,798,455
Unallocated retained earnings	127,740,742	119,986,193	114,166,208
Accumulated other comprehensive loss	(94,287)	(224,110)	(21,325)
Total members' equity	130,772,485	122,714,993	116,943,338
Total liabilities and members' equity	\$ 1,006,115,559	\$ 913,247,013	\$ 820,242,601

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

ALABAMA FARM CREDIT, ACA — 2020 Annual Report

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2020	2019	2018
<u>Interest Income</u>			
Loans	\$ 45,422,778	\$ 45,447,408	\$ 40,035,598
<u>Interest Expense</u>			
Note payable to the Farm Credit Bank of Texas	20,214,736	22,466,487	18,226,267
Net interest income	25,208,042	22,980,921	21,809,331
Provision for loan losses (loan loss reversal)	115,796	550,576	242,091
Net interest income after provision for losses (loan loss reversal)	25,092,246	22,430,345	21,567,240
<u>Noninterest Income</u>			
Income from the Farm Credit Bank of Texas:			
Patronage income	4,974,675	3,758,026	3,159,352
Loan fees	773,488	423,290	292,362
Financially related services income	6,783	9,244	17,390
Gain on other property owned, net	-	-	35,583
Gain on sale of premises and equipment, net	50,880	60,190	77,368
Other noninterest income	334,978	187,440	339,050
Total noninterest income	6,140,804	4,438,190	3,921,105
<u>Noninterest Expenses</u>			
Salaries and employee benefits	7,543,987	6,705,155	5,893,474
Directors' expense	280,748	363,252	347,862
Purchased services	964,981	761,364	426,577
Travel	531,260	645,702	608,035
Occupancy and equipment	693,144	571,392	529,049
Communications	288,777	218,688	245,544
Advertising	313,330	202,795	371,254
Public and member relations	360,511	363,532	266,031
Supervisory and exam expense	283,419	268,417	239,311
Insurance Fund premiums	623,304	517,268	462,296
Business insurance premiums	129,444	126,520	105,773
Other components of net periodic postretirement benefit cost	108,417	74,062	96,434
Loss on other property owned, net	63,254	39,805	-
Other noninterest expense	490,811	309,869	305,325
Total noninterest expenses	12,675,387	11,167,821	9,896,965
NET INCOME	18,557,663	15,700,714	15,591,380
Other comprehensive income (loss):	129,823	(202,785)	484,982
COMPREHENSIVE INCOME	\$ 18,687,486	\$ 15,497,929	\$ 16,076,362

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

ALABAMA FARM CREDIT, ACA — 2020 Annual Report

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, 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
Comprehensive income	-	18,557,663	129,823	18,687,486
Capital stock/participation certificates issued	577,055	-	-	577,055
Capital stock/participation certificates retired	(403,935)	-	-	(403,935)
Patronage dividends:				
Cash	-	(10,803,114)	-	(10,803,114)
Balance at December 31, 2020	\$ 3,126,030	\$ 127,740,742	\$ (94,287)	\$ 130,772,485

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

ALABAMA FARM CREDIT, ACA — 2020 Annual Report

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	\$ 18,557,663	\$ 15,700,714	\$ 15,591,380
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	115,796	550,576	242,091
Provision for acquired property	34,460	43,089	85,317
(Gain) loss on other property owned, net	9,724	(36,105)	(181,390)
Depreciation	513,685	420,870	349,399
Accretion of net premiums in investments	(201,200)	(228,246)	(238,653)
Gain on sale of premises and equipment, net	(50,880)	(60,190)	(76,843)
Decrease (increase) in accrued interest receivable	1,336,005	(830,124)	(1,162,789)
Decrease (increase) in other receivables from the Farm Credit Bank of Texas	959,685	(329,227)	(611,936)
Decrease in other assets	746,057	689,079	5,645
(Decrease) increase in accrued interest payable	(520,924)	253,911	435,738
Increase in other liabilities	639,425	238,962	11,467
Net cash provided by operating activities	<u>22,139,496</u>	<u>16,413,309</u>	<u>14,449,426</u>
Cash flows from investing activities:			
Increase in loans, net	(91,159,074)	(91,859,614)	(63,843,090)
Cash recoveries of loans previously charged off	30,643	1,825	3,833
Increase in advance conditional payments			
Proceeds from purchase of investment in the Farm Credit Bank of Texas	(1,673,085)	(1,264,875)	(1,184,495)
Purchases of premises and equipment	(4,640,613)	(1,278,987)	(808,502)
Proceeds from sales of premises and equipment	157,700	134,042	157,485
Proceeds from sales of other property owned	955,007	986,716	292,450
Net cash used in investing activities	<u>(96,329,422)</u>	<u>(93,280,893)</u>	<u>(65,382,319)</u>

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

ALABAMA FARM CREDIT, ACA — 2020 Annual Report

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2020	2019	2018
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	84,660,690	86,598,054	59,371,527
(Decrease) increase in drafts outstanding	(764,702)	(539,049)	158,776
Issuance of capital stock and participation certificates	577,055	513,215	418,695
Retirement of capital stock and participation certificates	(403,935)	(358,760)	(307,495)
Patronage distributions paid	(9,880,423)	(9,382,635)	(8,999,303)
Net cash provided by financing activities	74,188,685	76,830,825	50,642,200
Net decrease in cash	(1,241)	(36,759)	(290,693)
Cash at the beginning of the year	11,941	48,700	339,393
Cash at the end of the year	\$ 10,700	\$ 11,941	\$ 48,700

Supplemental schedule of noncash investing and financing activities:

Net decrease in unrealized losses in investment securities	\$ -	\$ -	\$ 142,329
Financed sales of other property owned	-	-	1,125,155
Loans transferred to other property owned	609,723	877,208	259,297
Loans charged off	398,439	287,401	12,924
Accumulated other comprehensive income (loss)	129,823	202,785	484,982
Dividends declared			
Patronage distributions declared	10,803,145	9,880,729	9,380,495
Net decrease in FSA receivable	(393,889)	(368,992)	(80,204)
Increase in reserve for unfunded commitments	3,697	20,000	1,000

Supplemental cash information:

Cash paid during the year for:			
Interest	\$ 20,735,660	\$ 22,176,434	\$ 17,790,529

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

ALABAMA FARM CREDIT, ACA — 2020 Annual Report

ALABAMA FARM CREDIT, ACA
NOTES TO 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, FLCA and Alabama Farm Credit, PCA (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, 2020, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

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

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

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the 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 2.0 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; and 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 March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs. System entities have adopted this relief for qualifying loan modifications. In response to the CARES Act, the Farm Credit Administration issued guidance allowing for temporary relief from accounting and disclosure requirements for TDRs. This TDR guidance applied to modifications made beginning March 1, 2020 and terminated on December 31, 2020.

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

In December 2019, the FASB issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition,

the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the institution adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the institution's financial condition or results of operations; nor did the guidance impact the presentation of taxes for prior periods in the 2020 year-end financial statements.

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

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

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

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

- B. Cash: 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 of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (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 and lease participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. Additionally, the Association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. Loans are sold and the sale terms comply with requirements under ASC 860 "Transfers and Servicing."

- D. **Capital Stock Investment in the 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, 2020, made on their behalf into various investment alternatives. The Association recognized pension costs for the DC plan of \$303,583, \$267,584 and \$232,047 for the years ended December 31, 2020, 2019 and 2018, 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 \$314,202, \$349,429 and \$381,833 for the years ended December 31, 2020, 2019 and 2018, 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 \$213,454, \$199,407 and \$188,897 for the years ended December 31, 2020, 2019 and 2018, 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 \$15,339 and \$6,182 for the years ended December 31, 2020 and 2019, respectively. No contributions were made to the plan for the year ended December 31, 2018. 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:

Loan Type	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 799,775,499	82.1%	\$ 717,351,760	81.1%	\$ 650,500,490	81.9%
Production and intermediate term	108,923,934	11.2%	106,958,345	12.1%	89,442,720	11.2%
Agribusiness:						
Processing and marketing	35,266,397	3.6%	39,059,508	4.4%	32,667,110	4.1%
Farm-related business	11,398,278	1.2%	2,045,447	0.2%	2,161,726	0.3%
Loans to cooperatives	1,884,380	0.2%	-	0.0%	-	0.0%
Rural residential real estate	13,963,312	1.4%	17,516,906	2.0%	17,551,701	2.2%
Communication	2,018,677	0.2%	2,038,415	0.2%	2,061,951	0.3%
Water and waste water	1,389,325	0.1%	-	0.0%	-	0.0%
Energy	308,802	0.0%	-	0.0%	30,426	0.0%
Total	\$ 974,928,604	100.0%	\$ 884,970,381	100.0%	\$ 794,416,124	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, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Agribusiness	\$ 41,200,563	\$ 5,712,714	\$ -	\$ -	\$ 41,200,563
Production and intermediate term	15,157,027	-	-	-	15,157,027	-
Communication	2,018,677	-	-	-	2,018,677	-
Water and waste water	1,389,325	-	-	-	1,389,325	-
Real estate mortgage	643,798	-	-	-	643,798	-
Energy	308,803	-	-	-	308,803	-
Total	\$ 60,718,193	\$ 5,712,714	\$ -	\$ -	\$ 60,718,193	\$ 5,712,714

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

County	2020	2019	2018
De Kalb	17.7%	19.5%	18.6%
Marshall	8.0%	8.7%	9.3%
Cullman	6.8%	5.7%	5.0%
Lawrence	6.3%	7.0%	7.6%
Limestone	4.9%	4.3%	3.9%
Morgan	4.7%	4.5%	3.7%
Madison	4.5%	4.2%	4.2%
Jackson	4.3%	4.3%	4.8%
Randolph	4.2%	3.8%	4.1%
Franklin	4.0%	4.4%	4.0%
Other counties with less than 4%	31.7%	30.9%	32.0%
Other states	2.9%	2.7%	2.8%
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	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
Poultry and eggs	\$ 430,883,392	44.1%	\$ 416,533,817	47.0%	\$ 367,403,162	46.3%
Livestock, except dairy and poultry	175,423,708	17.7%	155,614,791	17.6%	132,877,075	17.2%
Timber	126,403,105	13.0%	102,400,399	11.6%	83,484,297	11.1%
Field crops except cash grains	97,363,902	9.6%	78,483,349	8.9%	69,559,969	8.8%
Cash grains	62,238,905	6.4%	52,094,457	5.9%	59,529,810	7.5%
Wholesale trade - nondurable goods	19,224,778	2.0%	10,377,016	1.2%	9,696,052	1.2%
Other	63,390,814	7.2%	69,466,552	7.8%	71,865,759	7.9%
Total	<u>\$ 974,928,604</u>	<u>100.0%</u>	<u>\$ 884,970,381</u>	<u>100.0%</u>	<u>\$ 794,416,124</u>	<u>100.0%</u>

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

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

The following table presents information relating to impaired loans:

	December 31,		
	2020	2019	2018
Nonaccrual loans:			
Current as to principal and interest	\$ 2,991,759	\$ 4,011,249	\$ 2,030,114
Past due	2,650,575	3,003,431	2,953,373
Total nonaccrual loans	<u>\$ 5,642,334</u>	<u>\$ 7,014,680</u>	<u>\$ 4,983,487</u>
Impaired accrual loans:			
Restructured accrual loans	\$ 734,879	\$ 802,565	\$ 967,847
Accrual loans 90 days or more past due	160,944	145,715	-
Total impaired accrual loans	<u>\$ 895,823</u>	<u>\$ 948,280</u>	<u>\$ 967,847</u>
Total impaired loans	<u>\$ 6,538,157</u>	<u>\$ 7,962,960</u>	<u>\$ 5,951,334</u>

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

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Nonaccrual loans:			
Real estate mortgage	\$ 4,967,607	\$ 5,818,982	\$ 4,751,770
Production and intermediate term	531,184	923,236	231,717
Rural residential real estate	143,543	272,462	-
Total nonaccrual loans	<u>5,642,334</u>	<u>7,014,680</u>	<u>4,983,487</u>
Accruing restructured loans:			
Real estate mortgage	<u>734,879</u>	<u>802,565</u>	<u>967,847</u>
Total accruing restructured loans	<u>734,879</u>	<u>802,565</u>	<u>967,847</u>
Accruing loans 90 days or more past due:			
Real estate mortgage	160,944	-	-
Production and intermediate term	-	145,715	-
Total accruing loans 90 days or more past due	<u>160,944</u>	<u>145,715</u>	<u>-</u>
Total nonperforming loans	<u>6,538,157</u>	<u>7,962,960</u>	<u>5,951,334</u>
Other property owned	<u>546,193</u>	<u>919,973</u>	<u>1,024,659</u>
Total nonperforming assets	<u>\$ 7,084,350</u>	<u>\$ 8,882,933</u>	<u>\$ 6,975,993</u>

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:

	<u>2020</u>		<u>2019</u>		<u>2018</u>
Real estate mortgage					
Acceptable	97.6	%	97.9	%	98.4
OAEM	1.1		0.7		0.6
Substandard/doubtful	1.3		1.4		1.0
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Production and intermediate term					
Acceptable	97.4		97.5		98.0
OAEM	0.8		0.7		0.4
Substandard/doubtful	1.8		1.8		1.5
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Loans to cooperatives					
Acceptable	100.0		-		-
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>-</u>		<u>-</u>
Processing and marketing					
Acceptable	97.3		93.0		100.0
OAEM	2.7		7.0		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Farm-related business					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Communication					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Energy					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Water and waste water					
Acceptable	100.0		-		-
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>-</u>		<u>-</u>
Rural residential real estate					
Acceptable	99.0		98.0		98.8
OAEM	-		0.2		-
Substandard/doubtful	1.0		1.8		1.2
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Total Loans					
Acceptable	97.7		97.6		98.4
OAEM	1.0		1.0		0.6
Substandard/doubtful	1.3		1.4		1.0
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>

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

December 31, 2020:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 3,889,013	\$ 2,155,252	\$ 6,044,265	\$ 800,603,472	\$ 806,647,737	\$ 160,944
Production and intermediate term	1,070,021	205,595	1,275,616	108,832,827	110,108,443	-
Loans to cooperatives	-	-	-	1,885,294	1,885,294	-
Processing and marketing	-	-	-	35,350,114	35,350,114	-
Farm-related business	-	-	-	11,405,268	11,405,268	-
Communication	-	-	-	2,018,783	2,018,783	-
Energy	-	-	-	309,721	309,721	-
Water and waste water	-	-	-	1,389,408	1,389,408	-
Rural residential real estate	463,970	-	463,970	13,545,330	14,009,300	-
Total	\$ 5,423,004	\$ 2,360,847	\$ 7,783,851	\$ 975,340,217	\$ 983,124,068	\$ 160,944

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

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

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

As of December 31, 2020, the total recorded investment of troubled debt restructured loans was \$1,245,837, including \$510,958 classified as nonaccrual and \$734,879 classified as accrual, with specific allowance for loan losses of \$3,385. 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, 2020.

There were no loans formally restructured during the years ending December 31, 2020 and 2018; however; the following table presents additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the year ended December 31, 2019. The pre-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

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	<u>\$ 619,664</u>	<u>\$ 619,664</u>

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, 2020.

The predominant form of concession granted for troubled debt restructuring includes 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, 2020	Recorded Investment at December 31, 2019	Recorded Investment at December 31, 2018
Real estate mortgage	\$ -	\$ 115,321	\$ -
Rural residential real estate	-	112,569	-
Total	<u>\$ -</u>	<u>\$ 227,890</u>	<u>\$ -</u>

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, 2020	December 31, 2019	December 31, 2018
Troubled debt restructurings:			
Real estate mortgage	\$ 1,054,467	\$ 1,031,925	\$ 967,847
Production and intermediate term	191,371	192,180	-
Rural residential real estate	-	112,569	-
Total	<u>\$ 1,245,838</u>	<u>\$ 1,336,674</u>	<u>\$ 967,847</u>

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2020	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 110,043	\$ 110,043	\$ 3,385	\$ 557,864	\$ -
Production and intermediate term	80,070	81,356	27,559	90,821	-
Total	<u>\$ 190,113</u>	<u>\$ 191,399</u>	<u>\$ 30,944</u>	<u>\$ 648,685</u>	<u>\$ -</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 5,748,865	\$ 5,805,742	\$ -	\$ 4,645,189	\$ 504,690
Production and intermediate term	451,114	451,114	-	587,806	39,868
Rural residential real estate	143,543	144,215	-	201,832	-
Total	<u>\$ 6,343,522</u>	<u>\$ 6,401,071</u>	<u>\$ -</u>	<u>\$ 5,434,827</u>	<u>\$ 544,558</u>
Total impaired loans:					
Real estate mortgage	\$ 5,858,908	\$ 5,915,785	\$ 3,385	\$ 5,203,053	\$ 504,690
Production and intermediate term	531,184	532,470	27,559	678,627	39,868
Rural residential real estate	143,543	144,215	-	201,832	-
Total	<u>\$ 6,533,635</u>	<u>\$ 6,592,470</u>	<u>\$ 30,944</u>	<u>\$ 6,083,512</u>	<u>\$ 544,558</u>

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

	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	<u>\$ 1,576,781</u>	<u>\$ 1,576,784</u>	<u>\$ 372,400</u>	<u>\$ 870,262</u>	<u>\$ -</u>
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	<u>\$ 6,378,599</u>	<u>\$ 6,395,991</u>	<u>\$ -</u>	<u>\$ 5,090,260</u>	<u>\$ 111,613</u>
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	<u>\$ 7,955,380</u>	<u>\$ 7,972,775</u>	<u>\$ 372,400</u>	<u>\$ 5,960,522</u>	<u>\$ 111,613</u>

^aUnpaid principal balance represents the recorded principal legal 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

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

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

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

	2020	2019	2018
Interest income which would have been recognized under the original terms	\$ 798,011	\$ 498,201	\$ 403,730
Less: interest income recognized	(544,558)	(111,613)	(115,968)
Foregone interest income	\$ 253,453	\$ 386,588	\$ 287,762

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at							
December 31, 2019	\$ 3,784,208	\$ 427,935	\$ 66,446	\$ 817	\$ -	\$ 15,594	\$ 4,295,000
Charge-offs	(138,993)	(259,446)	-	-	-	-	(398,439)
Recoveries	30,643	-	-	-	-	-	30,643
Provision for loan losses	26,028	21,764	68,762	(31)	2,107	(2,834)	115,796
Other	2,425	6,713	(12,879)	-	44	-	(3,697)
Balance at							
December 31, 2020	<u>\$ 3,704,311</u>	<u>\$ 196,966</u>	<u>\$ 122,329</u>	<u>\$ 786</u>	<u>\$ 2,151</u>	<u>\$ 12,760</u>	<u>\$ 4,039,303</u>
Ending Balance: individually evaluated for impairment	<u>\$ 3,385</u>	<u>\$ 27,559</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,944</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 3,700,926</u>	<u>\$ 169,407</u>	<u>\$ 122,329</u>	<u>\$ 786</u>	<u>\$ 2,151</u>	<u>\$ 12,760</u>	<u>\$ 4,008,359</u>
Recorded Investment in Loans Outstanding:							
Ending Balance at							
December 31, 2020	<u>\$806,647,738</u>	<u>\$110,108,442</u>	<u>\$48,640,676</u>	<u>\$ 2,018,783</u>	<u>\$1,699,129</u>	<u>\$14,009,300</u>	<u>\$983,124,068</u>
Ending balance for loans individually evaluated for impairment	<u>\$ 5,858,908</u>	<u>\$ 531,184</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 143,543</u>	<u>\$ 6,533,635</u>
Ending balance for loans collectively evaluated for impairment	<u>\$800,788,830</u>	<u>\$109,577,258</u>	<u>\$48,640,676</u>	<u>\$ 2,018,783</u>	<u>\$1,699,129</u>	<u>\$13,865,757</u>	<u>\$976,590,433</u>

	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	<u>\$ 3,784,209</u>	<u>\$ 427,935</u>	<u>\$ 66,446</u>	<u>\$ 817</u>	<u>\$ -</u>	<u>\$ 15,593</u>	<u>\$ 4,295,000</u>

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	<u>\$ 3,708,667</u>	<u>\$ 243,636</u>	<u>\$ 40,895</u>	<u>\$ 1,819</u>	<u>\$ -</u>	<u>\$ 14,983</u>	<u>\$ 4,010,000</u>

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

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 4.5 percent, 4.3 percent and 4.2 percent of the issued stock of the Bank as of December 31, 2020, 2019 and 2018. As of those dates, the Bank's assets totaled \$28.2 billion, \$25.7 billion and \$24.5 billion and members' equity totaled \$2.0 billion, \$1.8 billion and \$1.8 billion. The Bank's earnings were \$251.1 million, \$203.0 million and \$190.5 million during 2020, 2019 and 2018.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 818,080	\$ 818,080	\$ 818,080
Building and improvements	4,885,654	4,542,502	3,527,384
Furniture and equipment	653,056	722,522	608,764
Computer equipment and software	298,649	269,668	217,488
Automobiles	1,260,629	1,018,084	853,111
Construction in progress	3,583,784	9,067	350,309
	<u>11,499,852</u>	<u>7,379,923</u>	<u>6,375,136</u>
Accumulated depreciation	<u>(2,235,133)</u>	<u>(2,135,312)</u>	<u>(1,914,790)</u>
Total	<u>\$ 9,264,719</u>	<u>\$ 5,244,611</u>	<u>\$ 4,460,346</u>

The Association previously leased office space in Moulton, Alabama, on a month-to-month basis. The Association did not have a binding contract, and the lease was terminated by the Association in 2019. Lease expense was \$450 and \$600 for the years ended December 31, 2019 and 2018, respectively.

The Association also enters into operating leases for office equipment for all branch offices. Lease expense was \$48,303, \$47,042 and \$39,618 for the years ended December 31, 2020, 2019 and 2018. Minimum annual lease payments for the next five years are as follows:

	<u>Operating</u>
2021	\$ 6,981
2022	1,261
Total	<u>\$ 8,242</u>

NOTE 6 — OTHER PROPERTY OWNED, NET:

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Gain (loss) on sale, net	\$ (9,724)	\$ 36,105	\$ 181,390
Carrying value adjustments	(34,460)	(43,089)	(85,317)
Operating expense, net	(19,070)	(32,821)	(60,490)
Net gain (loss) on other property owned	<u>\$ (63,254)</u>	<u>\$ (39,805)</u>	<u>\$ 35,583</u>

The Association had three properties in other property owned at the beginning of 2020. During 2020, the Association acquired four additional properties from various counties in north Alabama. The Association sold four properties during 2020, resulting in a net decrease of \$373,780, including a loss of \$9,724. At December 31, 2020, the Association held three properties with a carrying value of \$546,193, net of allowance, which consisted of 60.0 acres of land.

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2020	2019	2018
Guaranteed loan receivables	\$ 57,095	\$ 420,852	\$ 826,906
Investment in FCS Association captive insurance	480,299	376,891	342,704
Other	49,253	156,760	116,784
Total	\$ 586,647	\$ 954,503	\$ 1,286,394

Other liabilities comprised the following at December 31:

	2020	2019	2018
Accumulated postretirement benefit obligation	\$ 1,966,153	\$ 2,036,244	\$ 1,773,138
Accounts payable, other	1,795,188	1,429,725	1,126,114
FCS insurance premium	623,304	517,268	462,296
Accrued annual leave	361,745	323,291	302,904
Other	354,057	280,620	500,949
Total	\$ 5,100,447	\$ 4,587,148	\$ 4,165,401

NOTE 8 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the Association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2021, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2020, 2019 and 2018, was \$857,969,898 at 1.9 percent, \$773,309,208 at 3.0 percent and \$686,711,154 at 2.9 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2020, 2019 and 2018, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2020, was \$974,103,306, as defined by the general financing agreement.

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

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 of \$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. 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, 2020, 2019 and 2018, 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 2020, 2019 and 2018, respectively:

<u>Date Declared</u>	<u>Date Paid</u>	<u>Patronage</u>
December 2020	March 2021	\$10,803,145
December 31, 2019	March 2020	\$9,880,431
December 31, 2018	March 2019	\$9,380,495

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, 2020, 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, 2020:

Risk-adjusted:	Regulatory Minimums	Regulatory Minimums with Buffer*	As of December 31, 2020
Common equity tier 1 ratio	4.5%	7.0%	13.6%
Tier 1 capital ratio	6.0%	8.5%	13.6%
Total capital ratio	8.0%	10.5%	14.0%
Permanent capital ratio	7.0%	7.0%	12.6%
<hr/>			
Non-risk-adjusted:			
Tier 1 leverage ratio**	4.0%	5.0%	12.5%
UREE leverage ratio	1.5%	1.5%	13.7%

*The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.

**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 to 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 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

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

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	132,905	132,905	132,905	132,905
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	3,092	3,092	3,092	3,092
Allowance for loan losses and reserve for credit losses subject to certain limitations*	-	-	4,058	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(14,439)	(14,439)	(14,439)	(14,439)
	<u>121,558</u>	<u>121,558</u>	<u>125,616</u>	<u>121,558</u>
Denominator:				
Risk-adjusted assets excluding allowance	910,853	910,853	910,853	910,853
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(14,439)	(14,439)	(14,439)	(14,439)
Allowance for loan losses				(4,020)
	<u>896,414</u>	<u>896,414</u>	<u>896,414</u>	<u>892,394</u>

*Capped at 1.25 percent of risk-adjusted assets.

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

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	132,905	132,905
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	3,092	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(14,439)	-
	<u>121,558</u>	<u>132,905</u>
Denominator:		
Total Assets	990,473	990,473
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(19,943)	(19,943)
	<u>970,530</u>	<u>970,530</u>

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:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Class B stock	591,613	562,673	531,887
Participation certificates	33,593	27,909	27,804
Total	<u>625,206</u>	<u>590,582</u>	<u>559,691</u>

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, 2020	<u>Before Tax</u>	<u>Deferred Tax</u>	<u>Net of Tax</u>
Nonpension postretirement benefits	<u>\$ (94,287)</u>	<u>\$ -</u>	<u>\$ (94,287)</u>
December 31, 2019	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	<u>\$ (224,110)</u>	<u>\$ -</u>	<u>\$ (224,110)</u>
December 31, 2018	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	<u>\$ (21,325)</u>	<u>\$ -</u>	<u>\$ (21,325)</u>

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Accumulated other comprehensive loss at January 1	\$ (224,110)	\$ (21,325)	\$ (506,307)
Amortization of actuarial (gain) loss included in salaries and employee benefits	<u>129,823</u>	<u>(202,785)</u>	<u>484,982</u>
Accumulated other comprehensive loss at December 31	<u>\$ (94,287)</u>	<u>\$ (224,110)</u>	<u>\$ (21,325)</u>

NOTE 10 — INCOME TAXES:

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Federal tax at statutory rate	\$ 3,897,109	\$ 3,297,150	\$ 3,274,190
State tax, net	1,206,248	1,020,546	1,013,440
Effect of nontaxable FLCA subsidiary	(5,361,373)	(4,608,421)	(4,609,468)
Change in valuation allowance	258,016	290,725	321,838
Provision for (benefit from) income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 53,994	\$ 119,234	\$ 75,899
Loss carryforwards	2,241,067	1,891,822	1,654,714
Deferred origination fees	(298,062)	(272,073)	(282,355)
Gross deferred tax assets	<u>1,996,999</u>	<u>1,738,983</u>	<u>1,448,258</u>
Deferred tax asset valuation allowance	<u>(1,996,999)</u>	<u>(1,738,983)</u>	<u>(1,448,258)</u>
Net deferred tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2020, the Association had a net operating loss carryover of \$8,149,333 available to offset against future taxable income that will begin to expire in 2030. Due to the changes in tax law in 2018, \$3,147,904 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 \$1,996,999, \$1,738,983 and \$1,448,258 during 2020, 2019 and 2018, 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, 2020, 2019 and 2018, the Association did not recognize a tax liability for any uncertain tax positions.

NOTE 11 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: 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 H 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 \$15,339 and \$6,182 for the years ended December 31, 2020 and 2019, respectively. No contributions were made to the plan for the year ended December 31, 2018. There were no payments from the supplemental 401(k) plan to active employees during 2020, 2019 and 2018.

The DB plan is non-contributory 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, 2020.

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

- a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating 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, 2020, 2019 and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Funded status of plan	62.6 %	66.2 %	68.0 %
Association's contribution	\$ 314,202	\$ 349,429	\$ 381,833
Percentage of Association's contribution to total contributions	5.2 %	4.3 %	3.9 %

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

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care 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	2020	2019	2018
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	\$ 2,036,244	\$ 1,773,138	\$ 2,170,598
Service cost	38,502	28,912	40,636
Interest cost	69,368	82,744	85,656
Plan participants' contributions	3,737	3,105	2,587
Plan amendments	-	-	(84,822)
Special termination benefits	-	-	-
Actuarial loss (gain)	(129,276)	194,103	(389,382)
Benefits paid	(52,422)	(45,758)	(52,135)
Accumulated postretirement benefit obligation, end of year	\$ 1,966,153	\$ 2,036,244	\$ 1,773,138
Change in Plan Assets			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Employer contributions	48,685	42,653	49,548
Plan participants' contributions	3,737	3,105	2,587
Benefits paid	(52,422)	(45,758)	(52,135)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (1,966,153)	\$ (2,036,244)	\$ (1,773,138)
Amounts Recognized in Statement of Financial Position			
Current liabilities	\$ (45,182)	\$ (51,612)	\$ (63,057)
Noncurrent liabilities	(1,920,971)	(1,984,632)	(1,710,081)
	\$ (1,966,153)	\$ (2,036,244)	\$ (1,773,138)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	\$ 161,745	\$ 300,250	\$ 106,147
Prior service cost (credit)	(67,458)	(76,140)	(84,822)
Net transition obligation (asset)	-	-	-
Total	\$ 94,287	\$ 224,110	\$ 21,325
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	12/31/2020	12/31/2019	12/31/2018
Discount rate	2.80%	3.45%	4.75%
Interest crediting rate			
Health care cost trend rate assumed for next year (pre-/post-65) - medical	6.90%/6.40%	6.90%/6.40%	7.30%/6.90%
Health care cost trend rate assumed for next year - Rx	6.90%	6.90%	6.90%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2028/2029	2028/2029	2026/2027

Total Cost	2020	2019	2018
Service cost	\$ 38,502	\$ 28,912	\$ 40,636
Interest cost	69,368	82,744	85,656
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(8,682)	(8,682)	(18,611)
Unrecognized net loss (gain)	9,229	-	29,389
Net postretirement benefit cost	\$ 108,417	\$ 102,974	\$ 137,070
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)	\$ (129,276)	\$ 194,103	\$ (389,382)
Amortization of net actuarial loss (gain)	(9,229)	-	(29,389)
Prior service cost (credit)	-	-	(84,822)
Amortization of prior service cost	8,682	8,682	18,611
Recognition of prior service cost	-	-	-
Amortization of transition liability (asset)	-	-	-
Total recognized in other comprehensive income	\$ (129,823)	\$ 202,785	\$ (484,982)
AOCI Amounts Expected to be Amortized Into Expense in 2021			
Unrecognized net transition obligation (asset)	\$ -	\$ -	\$ -
Unrecognized prior service cost	(8,682)	(8,682)	(8,682)
Unrecognized net loss (gain)	-	9,229	-
Total	\$ (8,682)	\$ 547	\$ (8,682)
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	12/31/2020	12/31/2019	12/31/2018
Discount rate	3.45%	4.75%	4.00%
Interest crediting rate			
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%
Health care cost trend rate assumed for next year - Rx	6.90%	6.90%	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	2025/2026
Expected Future Cash Flows			
Expected Benefit Payments (net of employee contributions)			
Fiscal 2021	\$ 45,182		
Fiscal 2022	52,358		
Fiscal 2023	53,450		
Fiscal 2024	59,299		
Fiscal 2025	65,517		
Fiscal 2026–2030	375,398		
Expected Contributions			
Fiscal 2021	\$ 45,182		

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, 2020, 2019 and 2018 for the Association amounted to \$33,978,167, \$24,262,195 and \$20,239,488. During 2020, 2019 and 2018, \$23,008,420, \$10,818,214 and \$7,939,814 of new loans were made, and repayments totaled \$13,148,044, \$8,376,297 and \$8,360,532, respectively. In the opinion of management, no such loans outstanding at December 31, 2020, 2019 and 2018 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$677,848, \$568,986 and \$524,975 in 2020, 2019 and 2018, respectively.

The Association entered into a transaction for the hosting of the Athens' Branch customer appreciation dinner in 2020, 2019 and 2018 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 \$16,000, \$15,150 and \$13,300, 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 \$4,974,675, \$3,758,026 and \$3,159,352 during 2020, 2019 and 2018, respectively.

NOTE 13 — FAIR VALUE MEASUREMENTS:

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

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. 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:

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

Assets and liabilities measured at fair value on a recurring basis at December 31, 2020, 2019 and 2018 for each of the fair value hierarchy values are summarized below:

December 31, 2020	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	\$ 5,532	\$ -	\$ -	\$ 5,532
Total assets	\$ 5,532	\$ -	\$ -	\$ 5,532
 December 31, 2019	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	\$ 90,544	\$ -	\$ -	\$ 90,544
Total assets	\$ 90,544	\$ -	\$ -	\$ 90,544
 December 31, 2018	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	\$ 76,804	\$ -	\$ -	\$ 76,804
Total assets	\$ 76,804	\$ -	\$ -	\$ 76,804

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

December 31, 2020	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 221,057	\$ 221,057
Other property owned	-	-	573,368	573,368
December 31, 2019				
	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 1,204,381	\$ 1,204,381
Other property owned	-	-	947,147	947,147
December 31, 2018				
	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 1,640,473	\$ 1,640,473
Other property owned	-	-	1,060,801	1,060,801

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, 2020					
Fair Value Measurement Using					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 10,700	\$ 10,700	\$ -	\$ -	\$ 10,700
Net loans	970,920,245	-	-	986,037,349	986,037,349
Total Assets	<u>\$970,930,945</u>	<u>\$ 10,700</u>	<u>\$ -</u>	<u>\$986,037,349</u>	<u>\$986,048,049</u>
Liabilities:					
Note payable to Bank	\$857,969,898	\$ -	\$ -	\$871,300,689	\$871,300,689
Total Liabilities	<u>\$857,969,898</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$871,300,689</u>	<u>\$871,300,689</u>
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	<u>\$ 879,482,941</u>	<u>\$ 11,941</u>	<u>\$ -</u>	<u>\$ 886,814,514</u>	<u>\$ 886,826,455</u>
Liabilities:					
Note payable to Bank	\$ 773,309,208	\$ -	\$ -	\$ 779,737,608	\$ 779,737,608
Total Liabilities	<u>\$ 773,309,208</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 779,737,608</u>	<u>\$ 779,737,608</u>

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	<u>\$ 788,814,351</u>	<u>\$ 48,700</u>	<u>\$ -</u>	<u>\$ 774,464,019</u>	<u>\$ 774,512,719</u>
Liabilities:					
Note payable to Bank	\$ 686,711,154	\$ -	\$ -	\$ 674,319,173	\$ 674,319,173
Total Liabilities	<u>\$ 686,711,154</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 674,319,173</u>	<u>\$ 674,319,173</u>

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, 2020, \$97,262,063 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, 2020, \$323,053 of standby letters of credit were issued primarily in conjunction with participation loans. The fair value of these obligations at December 31, 2020 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, 2020.

NOTE 16 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2020				
	First	Second	Third	Fourth	Total
Net interest income	\$ 6,027	\$ 6,075	\$ 6,667	\$ 6,440	\$ 25,209
(Provision for) reversal of loan losses	(47)	(8)	(59)	(1)	(115)
Noninterest income (expense), net	(1,610)	(1,757)	(1,893)	(1,276)	(6,536)
Net income	<u>\$ 4,370</u>	<u>\$ 4,310</u>	<u>\$ 4,715</u>	<u>\$ 5,163</u>	<u>\$ 18,558</u>
	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 income (expense), net	(1,709)	(1,858)	(2,028)	(1,134)	(6,729)
Net income	<u>\$ 3,870</u>	<u>\$ 3,583</u>	<u>\$ 3,452</u>	<u>\$ 4,796</u>	<u>\$ 15,701</u>
	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 income (expense), net	(1,309)	(1,525)	(1,731)	(1,411)	(5,976)
Net income	<u>\$ 4,192</u>	<u>\$ 3,916</u>	<u>\$ 3,634</u>	<u>\$ 3,849</u>	<u>\$ 15,591</u>

NOTE 17 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 12, 2021, which is the date the financial statements were issued or available to be issued 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

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. The Association has purchased a property for its new Administration office in Cullman, Alabama. The property is currently being renovated and is expected to be placed in service in the second quarter of 2021.

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 (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 fcf@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 heather.smith@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, 2020, required to be disclosed, is incorporated herein by reference to the “Five-Year Summary of Selected Consolidated Financial Data” included in this annual report to stockholders.

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

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

DIRECTORS AND SENIOR OFFICERS

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

<u>NAME</u>	<u>POSITION</u>	<u>DATE ELECTED/ EMPLOYED</u>	<u>TERM EXPIRES</u>	<u>YEARS IN CURRENT POSITION</u>
Matthew J. Christjohn, DVM	Chairman (Member-Elected)	2005	2023	
J. Stewart McGill	Vice Chairman (Member-Elected)	2016	2022	
Larry Don McGee	Member-Elected	1997	2021	
Danny Baugh	Member-Elected	2015	2021	
Rickey Cornutt	Member-Elected	2017	2023	
David Daily	Member-Elected	2019	2022	
John R. Adams, CPA	Director-Elected Member	2006	2021	
Hugh C. Harris	Director-Elected Member	2014	2023	
Melvin “Mel” K. Koller	President/Chief Executive Officer	2018		2.6 years
Jody L. Campbell	Executive Vice President/Chief Risk Officer	2019		1.8 years
Heather M. Smith	Controller/Interim Chief Financial Officer	2014		6.8 years
C. Greg Copeland	Senior Vice President	1989		6.3 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 50. 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 and Florida. 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, the Florida Cattlemen’s Association, and he serves on the board of directors of Randolph County Cattleman’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 39. 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 audit committee.

Larry Don McGee, age 70. 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 64. 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 58. 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 50. 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 61. 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 69. 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 39. President/Chief Executive Officer. Mr. Koller was employed by the Association as CEO in September 2018. Mr. Koller brings over 17 years' experience within Agriculture Finance, with 13 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 39. 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.

Heather M. Smith, age 45. Controller/Interim Chief Financial Officer. Ms. Smith was employed by the Association in July 2014 as the Controller and is currently serving in the Interim Chief Financial Officer position. Prior to joining the Association, she spent 17 years in public accounting and the private sector with an emphasis in audit and internal controls.

C. Greg Copeland, age 60. 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 of 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 director meetings and committee meetings. Directors receive an additional \$300 for special committee meetings held on the same day as the regular meetings. Additionally, the directors receive \$150 for each conference call meeting. Certain expenses incurred while representing the Association in an official capacity were reimbursed. Mileage for attending official meetings during 2020 was paid at the IRS-approved rate of 57.5 cents per mile. A copy of the travel policy is available to stockholders of the Association upon request.

Director	Number of Days Served Associated With		Total Compensation in 2020
	Board Meetings	Other Official Activities	
Matthew J. Christjohn, DVM	12	15	\$ 28,250
Larry Don McGee	11	4	22,500
J. Stewart McGill	12	6	23,000
Danny Baugh	12	8	26,400
Rickey Cornutt	12	4	22,400
John R. Adams, CPA	12	13	24,950
Hugh C. Harris	12	10	26,000
David Daily	12	4	22,400
			\$ 195,900

The aggregate compensation paid to directors in 2020, 2019 and 2018 was \$195,900, \$244,900 and \$225,600, respectively. Additionally, no director received noncash compensation exceeding \$5,000 in 2020, 2019 and 2018.

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 compensation of 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 2020:

Director	Committee	
	Audit	Compensation
Matthew J. Christjohn, DVM	\$ 2,250	\$ -
Larry Don McGee	2,850	-
J. Stewart McGill	-	1,500
Danny Baugh	-	1,500
Rickey Cornutt	-	1,500
John R. Adams, CPA	3,150	-
Hugh C. Harris	-	1,800
David Daily	-	1,500
	\$ 8,250	\$ 7,800

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$84,848, \$118,352 and \$122,262 in 2020, 2019 and 2018, 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 will be initiated provided the Association's minimum performance measures are met. The Association's critical success factors trigger the plan's implementation for all employees. 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 32 percent of their annual salary based upon their performance evaluation, including individual performance objectives. The following criteria are 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) there must be material income from operations beyond what is needed to fund the incentive plan; and (4) 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 2020 at the IRS-approved rate of 57.5 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 2020, 2019 or 2018. Senior officers, including the CEO, are

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

Summary Compensation Table

The following table summarizes the compensation paid to the CEO and all senior officers of the Association during 2020, 2019 and 2018. This may include other non-senior officers if their total compensation is within the top five highest paid employees. Amounts reflected in the table are presented in the year the compensation was earned.

<u>Name of Individual or number in group (a)</u>	<u>Year</u>	<u>Salary (b)</u>	<u>Bonus (c)</u>	<u>Change in Pension Value (d)</u>	<u>Deferred/ Perquisite (e)</u>	<u>Other (f)</u>	<u>Total</u>
Mel Koller, CEO	2020	\$ 355,014	\$ 113,600	\$ -	\$ 40,989	\$ 1,113	\$ 510,716
	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

*Retired September 30, 2018

Aggregate Number of
Senior Officers (&
other highly
compensated
employees, if
applicable)

(5)	2020	\$ 746,644	\$ 214,393	\$ 407,076	\$ 75,403	\$ 15,445	\$ 1,458,961
(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

- (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 the CEO for the year ended December 31, 2020:

<u>Name</u>	<u>Plan Name</u>	<u>Number of Years Credited Service</u>	<u>Present Value of Accumulated Benefit</u>	<u>Payments 2020</u>
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable)				
(1)		38.6	\$ 2,542,802	\$ -

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 2020 at the IRS-approved rate of 57.5 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation exceeding \$5,000 in 2020, 2019 and 2018.

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

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference 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, 2020.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers, LLC dated March 12, 2021, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by 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 Association's YBS loans, as a percentage of total loans outstanding as of December 31, are reflected in the table below for the past three years:

	2018		2019		2020	
	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	26.8%	29.1%	27.5%	28.7%	27.0%	26.1%
Beginning	50.4%	50.3%	51.7%	51.7%	52.6%	51.2%
Small	73.6%	55.4%	73.2%	52.2%	74.4%	50.2%

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:

	2018		2019		2020	
	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	28.8%	31.9%	29.4%	25.8%	27.3%	23.8%
Beginning	51.2%	53.8%	52.7%	52.9%	52.6%	53.4%
Small	68.6%	49.4%	71.4%	46.2%	71.2%	48.3%

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.

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