ALABAMA FARM CREDIT, ACA

2016
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2016

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.

K. Ben Gore, Chief Executive Officer/President
November 9, 2016

Loyd Rutherford, Chairman, Board of Directors
November 9, 2016

Karri H. Sumrall, Chief Financial Officer/Ex. Vice President
November 9, 2016

John R. Adams, CPA, Chairman, Audit Committee
November 9, 2016

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 September 30, 2016. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2015 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 2016, the Association approved a patronage distribution to its stockholders. The Association was able to distribute $6,179,212 to its members due to strong earnings during 2015. The distribution was paid in March 2016.

Loan Portfolio:

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

Total loans outstanding at September 30, 2016, including nonaccrual loans and sales contracts, were $660,925,630 compared to $624,846,651 at December 31, 2015, reflecting an increase of 5.8 percent.

The following table reflects the stable credit quality of the Association's loan portfolio:

	September 30, 2016	December 31, 2015
Total loans		
Acceptable	**98.1**	97.6
OAEM	**1.5**	1.8
Substandard/doubtful	**0.4**	0.6
	100.0 %	100.0 %

The Association's largest commodity concentration in its loan portfolio continues to be poultry, which is approximately 47.2 percent or $312,415,325. The industry is presently fairly stable, with market prices for poultry showing some signs of stress due to oversupply. This has resulted in the integrators showing marginal profits thus far in 2016. Production should remain fairly steady as markets both in the states and overseas continue to show signs of sufficient poultry meat supplies. Some integrators are still offering new grower contracts in order to meet their market demands, with egg and chick placements in Alabama increasing slightly each week. Overall credit quality has improved and the industry remained relatively consistent within the market throughout the year. The Association has $104,688,165, or 33.5 percent of this commodity segment government guaranteed, which helps to reduce loss exposure. Poultry farm sales during 2016 have been few in number, but a sufficient demand remains in the market place. The Association continues to experience some isolated concerns in its portfolio as evidenced by some due date changes to better match the individual growers' batch sales. Management feels that this loan servicing is probably due to changes in the poultry markets where integrators are adjusting their bird size and placement dates as the market dictates.

Agricultural income has been declining over the last two years from its high in 2014. Some downward pressure on row crop commodity prices was noted in 2015 and continues in 2016. Weather conditions thus far for 2016 have been much drier than normal with some spotted areas with drought conditions resulting in crop losses, but overall not a major concern. Cattle producers are seeing a slowdown in demand with downward pressure on prices during the third quarter of 2016, due to a buildup of freezer inventories, however profits are remain favorable compared to historical averages. The drought conditions that have impacted part of our territory have resulted in short supplies of hay, and the inability to plant cool-seasoned grazing to date in 2016. Profits from cattle operations have had some negative impact on demand for livestock loans.

Timber prices have remained steady with some increased demand for hardwood saw timber used in the flooring industry. Low inventories of raw material at the mill (low log inventory at the mills) have supported continued strength in stumpage prices. All other timber products are experiencing steady to weakening prices which is projected through the remainder of 2016. Prices for exports have fallen due to the increased strength of the dollar. A new timber mill in Demopolis, Alabama recently announced to begin production in 2017. This should improve timber markets across the state.

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, remained stable during the third quarter of 2016.

With a favorable lending package and steady demand, the Association experienced steady loan growth during the third quarter of 2016. The probability of higher input costs, questions about future commodity supplies and prices, volatility in export markets and unfolding world events increase the level of financial risk in the farming sector and, likewise, the level of credit risk to those financial institutions providing credit to that sector. Given the conditions outlined herein, the quality of the loan portfolio is expected to remain constant throughout the remainder of 2016.

Risk Exposure:

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

	September 30, 2016		December 31, 2015	
	Amount	**%**	Amount	%
Nonaccrual	**$ 1,205,571**	**26.0%**	$ 2,339,527	31.6%
Formally restructured	**940,167**	**20.2%**	966,385	27.3%
Other property owned, net	**2,495,048**	**53.8%**	1,453,743	41.1%
Total	**$ 4,640,786**	**100.0%**	$ 4,759,655	100.0%

High-risk assets decreased by $118,869, or 2.5%, primarily due to the decrease in nonaccrual loan volume, offset by an increase in other property owned, net. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at September 30, 2016, compared to 0.4 percent at December 31, 2015. Since December 31, 2015, the Association has moved five loans totaling $1,327,320 to nonaccrual status due to delinquency and cash flow issues. Additionally, the Association has acquired eight properties totaling $2,302,171 and written down the value of five properties totaling $666,828 based on current appraisals or sales contracts executed. A portion of the values written down, approximately $340 thousand, is expected to be collected through government guarantees. The Association has disposed of four properties during the nine months ended September 30, 2016. At September 30, 2016, the Association held ten properties totaling $2,495,048, which consisted of approximately 541.7 acres of land. Management continues to be alert to portfolio trends and has attempted to identify and report problem loans as quickly as possible. Management strives to implement proactive steps and allocate resources to work with distressed borrowers to either work through temporary repayment problems or to orderly liquidate collateral to repay the loan when the borrower's operation is no longer viable.

Impaired loans consist of all high-risk assets except other property owned. At September 30, 2016 and December 31, 2015, loans that were considered impaired were $2,145,738 and $3,305,912, respectively, representing 0.3 percent and 0.5 percent of total loan volume, respectively. The Association recorded $13,611 in recoveries and $407 adjustment to a previous quarter's charge-off for the quarter ended September 30, 2016, and $947 in recoveries and $49,277 in charge-offs for the same period in 2015. The Association's allowance for loan losses was 0.5 percent and 0.6 percent of total loans outstanding as of September 30, 2016, and December 31, 2015, respectively.

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 47.2 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 2015 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 $126.6 million, or 19.2 percent, of its portfolio government guaranteed at September 30, 2016. 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 $3,436,528 and $10,668,379 for the three and nine months ended September 30, 2016, as compared to net income of $3,142,768 and $9,677,855 for the same periods in 2015, reflecting an increase of 9.4 and 10.2 percent. Net interest income was $5,118,968 and 15,357,744 for the three and nine months ended September 30, 2016, compared to $4,800,107 and $14,292,385 for the same period in 2015.

	Nine months ended:			
	September 30, 2016		September 30, 2015	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 646,683,413**	**$ 23,923,446**	$ 579,480,702	$ 21,537,277
Interest-bearing liabilities	**556,758,447**	**8,565,702**	495,394,319	7,244,892
Impact of capital	**$ 89,924,966**		$ 84,086,383	
Net interest income		**$ 15,357,744**		$ 14,292,385

	2016 Average Yield	2015 Average Yield
Yield on loans	**4.9%**	5.0%
Cost of interest-bearing liabilities	**2.1%**	2.0%
Interest rate spread	**2.8%**	3.0%
Net interest income as a percentage of average earning assets	**3.2%**	3.3%

	Nine months ended: September 30, 2016 vs. September 30, 2015		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 2,499,965**	**$ (113,796)**	**$ 2,386,169**
Interest expense	**898,250**	**422,560**	**1,320,810**
Net interest income	**$ 1,601,715**	**$ (536,356)**	**$ 1,065,359**

Interest income for the three and nine months ended September 30, 2016, increased by $781,842 and $2,386,169, or 10.7 and 11.1 percent respectively, from the same period of 2015, primarily due to increase in average loan volume offset by a slight decrease in interest rates. Interest expense for the three and nine months ended September 30, 2016, increased by $462,981 and $1,320,810, or 18.6 and 18.2 percent, from the same period of 2015 due to an increase in average debt volume and a slight increase in interest rates. Average loan volume for the third quarter of 2016 was $657,332,486, compared to $593,025,018 in the third quarter of 2015. The average net interest rate spread on the loan portfolio for the third quarter of 2016 was 2.8 percent, compared to 3.0 percent in the third quarter of 2015.

Noninterest income for the three and nine months ended September 30, 2016 increased by $51,491 and $237,278, respectively, or 10.7 and 16.1 percent, respectively, as compared to the same periods in 2015. The increases are primarily due to the increase in accrued patronage income from the Farm Credit Bank of Texas, based on an increase in average direct note outstanding and an increase in loan fees as compared to the same periods in 2015.

Noninterest expenses for the three and nine months ended September 30, 2016 increased by $290,359 and $690,494, respectively, or 15.0 and 11.8 percent, respectively, as compared to the same periods in 2015. The year-to-date increases were due primarily to increases in salaries and employee benefits, Insurance Fund premiums, and loss on other property owned, net, offset by a decrease in purchased services. The increase in salaries and employee benefits was due to the Association hiring additional staff during 2016, merit pay increases and an increased cost of benefits as compared to the same period in 2015. The increase in Insurance Fund premiums was due to a rate increase by Farm Credit System Insurance Corporation, while the increase in advertising was due to timing of purchases as compared to the same period in 2015. Additionally, the increase in loss on the sale of other property owned, net, was the result of valuation decreases of currently owned properties due to updated appraisals or sales contracts. The decrease in purchased services was due primarily to a decrease in third-party fees for professional services purchased.

The Association's annualized return on average assets for the nine months ended September 30, 2016, was 2.1 percent compared to 2.2 percent for the same period in 2015. The Association's annualized return on average equity for the nine months ended September 30, 2016, was 13.8 percent, compared to 13.6 percent for the same period in 2015.

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 Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	September 30, 2016	December 31, 2015
Note payable to the bank	**$ 571,069,336**	$ 532,731,825
Accrued interest on note payable	**973,581**	892,844
Total	**$ 572,042,917**	$ 533,624,669

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2018. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $571,069,336 as of September 30, 2016, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.0 percent at September 30, 2016. 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, 2015, is primarily due to the Association's increase in loan portfolio as a result of increased loan demand in the Association's 27-county territory. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $89,354,191 at September 30, 2016. The maximum amount the Association may borrow from the Bank as of September 30, 2016, was $666,978,835 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, 2018, 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 $10,733,701 at September 30, 2016, compared to December 31, 2015. The Association's debt as a percentage of members' equity was 5.3:1 as of September 30, 2016, compared to 5.6:1 as of December 31, 2015.

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 Association's permanent capital ratio at September 30, 2016, was 16.6 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2016, were 16.3 and 16.3 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In August 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Bank's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

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 currently 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. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled "Presentation of Financial Statements — Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016. The Association is currently evaluating a potential disclosure for this recent accounting pronouncement.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

Regulatory Matters:

On March 10, 2016, the Farm Credit Administration approved a final rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that the institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System,
- To make System regulatory capital requirements more transparent and
- To meet the requirements of section 939A of the Dodd-Frank Act.

The final rule is effective on January 1, 2017. The Association is currently evaluating the impact of the recently announced changes.

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 2015 Annual Report of Alabama Farm Credit, ACA more fully describe the Association's relationship with the Bank.

The Texas Farm Credit District's (district) annual and quarterly stockholder reports, as well as those of the Bank, are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports also can be requested by e-mail at *fcb@farmcreditBank.com*. The annual and quarterly stockholder reports for the Bank and the district 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. Copies of the Association's quarterly stockholder reports can also be requested by emailing *karri.sumrall@alabamafarmcredit.com* or can be obtained on its website at *www.alabamafarmcredit.com* 40 days after quarter end. 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.

ALABAMA FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash	$ **21,439**	$ 42,156
Loans	**660,925,630**	624,846,651
Less: allowance for loan losses	**3,557,000**	3,781,484
Net loans	**657,368,630**	621,065,167
Accrued interest receivable	**8,729,342**	6,411,251
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**9,974,710**	9,974,710
Other	**1,991,819**	299,467
Other property owned, net	**2,495,048**	1,453,743
Premises and equipment, net	**3,788,140**	3,803,825
Other assets	**909,956**	461,222
Total assets	$ **685,279,084**	$ 643,511,541
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ **571,069,336**	$ 532,731,825
Accrued interest payable	**973,581**	892,844
Drafts outstanding	**1,037,101**	1,835,248
Patronage distributions payable	**448**	6,178,849
Other liabilities	**3,628,211**	4,036,069
Total liabilities	**576,708,677**	545,674,835
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,490,625**	2,415,825
Unallocated retained earnings	**106,339,726**	95,672,059
Accumulated other comprehensive loss	**(259,944)**	(251,178)
Total members' equity	**108,570,407**	97,836,706
Total liabilities and members' equity	$ **685,279,084**	$ 643,511,541

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
INTEREST INCOME				
Loans	**$ 8,076,949**	$ 7,295,107	**$ 23,923,446**	$ 21,537,277
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texa	**2,957,981**	2,495,000	**8,565,702**	7,244,892
Net interest income	**5,118,968**	4,800,107	**15,357,744**	14,292,385
PROVISION FOR LOAN LOSSES	**(11,176)**	202,590	(144,604)	233,777
Net interest income after provision for loan losses	**5,130,144**	4,597,517	**15,502,348**	14,058,608
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**489,518**	417,123	**1,423,365**	1,221,931
Loan fees	**27,766**	45,439	**158,090**	120,789
Financially related services income	**5,128**	5,797	**15,146**	15,721
Gain on sale of premises and equipment, net	**9,355**	11,917	**44,665**	52,056
Other noninterest income	**-**	-	**70,327**	63,818
Total noninterest income	**531,767**	480,276	**1,711,593**	1,474,315
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,173,457**	1,143,547	**3,609,200**	3,463,823
Directors' expense	**53,205**	48,625	**212,556**	192,460
Purchased services	**64,168**	46,312	**180,531**	209,488
Travel	**165,200**	165,956	**345,808**	345,852
Occupancy and equipment	**115,596**	112,453	**327,680**	290,409
Communications	**35,827**	37,504	**108,949**	99,064
Advertising	**66,762**	57,495	**218,323**	204,409
Public and member relations	**76,667**	86,029	**200,654**	204,921
Supervisory and exam expense	**56,897**	45,837	**148,573**	116,138
Insurance Fund premiums	**194,020**	126,115	**532,151**	376,495
Business insurance	**3,570**	3,393	**85,911**	81,452
Loss on other property owned, net	**147,803**	11,174	**370,060**	116,191
Other noninterest expense	**72,211**	50,584	**205,166**	154,366
Total noninterest expenses	**2,225,383**	1,935,024	**6,545,562**	5,855,068
NET INCOME	**3,436,528**	3,142,769	**10,668,379**	9,677,855
Other comprehensive income (loss):				
Change in postretirement benefit plans	**(2,922)**	3,379	**(8,766)**	10,135
COMPREHENSIVE INCOME	**$ 3,433,606**	$ 3,146,148	**$ 10,659,613**	$ 9,687,990

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, 2014	$ 2,263,390	$ 88,199,508	$ (539,281)	$ 89,923,617
Comprehensive income	-	9,677,855	10,135	9,687,990
Capital stock/participation certificates issued	263,295	-	-	263,295
Capital stock/participation certificates retired	(154,825)	-	-	(154,825)
Balance at September 30, 2015	$ 2,371,860	$ 97,877,363	$ (529,146)	$ 99,720,077
Balance at December 31, 2015	$ 2,415,825	$ 95,672,059	$ (251,178)	$ 97,836,706
Comprehensive income	-	10,668,379	(8,766)	10,659,613
Capital stock/participation certificates issued	264,315	-	-	264,315
Capital stock/participation certificates retired	(189,515)	-	-	(189,515)
Patronage distributions declared:				
Cash	-	(712)	-	(712)
Balance at September 30, 2016	**$ 2,490,625**	**$ 106,339,726**	**$ (259,944)**	**$ 108,570,407**

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 of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2015, as contained in the 2015 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, 2015, as contained in the 2015 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, 2016. Descriptions of the significant accounting policies are included in the 2015 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 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Bank's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

In June 2016, 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 currently 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. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." This guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled "Presentation of Financial Statements- Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016. The Association is currently evaluating a potential disclosure for this recent accounting pronouncement.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2016, are not necessarily indicative of the results to be expected for the year ended December 31, 2016. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**September 30, 2016 Amount**	December 31, 2015 Amount
Production agriculture:		
Real estate mortgage	**$ 575,579,737**	$ 549,375,708
Production and intermediate term	**51,790,512**	44,677,617
Agribusiness:		
Processing and marketing	**19,035,756**	13,618,336
Farm-related business	**565,392**	1,140,026
Rural residential real estate	**11,713,130**	12,593,263
Communication	**1,992,076**	2,348,598
Energy	**141,416**	934,312
Water and waste water	**107,611**	158,791
Total	**$ 660,925,630**	$ 624,846,651

The Association purchases participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2016:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 19,601,148	$ -	$ -	$ -	$ 19,601,148	$ -
Production and intermediate term	2,200,529	-	-	-	2,200,529	-
Communication	1,992,076	-	-	-	1,992,076	-
Real estate mortgage	759,002	-	-	-	759,002	-
Energy	141,416	-	-	-	141,416	-
Water and waste water	107,611	-	-	-	107,611	-
Total	$ 24,801,782	$ -	$ -	$ -	$ 24,801,782	$ -

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 restricted ACPs were $28,761,724 and $24,290,027 at September 30, 2016, and December 31, 2015, respectively.

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

	September 30, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	**$ 1,205,571**	$ 2,304,953
Production and intermediate term	**-**	34,574
Total nonaccrual loans	**1,205,571**	2,339,527
Accruing restructured loans:		
Real estate mortgage	**940,167**	966,385
Total nonperforming loans	**2,145,738**	3,305,912
Other property owned	**2,495,048**	1,453,743
Total nonperforming assets	**$ 4,640,786**	$ 4,759,655

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.

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:

	2016	2015
Real estate mortgage		
Acceptable	**98.0** %	97.5 %
OAEM	**1.5**	1.9
Substandard/doubtful	**0.5**	0.6
	100.0	100.0
Production and intermediate term		
Acceptable	**97.7**	99.3
OAEM	**2.2**	0.5
Substandard/doubtful	**0.1**	0.2
	100.0	100.0
Agribusiness		
Acceptable	**100.0**	100.0
OAEM	**-**	-
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	**99.9**	98.5
OAEM	**-**	1.5
Substandard/doubtful	**0.1**	-
	100.0	100.0
Total loans		
Acceptable	**98.1**	97.6
OAEM	**1.5**	1.8
Substandard/doubtful	**0.4**	0.6
	100.0 %	100.0 %

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

September 30, 2016	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 6,785,514**	**$ 357,915**	**$ 7,143,429**	**$ 576,148,171**	**$ 583,291,600**	**$ -**
Production and intermediate term	**705,854**	**-**	**705,854**	**52,041,076**	**52,746,930**	**-**
Processing and marketing	**-**	**-**	**-**	**19,057,024**	**19,057,024**	**-**
Rural residential real estate	**8,851**	**-**	**8,851**	**11,742,133**	**11,750,984**	**-**
Communication	**-**	**-**	**-**	**1,992,256**	**1,992,256**	**-**
Farm-related business	**-**	**-**	**-**	**566,429**	**566,429**	**-**
Energy	**-**	**-**	**-**	**141,972**	**141,972**	**-**
Water and waste water	**-**	**-**	**-**	**107,777**	**107,777**	**-**
Total	**$ 7,500,219**	**$ 357,915**	**$ 7,858,134**	**$ 661,796,838**	**$ 669,654,972**	**$ -**

December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 2,255,952	$ 699,850	$ 2,955,802	$ 552,119,811	$ 555,075,613	$ -
Production and intermediate term	-	34,574	34,574	45,299,659	45,334,233	-
Processing and marketing	-	-	-	13,634,871	13,634,871	-
Rural residential real estate	10,151	-	10,151	12,615,711	12,625,862	-
Communication	-	-	-	2,350,351	2,350,351	-
Farm-related business	-	-	-	1,142,122	1,142,122	-
Energy	-	-	-	936,014	936,014	-
Water and waste water	-	-	-	158,836	158,836	-
Total	$ 2,266,103	$ 734,424	$ 3,000,527	$ 628,257,375	$ 631,257,902	$ -

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

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

As of September 30, 2016, the total recorded investment of troubled debt restructured loans was $940,167, all of which were classified as accrual. Troubled debt restructurings are analyzed for allowance for loan losses using the specific analysis method. No specific allowance for loan losses were recorded for troubled debt restructurings as of September 30, 2016. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring at September 30, 2016 or December 31, 2015.

There were no troubled debt restructurings during the nine months ended September 30, 2016. Loans formally restructured prior to January 1, 2016 totaled $940,167.

The predominant form of concession granted for troubled debt restructuring includes the extension of terms due to cash flow constrictions preventing the borrower to fund the original payment due. 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.

The Association did not have any loans that met the accounting criteria as a troubled debt restructuring that occurred within the previous 12 months and for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the loan was restructured.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Real estate mortgage	$ 940,167	$ 966,385	$ -	$ -
Total	$ 940,167	$ 966,385	$ -	$ -

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

Additional impaired loan information is as follows:

	September 30, 2016			December 31, 2015		
	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	**$ -**	**$ -**	**$ -**	$ 832,282	$ 832,282	$ 17,247
Production and intermediate term	**-**	**-**	**-**	34,574	34,574	31,963
Total	**$ -**	**$ -**	**$ -**	$ 866,856	$ 866,856	$ 49,210
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 2,140,202**	**$ 2,148,294**	**$ -**	$ 2,439,056	$ 2,446,731	$ -
Production and intermediate term	**-**	**-**	**-**	-	-	-
Total	**$ 2,140,202**	**$ 2,148,294**	**$ -**	$ 2,439,056	$ 2,446,731	$ -
Total impaired loans:						
Real estate mortgage	$ 2,140,202	$ 2,148,294	$ -	$ 3,271,338	$ 3,279,013	$ 17,247
Production and intermediate term	-	-	-	34,574	34,574	31,963
Total	$ 2,140,202	$ 2,148,294	$ -	$ 3,305,912	$ 3,313,587	$ 49,210

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

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2016		September 30, 2015		**September 30, 2016**		September 30, 2015	
	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	**$ -**	**$ -**	$ 47,374	$ -	**$ 144,791**	**$ -**	$ 398,652	$ -
Production and intermediate term	**-**	**-**	-	-	**7,911**	**-**	3,395	-
Total	**$ -**	**$ -**	$ 47,374	$ -	**$ 152,702**	**$ -**	$ 402,047	$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 2,058,576**	**$ 13,618**	$ 2,021,746	$ 13,694	**$ 2,104,728**	**$ 46,626**	$ 2,372,675	$ 66,098
Production and intermediate term	**-**	**-**	4,933	-	**987**	**-**	3,806	-
Total	**$ 2,058,576**	**$ 13,618**	$ 2,026,679	$ 13,694	**$ 2,105,715**	**$ 46,626**	$ 2,376,481	$ 66,098
Total impaired loans:								
Real estate mortgage	**$ 2,058,576**	**$ 13,618**	$ 2,069,120	$ 13,694	**$ 2,249,519**	**$ 46,626**	$ 2,771,327	$ 66,098
Production and intermediate term	**-**	**-**	4,933	-	**8,898**	**-**	7,201	-
Total	**$ 2,058,576**	**$ 13,618**	$ 2,074,053	$ 13,694	**$ 2,258,417**	**$ 46,626**	$ 2,778,528	$ 66,098

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

		Real Estate Mortgage		Production and Intermediate Term		Agribusiness		Communications		Energy and Water/Waste Water		Rural Residential Real Estate		Total
Allowance for Credit Losses:														
Balance at June 30, 2016	$	3,457,908	$	53,268	$	27,477	$	2,549	$	480	$	12,476	$	3,554,158
Charge-offs		-		407		-		-		-		-		407
Recoveries		934		12,677		-		-		-		-		13,611
Provision for loan losses		4,608		(10,553)		(2,080)		(92)		(107)		(2,952)		(11,176)
Other		-		-		-		-		-		-		-
Balance at September 30, 2016	$	3,463,450	$	55,799	$	25,397	$	2,457	$	373	$	9,524	$	3,557,000
Balance at December 31, 2015	$	3,683,029	$	63,667	$	20,193	$	2,550	$	681	$	11,364	$	3,781,484
Charge-offs		(34,047)		(60,311)		-		-		-		-		(94,358)
Recoveries		2,787		12,677		-		-		-		-		15,464
Provision for loan losses		(190,203)		46,487		2,166		(93)		(1,121)		(1,840)		(144,604)
Other		1,884		(6,721)		3,038		-		813		-		(986)
Balance at September 30, 2016	$	3,463,450	$	55,799	$	25,397	$	2,457	$	373	$	9,524	$	3,557,000
Ending Balance:														
Individually evaluated for impairment	$	-	$	-	$	-	$	-	$	-	$	-	$	-
Collectively evaluated for impairment		3,463,450		55,799		25,397		2,457		373		9,524		3,557,000
Balance at September 30, 2016	$	3,463,450	$	55,799	$	25,397	$	2,457	$	373	$	9,524	$	3,557,000
Balance at June 30, 2015	$	3,611,136	$	41,466	$	11,987	$	83	$	897	$	6,626	$	3,672,195
Charge-offs		(49,277)		-		-		-		-		-		(49,277)
Recoveries		947		-		-		-		-		-		947
Provision for loan losses		191,498		2,176		6,179		-		(16)		2,753		202,590
Other		(939)		(701)		(3,342)		-		(189)		-		(5,171)
Balance at September 30, 2015	$	3,753,365	$	42,941	$	14,824	$	83	$	692	$	9,379	$	3,821,284
Balance at December 31, 2014	$	3,729,445	$	30,325	$	8,500	$	83	$	771	$	6,086	$	3,775,210
Charge-offs		(180,422)		-		-		-		-		-		(180,422)
Recoveries		2,475		-		-		-		-		-		2,475
Provision for loan losses		205,169		13,520		10,591		-		1,204		3,293		233,777
Other		(3,302)		(904)		(4,267)		-		(1,283)		-		(9,756)
Balance at September 30, 2015	$	3,753,365	$	42,941	$	14,824	$	83	$	692	$	9,379	$	3,821,284
Ending Balance:														
Individually evaluated for impairment	$	27,860	$	-	$	-	$	-	$	-	$	-	$	27,860
Collectively evaluated for impairment		3,725,505		42,941		14,824		83		692		9,379		3,793,424
Balance at September 30, 2015	$	3,753,365	$	42,941	$	14,824	$	83	$	692	$	9,379	$	3,821,284

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at September 30, 2016	$ 583,291,600	$ 52,746,930	$ 19,623,453	$ 1,992,256	$ 249,749	$ 11,750,984	$ 669,654,972
Individually evaluated for impairment	$ 2,145,738	$ -	$ -	$ -	$ -	$ -	$ 2,145,738
Collectively evaluated for impairment	$ 581,145,862	$ 52,746,930	$ 19,623,453	$ 1,992,256	$ 249,749	$ 11,750,984	$ 667,509,234
Ending Balance at September 30, 2015	$ 542,855,013	$ 39,939,540	$ 11,721,018	$ 346,239	$ 1,097,806	$ 11,896,731	$ 607,856,347
Individually evaluated for impairment	$ 2,441,999	$ -	$ -	$ -	$ -	$ -	$ 2,441,999
Collectively evaluated for impairment	$ 540,413,014	$ 39,939,540	$ 11,721,018	$ 346,239	$ 1,097,806	$ 11,896,731	$ 605,414,348

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.

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

Accum Other Comp Loss			
September 30, 2016	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ (259,944)**	**$ -**	**$ (259,944)**
Total	**$ (259,944)**	**$ -**	**$ (259,944)**
September 30, 2015	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ (529,146)	$ -	$ (529,146)
Total	$ (529,146)	$ -	$ (529,146)

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

	2016	2015
Accumulated other comprehensive income (loss) at January 1	**$ (251,178)**	$ (539,281)
Amortization of prior service credit included in salaries and employee benefits	**(18,609)**	(22,384)
Amortization of actuarial loss included in salaries and employee benefits	**9,843**	32,519
Other comprehensive income (loss), net of tax	**(8,766)**	10,135
Accumulated other comprehensive income at September 30	**$ (259,944)**	$ (529,146)

In January 2016, the Association approved a patronage distribution to its stockholders. The Association was able to distribute $6,179,212 to its members due to strong earnings during 2015. The distribution was made in March 2016.

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 2015 Annual Report to Stockholders for a more complete description.

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

September 30, 2016	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 29,447**	**$ -**	**$ -**	**$ 29,447**
Total assets	**29,447**	**-**	**-**	**29,447**

December 31, 2015	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 15,894	$ -	$ -	$ 15,894
Total assets	15,894	-	-	15,894

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

September 30, 2016	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	**$ 1,205,571**	**$ -**	**$ -**	**$ 1,205,571**	**$ -**
Other property owned	**2,519,963**	**-**	**-**	**2,519,963**	**(370,060)**

December 31, 2015	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans*	$ 817,646	$ -	$ -	$ 817,646	$ -
Other property owned	1,537,458	-	-	1,537,458	(156,531)

*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.

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

Information About Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Actual balance

Valuation Techniques

As more fully discussed in Note 13 to the 2015 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 2015 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 real estate collateral since the loans were collateral-dependent. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. 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.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the nine months ended September 30:

	Other Benefits	
	2016	2015
Service cost	**$ 20,900**	$ 31,306
Interest cost	**63,349**	67,922
Amortization of prior service credits	**(18,608)**	(22,384)
Amortization of net actuarial loss	**9,844**	32,519
Net periodic benefit cost	**$ 75,485**	$ 109,363

The Association previously disclosed in its financial statements for the year ended December 31, 2015, that it expected to contribute $53,710 to the district's nonpension other post-retirement benefit in 2016. As of September 30, 2016, $33,854 of contributions have been made. The Association presently anticipates contributing an additional $13,428 to fund the district's nonpension other post-retirement benefit pension plan in 2016 for a total of $47,282. The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2016, was $1,873,812 and is included in "Other Liabilities" in the balance sheet.

Contributions to District Defined Benefit Pension Plan

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, 2015, that it expected to contribute $277,099 to the district's defined benefit pension plan in 2016. The Association contributed the entire amount in January 2016 and, as of September 30, 2016, has amortized $207,828 of expense to salaries and benefits. The Association presently does not anticipate additional contributions to fund the defined benefit pension plan in 2016.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 9, 2016, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 9, 2016.