ALABAMA FARM CREDIT, ACA

2019
Quarterly Report
Second Quarter

For the Quarter Ended June 30, 2019

REPORT OF MANAGEMENT

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

Mel Koller, Chief Executive Officer/President
August 6, 2019

Matthew Christjohn, DVM, Chairman, Board of Directors
August 6, 2019

Karri H. Sumrall, Chief Financial Officer/Ex. Vice President
August 6, 2019

John R. Adams, CPA, Chairman, Audit Committee
August 6, 2019

ALABAMA FARM CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Alabama Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended June 30, 2019. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2018 Annual Report to Stockholders.

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

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

Significant Events:

In January 2019, the Association approved a patronage distribution to its stockholders. The Association was able to distribute $9,380,495 to its members due to strong earnings during 2018. The distribution was made in March 2019.

Loan Portfolio:

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

Total loans outstanding at June 30, 2019, including nonaccrual loans, were $827,485,941 compared to $794,416,124 at December 31, 2018, reflecting an increase of 4.2 percent. A summary of credit quality at June 30, 2019, compared to December 31, 2018 is as follows:

	June 30, 2019	December 31, 2018
Total loans		
Acceptable	**98.3** %	98.4 %
OAEM	**0.6**	0.6
Substandard/doubtful	**1.1**	1.0
	100.0 %	100.0 %

The Association's largest commodity concentration in its loan portfolio continues to be poultry, which is approximately 46.2 percent or $381,371,634. The Association has 31.4 percent of its poultry portfolio guaranteed, which helps to reduce loss exposure in this commodity. The industry is presently stable with market prices for poultry showing some positive signs of increased demand for poultry products. Production thus far in 2019 has been increasing as markets both in the States and overseas continue to show signs of increased demand for poultry meat supplies. Some integrators are offering new grower contracts in order to meet their market demands, with egg and chick placements in Alabama increasing slightly each week. Projections for the remainder of 2019 indicate that markets will continue to improve. The Association continues to experience some isolated concerns in this segment of its portfolio as evidenced by some due date changes to better match the individual growers' batch sales. Management feels that this loan servicing is due primarily to changes in poultry markets where integrators are adjusting their bird size/placements as the market dictates. Management anticipates these concerns will correct themselves with the increased demand for poultry.

Avian Influenza, or bird flu, continues to be of concern to the Association, however there were no known Avian Influenza cases within the Association's territory thus far in 2019. 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.

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

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

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

Overall land values have seen a slight improvement or remained stable in most all areas of the Association's territory based on the current economic climate. The agricultural economy, in general for the area, is expected to remain stable in 2019. The Association's credit quality remained steady at 98.9 percent non adverse loan volume at June 30, 2019 and December 31, 2018.

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 2019 goal will be to increase its presence in the agricultural and rural credit market and uphold its position as the premier agricultural lender for the area. The Association intends to maintain the same emphasis on providing sound, constructive, short-, intermediate- and long-term credit to the agricultural and rural sector within its territory.

Risk Exposure:

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

	June 30, 2019		December 31, 2018	
	Amount	**%**	Amount	%
Nonaccrual	**$ 4,936,086**	**72.8%**	$ 4,983,487	71.4%
90 days past due and still accruing interest	**301,198**	**4.4%**	-	0.0%
Formally restructured	**828,753**	**12.2%**	967,847	13.9%
Other property owned, net	**719,769**	**10.6%**	1,024,659	14.7%
Total	**$ 6,785,806**	**100.0%**	$ 6,975,993	100.0%

High-risk assets decreased by $190,187, or 2.7 percent, primarily due to the decrease in other property owned, net and loans formally restructured, offset by an increase in loans 90 days past due and still accruing interest. Nonaccrual loans as a percentage of total loans outstanding were 0.6 percent at June 30, 2019, compared to 0.6 percent at December 31, 2018. Since December 31, 2018, the Association moved 16 loans, to eight borrowers, totaling $2,711,740 to nonaccrual status due to delinquency and cash flow issues. Additionally, the Association acquired two properties and two pieces of equipment totaling $644,018 and have written down the value of two properties totaling $31,992 based on current sales contracts executed. The Association had disposed of five properties and two pieces of equipment during the six months ended June 30, 2019. At June 30, 2019, the Association held two properties totaling $719,769, which consisted primarily of approximately 145.3 acres of land. Management continues to be alert to portfolio trends and has attempted to identify and report problem loans as quickly as possible. Management strives to implement proactive steps and allocate resources to work with distressed borrowers to either work through temporary repayment problems or to orderly liquidate collateral to repay the loan when the borrower's operation is no longer viable.

Impaired loans consist of all high-risk assets except other property owned. At June 30, 2019 and December 31, 2018, loans that were considered impaired were $6,065,677 and $5,951,334, respectively, representing 0.7 percent and 0.7 percent of total loan volume, respectively. The Association recorded $1,825 in recoveries and $251,724 in charge-offs for the six months ended June 30, 2019, and $1,933 in recoveries and $4,147 in charge-offs for the same period in 2018. The Association's allowance for loan losses was 0.5 percent of total loans outstanding as of both June 30, 2019, and December 31, 2018.

Counterparty risk is continually monitored by management of the Association. The Association's primary counterparty risk comes from participation loans and from the poultry integrators to which its borrowers are associated. The Association has participation loans with other Farm Credit Associations and Farm Credit Banks, all of which are currently performing. Additionally, because the Association's portfolio has approximately a 46.9 percent concentration in poultry, it mitigates its inherent risks with poultry and the integrators by heavy utilization of government guarantees. Also, the Association's lending territory has multiple integrators which would minimize the risk of counterparty failure or lack of performance. Management analyzes the financial position and performance of these integrators by regularly gathering updated financials and other reports that are made available to the public.

As disclosed in the Association's 2018 Annual Report, it is management's assertion that the allowance coverage is adequate based on historical losses, portfolio stress testing, risk analysis, mitigation of losses due to having first lien real estate with minimal price appreciation and having approximately $145.1 million, or 17.5 percent, of its portfolio government guaranteed at June 30, 2019. Management continuously monitors high-risk assets in an effort to reduce their impact on the Association and will continue to work with all of the Association's high-risk borrowers to receive full payment on the debt. Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural lender.

Results of Operations:

The Association had net income of $3,583,224 and $7,453,613 for the three and six months ended June 30, 2019, as compared to net income of $3,915,602 and $8,108,068 for the same periods in 2018, reflecting a decrease of 8.5 and 8.1 percent, respectively. Net interest income was $5,672,182 and $11,340,754 for the three and six months ended June 30, 2019, compared to $5,410,407 and $10,878,747 for the same period in 2018.

	Six months ended			
	June 30, 2019		June 30, 2018	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 807,767,854**	**$ 22,090,844**	$ 743,916,186	$ 19,246,633
Interest-bearing liabilities	**704,310,797**	**10,750,090**	645,596,357	8,367,886
Impact of capital	**$ 103,457,057**		$ 98,319,829	
Net interest income		**$ 11,340,754**		$ 10,878,747

	2019 Average Yield	2018 Average Yield
Yield on loans	**5.5%**	5.2%
Cost of interest-bearing liabilities	**3.1%**	2.6%
Interest rate spread	**2.4%**	2.6%
Net interest income as a percentage of average earning assets	**2.8%**	2.9%

	Six months ended: June 30, 2019 vs. June 30, 2018		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 1,651,976**	**$ 1,192,235**	**$ 2,844,211**
Interest expense	**761,032**	**1,621,172**	**2,382,204**
Net interest income	**$ 890,944**	**$ (428,937)**	**$ 462,007**

Net interest income for the three months and six months ended June 30, 2019, increased by $261,775 and $462,007, or 4.8 and 4.2 percent, respectively, from the same periods of 2018, primarily due to an increase in average loan volume and interest rates, offset by an increase in average outstanding debt and an increase in cost of funds on the Association's note with the Farm Credit Bank of Texas. Average loan volume for the first six months of of 2019 was $807,767,854, compared to $743,916,186 in the second quarter of 2018. The average net interest rate spread on the loan portfolio for the first six months of 2019 was 2.4 percent, compared to 2.6 percent in the same period of 2018.

Noninterest income for the three months and six months ended June 30, 2019 decreased by $1,512 and $25,454, or 0.2 and 1.4 percent, respectively, as compared to the same periods in 2018. This increase was due primarily to the Association's increase in patronage income offset by the recording of a gain on other property owned, net, during the same period in the prior year due to reversal of deferred gain due to a change in accounting principle. The Association recorded a loss on other property owned, net, during the current period of 2018.

Noninterest expenses for the three and six months ended June 30, 2019 increased by $330,508 and $706,089, or 14.0 and 15.2 percent, respectively, as compared to the same periods in 2018. The increases were due primarily to increases in salaries and employee benefits, purchased services, public and member relations, and the above-mentioned loss on other property owned, net. The increase in salaries and employee benefits is due primarily to the addition of several new employees during the latter half of 2018 to accommodate the growth of the Association. The increase in purchased services was due to increased accounting and auditing expenses and contract services that were not incurred in the prior year. The increase in public and member relations is primarily due to timing of expenses incurred and increased costs incurred due to the growth of the Association as compared to the same period in the prior year.

The Association's annualized return on average assets for the six months ended June 30, 2019, was 1.8 percent compared to 2.1 percent for the same period in 2018. The Association's return on average equity for the six months ended June 30, 2019, was 12.5 percent, compared to 14.3 percent for the same period in 2018.

Liquidity and Funding Sources:

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

	June 30, 2019	December 31, 2018
Note payable to the bank	**$ 725,299,283**	$ 686,711,154
Accrued interest on note payable	**1,845,524**	1,735,047
Total	**$ 727,144,807**	$ 688,446,201

The Association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the Association is a direct loan from the bank. The outstanding balance of $725,299,283 as of June 30, 2019, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.1 percent at June 30, 2019. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2018, is due the Association's loan portfolio as a result of increased loan demand in its 27-county territory and increase in capital market loans. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the association's equity, were $103,898,881 at June 30, 2019. The maximum amount the Association may borrow from the bank as of June 30, 2019, was $830,000,000 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

Capital Resources:

The Association's capital position increased by $7,509,284 at June 30, 2019, compared to December 31, 2018. The Association's debt as a percentage of members' equity was 5.9:1 as of June 30, 2019, compared to 6.0:1 as of December 31, 2018.

Risk-adjusted:	**Regulatory Minimums**	**Conservation Buffer**	**Total**	**As of June 30, 2019**
Common equity tier 1 ratio	4.5%	2.5%	7.0%	14.7%
Tier 1 capital ratio	6.0%	2.5%	8.5%	14.7%
Total capital ratio	8.0%	2.5%	10.5%	15.3%
Permanent capital ratio	7.0%	0.0%	7.0%	14.8%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.0%	1.0%	5.0%	13.2%
UREE leverage ratio	1.5%	0.0%	1.5%	14.4%

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

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of June 30, 2019, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

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

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

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

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

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

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

Relationship With the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2018 Annual Report of Association New Model more fully describe the Association's relationship with the bank.

The annual and quarterly stockholder reports of the bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the bank are also available on its website at *www.farmcreditbank.com.*

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	June 30, 2019 (unaudited)	December 31, 2018
ASSETS		
Cash	**$ 31,728**	$ 48,700
Loans	**827,485,941**	794,416,124
Less: allowance for loan losses	**4,081,000**	4,010,000
Net loans	**823,404,941**	790,406,124
Accrued interest receivable	**10,208,672**	8,701,345
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**13,155,480**	13,155,480
Other	**1,430,657**	1,159,553
Other property owned, net	**719,769**	1,024,659
Premises and equipment, net	**5,066,114**	4,460,346
Other assets	**1,932,765**	1,286,394
Total assets	**$ 855,950,126**	$ 820,242,601
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 725,299,283**	$ 686,711,154
Accrued interest payable	**1,845,524**	1,735,047
Drafts outstanding	**835,603**	1,303,900
Patronage distributions payable	**1,127**	9,383,761
Other liabilities	**3,515,967**	4,165,401
Total liabilities	**731,497,504**	703,299,263
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,858,470**	2,798,455
Unallocated retained earnings	**121,619,821**	114,166,208
Accumulated other comprehensive loss	**(25,669)**	(21,325)
Total members' equity	**124,452,622**	116,943,338
Total liabilities and members' equity	**$ 855,950,126**	$ 820,242,601

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
INTEREST INCOME				
Loans	**$ 11,207,395**	$ 9,804,842	**$ 22,090,844**	$ 19,246,633
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**5,535,213**	4,394,435	**10,750,090**	8,367,886
Net interest income	**5,672,182**	5,410,407	**11,340,754**	10,878,747
PROVISION FOR (REVERSAL OF) LOAN LOSSES	**231,118**	(31,015)	320,999	(63,921)
Net interest income after provision for loan losses	**5,441,064**	5,441,422	**11,019,755**	10,942,668
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**706,851**	575,108	**1,369,204**	1,118,110
Loan fees	**87,166**	80,533	**177,860**	151,498
Refunds from Farm Credit System Insurance Corporation				
Financially related services income	**1,641**	2,905	**4,353**	6,639
Gain on other property owned, net	**-**	152,515	**12,050**	149,541
Gain on sale of premises and equipment, net	**32,455**	18,564	**40,704**	51,007
Other noninterest income	**-**	-	**186,220**	339,050
Total noninterest income	**828,113**	829,625	**1,790,391**	1,815,845
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,630,050**	1,339,377	**3,375,957**	2,729,378
Directors' expense	**84,097**	84,405	**203,791**	178,106
Purchased services	**124,632**	119,288	**278,033**	215,008
Travel	**141,454**	127,134	**243,800**	215,962
Occupancy and equipment	**137,114**	129,864	**241,986**	241,537
Communications	**51,640**	73,753	**103,631**	121,424
Advertising	**66,948**	91,707	**125,175**	150,829
Public and member relations	**84,764**	51,669	**167,597**	118,775
Supervisory and exam expense	**64,467**	49,854	**128,935**	110,375
Insurance Fund premiums	**125,426**	113,034	**246,399**	222,749
Other components of net periodic postretirement benefit cost	**18,515**	24,109	**37,030**	48,217
Loss on other property owned, net	**37,602**	-	**-**	-
Other noninterest expense	**119,244**	151,251	**204,199**	298,085
Total noninterest expenses	**2,685,953**	2,355,445	**5,356,533**	4,650,445
NET INCOME	**3,583,224**	3,915,602	**7,453,613**	8,108,068
Other comprehensive income (loss):				
Change in postretirement benefit plans	**(2,172)**	2,694	**(4,344)**	5,388
COMPREHENSIVE INCOME	**$ 3,581,052**	$ 3,918,296	**$ 7,449,269**	$ 8,113,456

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	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	-	8,108,068	5,388	8,113,456
Capital stock/participation certificates	236,670	-	-	236,670
Capital stock/participation certificates	(171,290)	-	-	(171,290)
Balance at June 30, 2018	$ 2,752,635	$ 116,064,786	$ (500,919)	$ 118,316,502
Balance at December 31, 2018	$ 2,798,455	$ 114,166,208	$ (21,325)	$ 116,943,338
Comprehensive income	-	7,453,613	(4,344)	7,449,269
Capital stock/participation certificates	218,670	-	-	218,670
Capital stock/participation certificates	(158,655)	-	-	(158,655)
Balance at June 30, 2019	**$ 2,858,470**	**$ 121,619,821**	**$ (25,669)**	**$ 124,452,622**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Alabama Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Blount, Calhoun, Cherokee, Clay, Cleburne, Colbert, Cullman, DeKalb, Etowah, Fayette, Franklin, Jackson, Jefferson, Lamar, Lauderdale, Lawrence, Limestone, Madison, Marion, Marshall, Morgan, Randolph, Shelby, St. Clair, Talladega, Walker and Winston in the state of Alabama. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2018, as contained in the 2018 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, Associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2018, as contained in the 2018 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2018. Descriptions of the significant accounting policies are included in the 2018 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

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

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

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

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

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

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

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

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**June 30, 2019**	December 31, 2018
Production agriculture:		
Real estate mortgage	**$ 669,258,031**	$650,500,490
Production and intermediate term	**102,884,106**	89,442,720
Agribusiness:		
Processing and marketing	**34,256,953**	32,667,110
Farm-related business	**1,673,700**	2,161,726
Rural residential real estate	**17,285,800**	17,551,701
Communication	**2,051,708**	2,061,951
Energy	**75,643**	30,426
Total	**$ 827,485,941**	$794,416,124

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 34,083,974	$ -	$ -	$ -	$ 34,083,974	$ -
Production and intermediate term	15,216,522	-	-	-	15,216,522	-
Communication	2,051,708	-	-	-	2,051,708	-
Real estate mortgage	728,830	-	-	-	728,830	-
Energy	75,643	-	-	-	75,643	-
Total	$ 52,156,677	$ -	$ -	$ -	$ 52,156,677	$ -

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

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $43,784,549 and $31,723,232 at June 30, 2019, and December 31, 2018, respectively.

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

	June 30, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	**$ 4,251,809**	$ 4,751,770
Production and intermediate term	**684,277**	231,717
Total nonaccrual loans	**4,936,086**	4,983,487
Accruing restructured loans:		
Real estate mortgage	**828,753**	967,847
Total accruing restructured loans	**828,753**	967,847
Accruing loans 90 days or more past due:		
Real estate mortgage	**96,688**	-
Production and intermediate term	**35,866**	-
Rural residential real estate	**168,644**	-
Total accruing loans 90 days or more past due	**301,198**	-
Total nonperforming loans	**6,066,037**	5,951,334
Other property owned	**719,769**	1,024,659
Total nonperforming assets	**$ 6,785,806**	$ 6,975,993

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

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

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

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2019	December 31, 2018
Real estate mortgage		
Acceptable	**98.4** %	98.4 %
OAEM	**0.6**	0.6
Substandard/doubtful	**1.0**	1.0
	100.0	100.0
Production and intermediate term		
Acceptable	**97.8**	98.0
OAEM	**0.3**	0.4
Substandard/doubtful	**1.9**	1.5
	100.0	99.9
Agribusiness		
Acceptable	**97.2**	100.0
OAEM	**2.8**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Energy and water/waste water		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**98.8**	98.8
OAEM	**-**	-
Substandard/doubtful	**1.2**	1.2
	100.0	100.0
Total loans		
Acceptable	**98.3**	98.4
OAEM	**0.6**	0.6
Substandard/doubtful	**1.1**	1.0
	100.0 %	100.0 %

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

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

June 30, 2019	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 7,976,533**	**$ 815,632**	**$ 8,792,165**	**$ 668,968,515**	**$677,760,680**	**$ 96,688**
Production and intermediate teri	**492,479**	**382,167**	**874,646**	**103,604,693**	**104,479,339**	**35,866**
Processing and marketing	**-**	**-**	**-**	**34,294,686**	**34,294,686**	**-**
Rural residential real estate	**-**	**168,644**	**168,644**	**17,180,899**	**17,349,543**	**168,644**
Communication	**-**	**-**	**-**	**2,052,449**	**2,052,449**	**-**
Farm-related business	**-**	**-**	**-**	**1,682,257**	**1,682,257**	**-**
Energy	**-**	**-**	**-**	**75,659**	**75,659**	**-**
Total	**$ 8,469,012**	**$1,366,443**	**$ 9,835,455**	**$ 827,859,158**	**$837,694,613**	**$ 301,198**

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

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 June 30, 2019, the total recorded investment of troubled debt restructured loans was $1,067,815, including $239,061 classified as nonaccrual and $821,034 classified as accrual, with no specific allowance for loan losses recorded. Troubled debt restructurings are analyzed for allowance for loan losses using the specific analysis method. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring at June 30, 2019 or December 31, 2018.

The following table presents additional information regarding troubled debt restructurings that occurred during the three and six months ended June 30, 2019. The pre-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. Loans formally restructured prior to January 1, 2019, totaled $947,791.

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

For the Three Months Ended June 30, 2019	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 120,024	$ 120,024
Total	$ 120,024	$ 120,024

For the Six Months Ended June 30, 2019	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 120,024	$ 120,024
Total	$ 120,024	$ 120,024

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

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

A payment default is defined as a payment that is 30 days past due after the date the loan was restructured. There were no loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months and for which there was a subsequent payment default during the period.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Real estate mortgage	$ 1,067,815	$ 967,847	$ 239,062	$ -
Total	$ 1,067,815	$ 967,847	$ 239,062	$ -

*represents the portion of loans modified as TDRs that are in nonaccrual status

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

Additional impaired loan information is as follows:

	June 30, 2019			December 31, 2018		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 398,642**	**$ 398,668**	**$ 12,120**	$ 1,654,533	$1,655,783	$ 147,132
Production and intermediate term	**87,478**	**87,478**	**8,666**	225,678	225,678	92,606
Total	**$ 486,120**	**$ 486,146**	**$ 20,786**	$ 1,880,211	$1,881,461	$ 239,738
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$4,768,662**	**$ 4,769,030**	**$ -**	$ 4,057,640	$4,059,559	$ -
Production and intermediate term	**632,008**	**632,438**	**-**	6,039	6,039	-
Rural residential real estate	**165,705**	**165,773**	**-**	-	-	-
Total	**$5,566,375**	**$ 5,567,241**	**$ -**	$ 4,063,679	$4,065,598	$ -
Total impaired loans:						
Real estate mortgage	**$5,167,304**	**$ 5,167,698**	**$ 12,120**	$ 5,712,173	$5,715,342	$ 147,132
Production and intermediate term	**719,486**	**719,916**	**8,666**	231,717	231,717	92,606
Rural residential real estate	**165,705**	**165,773**	**-**	-	-	-
Total	**$6,052,495**	**$ 6,053,387**	**$ 20,786**	$ 5,943,890	$5,947,059	$ 239,738

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

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2019		June 30, 2018		**June 30, 2019**		June 30, 2018	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$ 400,785**	**$ -**	$ 508,815	$ -	**$ 920,341**	**$ -**	$ 212,743	$ -
Production and intermediate term	**46,195**	**-**	27,873	-	**154,978**	**-**	11,149	-
Total	**$ 446,980**	**$ -**	$ 536,688	$ -	**$1,075,319**	**$ -**	$ 223,892	$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$4,284,407**	**$ 25,944**	$4,087,968	$ 19,424	**$4,293,014**	**$ 49,974**	$2,823,673	$ 49,610
Production and intermediate term	**198,177**	**3,156**	280,468	2,005	**89,468**	**5,055**	57,080	3,509
Rural residential real estate	**166,149**	**-**	-	-	**41,537**	**-**	-	-
Total	**$4,648,733**	**$ 29,100**	$4,368,436	$ 21,429	**$4,424,019**	**$ 55,029**	$2,880,753	$ 53,119
Total impaired loans:								
Real estate mortgage	**$4,685,192**	**$ 25,944**	$4,596,783	$ 19,424	**$5,213,355**	**$ 49,974**	$3,036,416	$ 49,610
Production and intermediate term	**244,372**	**3,156**	308,341	2,005	**244,446**	**5,055**	68,229	3,509
Rural residential real estate	**166,149**	**-**	-	-	**41,537**	**-**	-	-
Total	**$5,095,713**	**$ 29,100**	$4,905,124	$ 21,429	**$5,499,338**	**$ 55,029**	$3,104,645	$ 53,119

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

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at March 31, 2019	$ 3,653,082	$ 261,618	$ 51,918	$ 1,690	$ 1	$ 15,691	$ 3,984,000
Charge-offs	(135,038)	-	-	-	-	-	(135,038)
Recoveries	920	-	-	-	-	-	920
Provision for loan losses	297,825	(72,324)	6,323	(867)	(1)	162	231,118
Balance at June 30, 2019	$ 3,816,789	$ 189,294	$ 58,241	$ 823	$ -	$ 15,853	$ 4,081,000
Balance at December 31, 2018	$ 3,708,667	$ 243,636	$ 40,895	$ 1,819	$ -	$ 14,983	$ 4,010,000
Charge-offs	(251,824)	-	-	-	-	-	(251,824)
Recoveries	1,825	-	-	-	-	-	1,825
Provision for loan losses	358,121	(54,342)	17,346	(996)	-	870	320,999
Balance at June 30, 2019	$ 3,816,789	$ 189,294	$ 58,241	$ 823	$ -	$ 15,853	$ 4,081,000
Ending Balance:							
Individually evaluated for impairment	$ 12,120	$ 8,666	$ -	$ -	$ -	$ -	$ 20,786
Collectively evaluated for impairment	3,804,669	180,627	58,241	823	-	15,854	4,060,214
Balance at June 30, 2019	$ 3,816,789	$ 189,293	$ 58,241	$ 823	$ -	$ 15,854	$ 4,081,000
Balance at March 31, 2018	$ 3,554,461	$ 123,900	$ 50,881	$ 1,833	$ -	$ 10,925	$ 3,742,000
Recoveries	1,015	-	-	-	-	-	1,015
Provision for loan losses	(42,086)	23,695	(12,952)	(5)	(80)	413	(31,015)
Other	1,339	(5,754)	10,269	-	113	33	6,000
Balance at June 30, 2018	$ 3,514,729	$ 141,841	$ 48,198	$ 1,828	$ 33	$ 11,371	$ 3,718,000
Balance at December 31, 2017	$ 3,581,175	$ 145,525	$ 37,427	$ 2,226	$ -	$ 11,647	$ 3,778,000
Charge-offs	(4,012)	-	-	-	-	-	(4,012)
Recoveries	1,933	-	-	-	-	-	1,933
Provision for loan losses	(65,706)	2,070	502	(398)	(80)	(309)	(63,921)
Other	1,339	(5,754)	10,269	-	113	33	6,000
Balance at June 30, 2018	$ 3,514,729	$ 141,841	$ 48,198	$ 1,828	$ 33	$ 11,371	$ 3,718,000
Ending Balance:							
Individually evaluated for impairment	$ 53,660	$ 40,134	$ -	$ -	$ -	$ -	$ 93,794
Collectively evaluated for impairment	3,461,069	101,707	48,198	1,828	33	11,371	3,624,206
Balance at June 30, 2018	$ 3,514,729	$ 141,841	$ 48,198	$ 1,828	$ 33	$ 11,371	$ 3,718,000

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at June 30, 2019	$ 677,760,680	$104,479,340	$35,976,943	$ 2,052,449	$ 75,659	$17,349,542	$837,694,613
Individually evaluated for impairment	$ 5,167,304	$ 719,486	$ -	$ -	$ -	$ 165,705	$ 6,052,495
Collectively evaluated for impairment	$ 672,593,376	$103,759,854	$35,976,943	$ 2,052,449	$ 75,659	$17,183,837	$831,642,118
Ending Balance at June 30, 2018	$ 639,369,976	$ 81,660,659	$32,846,806	$ 2,072,661	$ 185,804	$13,989,372	$770,125,278
Individually evaluated for impairment	$ 4,990,673	$ 367,748	$ -	$ -	$ -	$ -	$ 5,358,421
Collectively evaluated for impairment	$ 634,379,303	$ 81,292,911	$32,846,806	$ 2,072,661	$ 185,804	$13,989,372	$764,766,857

NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Minimums	Conservation Buffer	Total	As of June 30, 2019
Common equity tier 1 ratio	4.5%	2.5%	7.0%	14.7%
Tier 1 capital ratio	6.0%	2.5%	8.5%	14.7%
Total capital ratio	8.0%	2.5%	10.5%	15.3%
Permanent capital ratio	7.0%	0.0%	7.0%	14.8%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.0%	1.0%	5.0%	13.2%
UREE leverage ratio	1.5%	0.0%	1.5%	14.4%

NOTE 3 — CAPITAL (continued):

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

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

June 30, 2019 (dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**119,434**	**119,434**	**119,434**	**119,434**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,845**	**2,845**	**2,845**	**2,845**
Allowance for loan losses and reserve for credit losses subject to certain limitations	**-**	**-**	**3,999**	**-**
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(13,155)**	**(13,155)**	**(13,155)**	**(13,155)**
	109,124	109,124	113,123	109,124
Denominator:				
Risk-adjusted assets excluding allowance	**754,160**	**754,160**	**754,160**	**754,160**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(13,155)**	**(13,155)**	**(13,155)**	**(13,155)**
Allowance for loan losses				**(3,944)**
	741,005	741,005	741,005	737,061

December 31, 2018 (dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**119,946**	**119,946**	**119,946**	**119,946**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,791**	**2,791**	**2,791**	**2,791**
Allowance for loan losses and reserve for credit losses subject to certain limitations	**-**	**-**	**3,864**	**-**
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(11,984)**	**(11,984)**	**(11,984)**	**(11,984)**
	110,753	110,753	114,617	110,753
Denominator:				
Risk-adjusted assets excluding allowance	**719,778**	**719,778**	**719,778**	**719,778**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(11,984)**	**(11,984)**	**(11,984)**	**(11,984)**
Allowance for loan losses				**(3,816)**
	707,794	707,794	707,794	703,978

NOTE 3 — CAPITAL (continued):

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

June 30, 2019 (dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**119,434**	**119,434**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**2,845**	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(13,155)**	**-**
	109,124	**119,434**
Denominator:		
Total Assets	**845,644**	**845,644**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(16,427)**	**(16,427)**
	829,217	829,217

Deceber 31, 2018 (dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**119,946**	**119,946**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**2,791**	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(11,984)**	**-**
	110,753	**119,946**
Denominator:		
Total Assets	**816,743**	**816,743**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(16,168)**	**(16,168)**
	800,575	800,575

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

Accum Other Comp Loss

June 30, 2019	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ (25,699)**	**$ -**	**$ (25,699)**
Total	**$ (25,699)**	**$ -**	**$ (25,699)**

June 30, 2018	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ (500,919)	$ -	$ (500,919)
Total	$ (500,919)	$ -	$ (500,919)

NOTE 3 — CAPITAL (continued):

The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in “Salaries and employee benefits” in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the six months ended June 30:

	2019	**2018**
Accumulated other comprehensive loss at January 1	**$ (21,325)**	$ (506,307)
Amortization of prior service credit included in salaries and employee benefits	**-**	(9,306)
Amortization of actuarial (gain) loss included	**-**	
in salaries and employee benefits	**(4,344)**	14,694
Other comprehensive income (loss), net of tax	**(4,344)**	5,388
Accumulated other comprehensive loss at June 30	**$ (25,669)**	$ (500,919)

NOTE 4 — INCOME TAXES:

Alabama Farm Credit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Alabama Farm Credit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Alabama Farm Credit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management’s estimate, that they will not be realized.

NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 to the 2018 Annual Report to Stockholders for a more complete description.

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

June 30, 2019	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 85,019**	**$ -**	**$ -**	**$ 85,019**
Total assets	**85,019**	**-**	**-**	**85,019**

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

NOTE 5 — FAIR VALUE MEASUREMENTS (continued):

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

June 30, 2019	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	**$ -**	**$ -**	**$ 465,334**	**$ 465,334**	**$ -**
Other property owned	**-**	**-**	**746,971**	**746,971**	**12,050**

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

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

Valuation Techniques

As more fully discussed in Note 13 to the 2018 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2018 Annual Report to Stockholders.

Assets Held in Nonqualified Benefits Trusts

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

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases, it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

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

Cash

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

Loans

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

NOTE 5 — FAIR VALUE MEASUREMENTS (continued):

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

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

Commitments to Extend Credit

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

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three and six months ended June 30:

Three months ended June 30 :

	Other Benefits	
	2019	2018
Service cost	**$ 7,228**	$ 10,159
Interest cost	**20,686**	21,414
Amortization of prior credits	**(2,171)**	(4,653)
Amortization of net actuarial loss	**-**	7,348
Net periodic benefit cost	**$ 25,743**	$ 34,268

Six months ended June 30 :

	Other Benefits	
	2019	2018
Service cost	**$ 14,456**	$ 20,318
Interest cost	**41,372**	42,828
Amortization of prior credits	**(4,342)**	(9,306)
Amortization of net actuarial loss	**-**	14,695
Net periodic benefit cost	**$ 51,486**	$ 68,535

The Association previously disclosed in its financial statements for the year ended December 31, 2018, that it expected to contribute $63,057 to the district's nonpension other post-retirement benefit in 2019. As of June 30, 2019, $23,936 of contributions have been made. The Association presently anticipates contributing an additional $31,529 to fund the district's nonpension other post-retirement benefit in 2019 for a total of $55,465. The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2019, was $1,807,614 and is included in "Other Liabilities" in the balance sheet.

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

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and Associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2018, that it expected to contribute $349,429 to the district's defined benefit pension plan in 2019. The Association contributed the entire amount in January 2019 and as of June 30, 2019, has amortized $174,715 of expense to salaries and benefits. The Association does not presently anticipate additional contributions to fund the defined benefit pension plan in 2019.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through August 6, 2019, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 6, 2019.