ALABAMA
FARM
CREDIT

ALABAMA
FARM CREDIT

Together We Grow

Growing Forward

Meet our Young Farmer Advisory Board

Alabama Farm Credit has always been heavily invested in the future of agriculture in North Alabama. Our Young Farmer Advisory Board celebrated its third year with a retreat and workshops in Huntsville in December 2023. They also hosted an Ag Night at a Birmingham Barons game in August where all proceeds raised benefited the Together We Grow Foundation, providing scholarships to college students pursuing a future in ag. Because of these Board Members' unique perspectives and firsthand experience, Alabama Farm Credit has greatly benefitted in reaching the Young, Beginning, and Small farmers in its footprint. This Board is a meaningful connection with young farmers and ranchers and these individuals give voice to issues facing the next generation of agriculture.

New Branches

Rainbow City, Alabama
Growth in the Gadsden metropolitan area means additional resources for AFC members in Etowah, Cherokee, East Blount, and North Calhoun counties.

Scottsboro, Alabama
Members in Jackson & North DeKalb counties will soon enjoy our historic building in the heart of downtown Scottsboro.

BUILDING STRONGER COMMUNITIES

Investing in our communities means investing in our collective well-being. Throughout our 107-year history, Alabama Farm Credit has sought meaningful ways to give back to our community. Relationally, financially, and strategically, we continue to build on new opportunities and embrace change while adhering to a dedication to the land, farmers, and ranchers of North Alabama.

In 2023, we supported communities in the following ways:

- Donated $10,000 to Auburn University College of Agriculture, $5,000 to the College of Agricultural, Life and Natural Sciences at Alabama A&M University, $2,000 to the beginning farm program at Wallace State University
- Raised over $20,000 for the Together We Grow Foundation scholarship fund
- Hosted cook-off competitions for our local 4-H program
- Hosted a 3-day succession planning workshop for young farmers
- Donated over $42,000 to local youth programs including FFA and 4-H chapters, high school athletic groups, and Young Cattlemen's events.

Board of Directors

Matthew Christjohn, *Chairman*

Stewart McGill, *Vice Chairman*

John Adams

Danny Baugh

Rickey Cornutt

David Daily

Hugh Harris

Elizabeth Spruell

Senior Management

Mel Koller, CEO

Jody Campbell, CRO

Kedric Karkosh, CFO

Together We Grow.

Dear Valued Member,

As we pause to reflect on the closing year, it is with a sense of profound gratitude and pride that we address you in this annual report letter. Since our inception 107 years ago, Alabama Farm Credit has stood as a testament to the unwavering strength and resilience that defines us. Your trust is what fuels our commitment to strengthening and growing an association that you can count on.

In the past year, we've hit several pivotal achievements we would like to celebrate with you:

- Local Engagement: Through continuous support and engagement, we've made strides in strengthening the communities wherein we operate through scholarships and donations.
- Customer Service Excellence: Our unwavering commitment to responsive and personalized service has been a highlight for many of our esteemed members.
- Tailored Financial Solutions: We've developed and refined financial products and services to meet the evolving needs of our farmers.
- Technological Advancements: By introducing advanced tools, we've streamlined operations, enhancing the ease and efficiency of your interactions with us.
- Returning Value: We've returned 60% of our earnings to you, our members, solidifying the tangible benefits of your membership.

We take pride in these accomplishments and recognize that they have only been made possible through your trust and partnership. By placing your confidence in Alabama Farm Credit, you've helped ensure that our collective future is as rich and promising as the legacies we uphold.

Looking ahead, we aim to amplify the growth, strength, and resilience which Alabama Farm Credit has embodied since its inception. The evolving needs and roles of farmers haven't gone unnoticed, and neither have the successes and challenges you've met along the way.

We've weathered every storm side by side, celebrating our triumphs with the same fervor with which we face our trials. We will continue to strengthen AFC, expanding our reach, and enhancing our services:

Together We Grow.

- Expanding Our Services within our Footprint: With the recent opening of two new branches and an insurance division, our network continues to grow.
- New Non-Profit Ventures: Our commitment to the agricultural community is reinforced with the launch of a new non-profit organization focused on the future of ag through the next generation.
- Economic Preparedness: Navigating economic changes remains a top priority, ensuring that we maintain our strong financial position.
- Advocacy for Agriculture: We'll remain steadfast in our efforts to advocate for policies beneficial to our industry, including the Farm Bill.
- Unwavering Support: Continuing to provide the financial tools and expertise that underpin the success of your operations remains our unwavering commitment.

In the spirit of personal connection, we would like to extend our own heartfelt thanks for your loyalty. With members like you, who have been steadfast in their commitment—some over several generations—we rest assured in the knowledge that our future is indeed bright.

Thank you once again for choosing Alabama Farm Credit as your trusted partner. Here's to celebrating the past, cherishing the present, and cultivating a prosperous future together.

Sincerely,

Mel Koller
Alabama Farm Credit
CEO

Matt Christjohn
Alabama Farm Credit
Chairman

ALABAMA FARM CREDIT, ACA

Table of Contents

Report of Management 2

Report on Internal Control Over Financial Reporting 3

Report of Audit Committee 4

Five-Year Summary of Selected Consolidated Financial Data 5

Management's Discussion and Analysis of Financial Condition
and Results of Operations (Unaudited) 7

Report of Independent Auditors 15

Consolidated Financial Statements 17

Notes to Consolidated Financial Statements 22

Disclosure Information and Index (Unaudited) 55

REPORT OF MANAGEMENT

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

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

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

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

Mel Koller, Chief Executive Officer/President
March 8, 2024

Matthew Christjohn, DVM, Chairman, Board of Directors
March 8, 2024

Kedric Karkosh, Chief Financial Officer
March 8, 2024

John R. Adams, CPA, Chairman, Audit Committee
March 8, 2024

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Association's chief executive officer and chief financial officer, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its boards of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2023. In making the assessment, management used the framework in Internal Control—Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2023, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2023. A review of the assessment performed was reported to the Association's audit committee.

Mel Koller, Chief Executive Officer

March 8, 2024

Kedric Karkosh, Chief Financial Officer

March 8, 2024

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of John R. Adams, CPA, Elizabeth Spruell, Stewart McGill, and Matthew Christjohn, DVM, who are directors of Alabama Farm Credit, ACA. In 2023, five Committee meetings were held. The Committee oversees the scope of Alabama Farm Credit, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Alabama Farm Credit, ACA's website. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) for 2023.

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

In this context, the Committee reviewed and discussed Alabama Farm Credit, ACA's audited consolidated financial statements for the year ended December 31, 2023 (audited consolidated financial statements) with management and PwC. The Committee also reviews with PwC the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PwC's and Alabama Farm Credit, ACA's internal auditors directly provide reports on significant matters to the Committee.

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

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the board of directors include the audited consolidated financial statements in Alabama Farm Credit, ACA's Annual Report to Stockholders for the year ended December 31, 2023.

John R. Adams, CPA, Chairman
March 8, 2024

Stewart McGill, Member
March 8, 2024

Matthew Christjohn, DVM, Member
March 8, 2024

Elizabeth Spruell, Member
March 8, 2024

ALABAMA FARM CREDIT, ACA

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

	2023	2022	2021	2020	2019
Balance Sheet Data					
Assets					
Cash	$ 11	$ 18	$ 11	$ 11	$ 12
Loans	1,084,857	1,059,917	1,023,903	974,928	884,970
Less: allowance for credit losses on loans	3,267	2,819	3,222	4,039	4,295
Net loans	1,081,590	1,057,098	1,020,681	970,889	880,675
Investment in and receivable from the Farm Credit Bank of Texas	19,774	19,131	19,399	16,623	15,909
Other property owned, net	1,024	1,785	1,170	546	920
Other assets	31,983	24,103	22,441	18,047	15,731
Total assets	$ 1,134,382	$ 1,102,135	$ 1,063,702	$ 1,006,116	$ 913,247
Liabilities					
Obligations with maturities of one year or less	$ 17,865	$ 20,190	$ 18,125	$ 15,909	$ 15,234
Obligations with maturities greater than one year	968,492	938,769	908,025	859,434	775,298
Total liabilities	986,357	958,959	926,150	875,343	790,532
Members' Equity					
Capital stock and participation certificates	3,435	3,498	3,440	3,126	2,953
Unallocated retained earnings	144,297	139,389	134,111	127,741	119,986
Accumulated other comprehensive income (loss)	293	288	1	(94)	(224)
Total members' equity	148,025	143,175	137,552	130,773	122,715
Total liabilities and members' equity	$ 1,134,382	$ 1,102,135	$ 1,063,702	$ 1,006,116	$ 913,247
Statement of Income Data					
Net interest income	$ 27,290	$ 26,253	$ 26,351	$ 25,208	$ 22,981
(Provision for loan losses) loan loss reversal	63	64	604	(116)	(551)
Income from the Farm Credit Bank of Texas	5,538	8,291	7,178	4,975	3,758
Other noninterest income	1,899	1,403	1,232	1,166	681
Noninterest expense	(19,614)	(17,555)	(16,632)	(12,675)	(11,168)
Net income (loss)	$ 15,176	$ 18,456	$ 18,733	$ 18,558	$ 15,701
Key Financial Ratios for the Year					
Return on average assets	1.4%	1.60%	1.8%	2.0%	1.8%
Return on average members' equity	10.2%	12.6%	13.1%	13.8%	12.5%
Net interest income as a percentage of average earning assets	2.6%	2.4%	2.6%	2.7%	2.8%
Net charge-offs (recoveries) as a percentage of average loans	0.0%	0.0%	0.0%	0.0%	0.0%

ALABAMA FARM CREDIT, ACA

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

	2023	2022	2021	2020	2019
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	13.1%	13.0%	12.3%	13.0%	13.4%
Debt as a percentage of members' equity	666.3%	669.8%	673.3%	669.4%	644.2%
Allowance for credit losses on loans as a percentage of loans	0.3%	0.3%	0.3%	0.4%	0.5%
Common equity tier 1 ratio	12.1%	11.8%	13.0%	13.6%	14.4%
Tier 1 capital ratio	12.1%	11.8%	13.0%	13.6%	14.4%
Total capital ratio	12.5%	12.1%	13.4%	14.0%	15.0%
Permanent capital ratio	12.2%	11.9%	12.1%	12.6%	14.5%
Tier 1 leverage ratio	11.8%	11.4%	12.3%	12.5%	13.0%
UREE leverage ratio	11.5%	11.1%	13.3%	13.7%	14.2%
Net Income Distribution					
Patronage dividends:					
Cash	$ 13,268	$ 12,281	$ 10,803	$ 9,880	$ 9,380

The Association’s ratios remained well above the regulatory minimums, including the conservation and leverage buffers at December 31, 2023. For more information, see Note 9, “Members Equity,” in the accompanying consolidated financial statements.

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

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Alabama Farm Credit, ACA, including its wholly owned subsidiaries, Alabama Farm Credit, PCA and Alabama Farm Credit, FLCA (Association) for the years ended December 31, 2023, 2022 and 2021, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's audit committee.

Forward-Looking Information:

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad.
- economic fluctuations in the agricultural, rural infrastructure, international and farm-related business sectors, as well as in the general economy that can affect the availability of off-farm sources of income.
- weather-related, food safety, disease-related and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income.
- disruption of operations or disclosures of confidential information as a result of cybersecurity incidents.
- changes in United States government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government and government-sponsored enterprises.
- actions taken by the Federal Reserve System in implementing monetary policy; and
- credit, interest rate, prepayment and liquidity risk inherent in lending activities.

Commodity Review and Outlook:

The Association's largest commodity concentration in its loan portfolio continues to be poultry, which is approximately 32.4 percent or $388,299,279. The industry is presently stable, with market prices for poultry showing some positive signs of increased demand for poultry products. Production in 2023 has remained steady to increasing as markets both in the States and overseas continue to show signs of increased demand for poultry meat supplies. Some integrators are offering new grower contracts in order to meet their market demands, with egg and chick placements in Alabama increasing slightly each week. The Association has 25.4 percent of its poultry portfolio guaranteed, which helps to reduce loss exposure in this commodity. Projections for 2024 could show some isolated limitations due to continued uncertain economic conditions driving commodity price fluctuation. Poultry growers continue to operate with thin margins. The Association continues to experience some isolated concerns in this segment of its portfolio, as evidenced by some due date changes to better match the individual growers' batch sales. Management feels that this loan servicing is due primarily to changes in poultry markets where integrators are adjusting their bird size/placements as the market dictates. Management anticipates these concerns will correct themselves with the increased demand for poultry.

Avian influenza, or bird flu, continues to be of concern to the Association as a lender to poultry operations, as it remains a threat. In November 2023, the Association became aware of two cases in north Alabama isolated to one location. The Association has implemented strict guidelines for all employees and encourages the public to take bio security matters seriously. After nearly a week the outbreak did not spread. As a proactive measure, the Association continues to monitor any customer needs in this event. The current cases have not affected the Association's portfolio.

Agricultural income has been stable to improving over the past few years, with good growing conditions and commodity prices. Weather conditions for 2023 had average moisture over most of the Association's territory. Cow-

calf prices are expected to slightly improve or hold steady in 2023, 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 2023 are projected to remain stable. Feed costs to the integrators remained at a more normal or reasonable level in 2023, due to lower costs for corn and soybeans.

Timber markets in 2023 remained steady for pine and hardwood pulpwood, and to a lesser extent hardwood saw timber. Indicators for 2023 are for timber prices to remain stable, with industry leaders projecting steady demand for wood products. Westervelt Company has announced a new timber mill in Thomasville, Alabama. The timber industry overall has experienced a resurgence from a strong national economy. This industry continues to closely balance demand and production. Certain hardwood saw timber and pine pulpwood products have led the way for products in demand by the market. Alabama produces a substantial amount of pine for pulpwood products.

Overall land values have seen a slight improvement or remained stable in most areas of the Association's territory based on the current economic climate. The agricultural economy, in general for the area, is expected to remain stable in 2023. The Association's credit quality remained steady at 98.7 percent non adverse loan volume at December 31, 2023.

Significant Events:

In January 2023, the Association approved a patronage distribution to its stockholders. The Association was able to distribute $13,267,835 to its members due to strong earnings during 2022. The distribution was made in March 2023. Also, in January 2023, the Association completed the acquisition of Steve Tate Crop Insurance Agency.

Effective May 2023, the Association entered a Non-Capitalization Participation Pool (NCPP) agreement with the Farm Credit Bank of Texas (Bank) in which the Bank purchased a pool of loans in the amount of $50,518,181 from the Association. The NCPP agreement requires the Association to service the loans in return for a patronage from the Bank equal to what the Association would have earned were the loans on its books, less a fee. The benefit of the NCPP agreement to the Association is a low-cost improvement to its capital position.

Adoption of New Accounting Standard

Effective January 1, 2023, the Association adopted the current expected credit losses (CECL) accounting guidance that replaced the incurred loss guidance. CECL established a single allowance framework for financial assets carried at amortized cost and certain off-balance-sheet credit exposures. CECL requires management to consider in its estimate of allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets. The adoption of this guidance was not material to the allowance for credit losses and retained earnings.

Patronage Refunds Received From Farm Credit Bank of Texas:

In December 2023, the Association received a direct loan patronage of $2,700,559 from the Farm Credit Bank of Texas ("Bank"), representing 27 basis points on the average daily balance of the Association's direct loan with the Bank. During 2023, the Association received $597,748 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a patronage of $2,240,030 from the Bank, representing 179 basis points on the Association's average balance of participations in the Bank's non-capitalized participation pool program.

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

Patronage Refunds by Association:

In December 2023, the Association accrued a $9,442,770 patronage distribution to its stockholders. The payment resolution will be approved in January 2024 and will be disbursed in March 2024. The Association was able to return these funds to its members due to strong earnings over the past three years.

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 loan products are available to eligible borrowers with competitive variable, fixed, adjustable, SOFR-based and prime-based interest rates. Loan maturities range from one to 30 years. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The composition of the Association's loan portfolio, including principal less funds held of $1,084,852,586, $1,057,513,860, and $1,023,904,600 as of December 31, 2023, 2022 and 2021, respectively, is described more fully in detailed tables in Note 3, "Loans and Allowance for Credit Losses," in the accompanying consolidated financial statements.

Purchase and Sales of Loans:

During 2023, 2022 and 2021, the Association was participating in loans with other lenders. As of December 31, 2023, 2022 and 2021, these participations totaled $130,788,920, $92,990,406, and $77,646,173, or 12.1 percent, 8.8 percent, and 7.6 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the District of $13,504,126, $2,500,000, and $2,500,000 or 1.2 percent, 0.2 percent, and 0.2 percent of loans, respectively. The Association has also sold participations of $164,747,698, $113,947,963, and $11,716,011 as of December 31, 2023, 2022 and 2021, respectively.

Risk Exposure:

Nonperforming assets include nonaccrual loans, accruing loans that are 90 days or more past due and other property owned, net.

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

Nonperforming Assets

	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Nonaccrual loans	$ 3,525,374	74.8%	$ 5,147,279	67.8%	$ 5,622,598	76.2%
Accruing loans 90 days or more past due	164,526	3.5%	-	0.0%	4,457	0.1%
Formerly restructured			659,639	8.7%	581,629	7.9%
Total nonperforming loans	3,689,900		5,806,918		6,208,684	
Other property owned, net	1,023,848	21.7%	1,785,058	23.5%	1,169,850	15.8%
Nonperforming assets	$ 4,713,748	100.0%	$ 7,591,976	100.0%	$ 7,378,534	100.0%

At December 31, 2023, 2022 and 2021, nonperforming loans were $3,689,900, $5,806,918 and $6,208,684, representing 0.3 percent, 0.5 percent, and 0.6 percent of loan volume, respectively.

The Association had four properties in other property owned at the beginning of 2023. During 2023, the Association acquired three additional properties from various counties in north Alabama. The Association sold three properties during 2023, resulting in a net decrease of $761,210. At December 31, 2023, the Association held four properties with a carrying value of $1,023,848, net of allowance, which consisted of 365 acres of land.

Counterparty risk is continually monitored by management of the Association. The Association's primary counterparty risk comes from poultry integrators with which its borrowers are associated and participation loans. Because the Association has approximately 32.4 percent of its portfolio concentrated in poultry, it mitigates inherent risks in the poultry markets and the integrators by heavy utilization of government guarantees. At December 31, 2023, approximately 25.4 percent of the Association's poultry loans were government guaranteed. Also, the Association's lending territory has multiple integrators, which would minimize the risk of counterparty failure or lack of performance. Management analyzes the financial position and performance of these integrators by regularly gathering updated financials and other reports that are made available to the public. The Association, in the normal course of business, has participation loans with other Farm Credit associations and Farm Credit banks.

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

To help mitigate and diversify credit risk, the Association has employed practices including credit guarantees and engaging in loan participations. At December 31, 2023, the Association had approximately $111,824,017, or 10.3 percent, of its portfolio that had guarantees with the Farm Service Agency (FSA) or the Small Business Administration (SBA).

Allowance for Credit Losses on Loans:

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

Effective January 1, 2023, the Association employs a disciplined process and methodology to establish its allowance for credit losses on loans that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

Asset-specific loans are generally collateral-dependent loans (including those loans for which foreclosure is probable) and nonaccrual loans. For an asset-specific loan, expected credit losses are measured as the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate except that, for collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with the Association's appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed or non-recoverable, the credit loss portion of the loan will be charged off against the allowance for credit losses.

In estimating the component of the allowance for credit losses on loans that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. Relevant

risk characteristics include loan type, commodity, credit quality rating, delinquency category or business segment or a combination of these classes. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by credit quality rating or delinquency buckets using historical life-of-loan analysis periods for loan types, and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool.

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors are considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations, and appraisals to change over time. Management considered a number of factors in determining and supporting the levels of the allowances for loan losses, which include, but are not limited to, the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, and weather-related influences.

Based upon ongoing risk assessment and the procedures outlined above, the allowance for credit losses on loans of $3,267,316, $2,819,499, and $3,221,544 at December 31, 2023, 2022 and 2021, respectively, is considered adequate by management to compensate for losses in the loan portfolio at such dates.

Results of Operations:

The Association's net income for the year ended December 31, 2023, was $15,181,187 as compared to $18,455,334 for the year ended December 31, 2022, reflecting a decrease of $3,274,147, or 17.7 percent. The Association's net income for the year ended December 31, 2021 was $18,733,710. Net income decreased $278,376, or 1.5 percent, in 2022 versus 2021.

Net interest income for 2023, 2022 and 2021 was $27,290,350, $26,252,866, and $26,351,094, respectively, reflecting an increase of $1,037,484, or 3.9 percent, for 2023 versus 2022 and a decrease of $98,228, or 0.4 percent, for 2022 versus 2021. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2023		2022		2021	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	$ 1,063,275,767	$ 59,001,261	$ 1,079,142,463	$ 48,367,659	$ 1,021,511,554	$ 43,474,303
Interest-bearing liabilities	948,400,704	31,710,911	966,342,271	22,114,793	910,776,115	17,123,209
Impact of capital	$ 114,875,063		$ 112,800,192		$ 110,735,439	
Net interest income		$ 27,290,350		$ 26,252,866		$ 26,351,094

	2023 Average Yield	2022 Average Yield	2021 Average Yield
Yield on loans	5.55%	4.48%	4.26%
Cost of interest-bearing liabilities	3.34%	2.29%	1.88%
Interest rate spread	2.21%	2.19%	2.38%

	2023 vs. 2022			2022 vs. 2021		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	$ (711,145)	$ 11,290,329	$ 10,579,184	$ 2,452,714	$ 2,440,642	$ 4,893,356
Interest expense	(410,593)	9,936,935	9,526,342	1,044,699	3,946,885	4,991,584
Net interest income	$ (300,552)	$ 1,353,394	$ 1,052,842	$ 1,408,015	$ (1,506,243)	$ (98,228)

Interest income for 2023 increased by $10,579,184, or 21.9 percent, compared to 2022, primarily due to an increase in average loan volume combined with an increase in loan yields. Interest expense for 2023 increased by $9,551,982, or 43.2 percent, compared to 2022 due to an increase in interest rates on the Association's direct note with the Bank. The interest rate spread increased by 1 basis point to 2.21 percent in 2023 from 2.19 percent in 2022, primarily because of higher spreads on new loan originations. The interest rate spread decreased by -18 basis points to 2.19 percent in 2022 from 2.38 percent in 2021, primarily due to the increase in cost of funds on the Association's note with the Farm Credit Bank of Texas.

Noninterest income for 2023 decreased by $1,966,842, or 20.6 percent, compared to 2022, due primarily to a decrease in direct note patronage income from the Bank. Noninterest income for 2022 increased by $1,126,228, or 13.4 percent, compared to 2021, due primarily to an increase in patronage income related to non-capitalized participation pools sold to the Bank.

Provisions for loan losses decreased by $1,369 or 2.1 percent, compared to 2022, due primarily to an increase in the specific allowance on impaired loans.

Operating expenses consist primarily of salaries, employee benefits, insurance fund premiums, occupancy, equipment, and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting, and loan processing, among others. The $2,099,804 increase in operating expenses for 2023 as compared to 2022 includes an increase in occupancy and equipment due to the completion and move into the Rainbow City Branch. There were also increases in public and member relations, advertising and purchased services.

For the year ended December 31, 2023, the Association's return on average assets was 1.4 percent, as compared to 1.6 percent, and 1.8 percent for the years ended December 31, 2022, and 2021, respectively. For the year ended December 31, 2023, the Association's return on average members' equity was 10.2 percent, as compared to 12.6 percent and 13.4 percent for the years ended December 31, 2022, and 2021, respectively. These decreases are primarily due to an increase in interest rates on the Association's direct note with the Bank.

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

Liquidity and Funding Sources:

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

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $965,495,373, $936,446,822, and $906,616,061 as of December 31, 2023, 2022 and 2021, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.5 percent, 1.6 percent, and 1.8 percent at December 31, 2023, 2022 and 2021, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2022, is due to the Association's loan portfolio growth. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $124,482,476, $117,965,425, and $114,722,689 at December 31, 2023, 2022 and 2021, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2023, was $1,089,476,906 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, 2024, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2024. As borrower payments are received, they are applied to the Association's note payable to the Bank.

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

Capital Resources:

The Association's capital position remains strong, with total members' equity of $148,024,748, $143,175,413, and $137,551,378 at December 31, 2023, 2022 and 2021, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-weighted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-weighted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2023, 2022 and 2021 was 12.2 percent, 11.9 percent, and 12.1 percent, respectively. The core surplus ratio measures available core surplus capital relative to risk-weighted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio at December 31, 2023, 2022 and 2021 was 12.1 percent, 11.8 percent, and 13.0 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measures available surplus capital relative to risk-weighted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's total surplus ratio at December 31, 2023, 2022 and 2021 was 12.5 percent, 12.1 percent, and 13.4 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

Regulatory Matters:

At December 31, 2023, the Association was not under written agreements with the Farm Credit Administration.

On January 13, 2023, FCA issued an advance notice of proposed rulemaking on the regulatory capital framework for Farmer Mac. The comment period ended on April 26, 2023.

On October 5, 2023, the Farm Credit Administration approved a final rule on cyber risk management that requires each System institution to develop and implement a comprehensive, written cyber risk management program. Each institution's cyber risk plan must require the institution to take the actions to assess internal and external risk factors, identify potential system and software vulnerabilities, establish a risk management program for the risks identified, develop a cyber risk training program, set policies for managing third-party relationships, maintain robust internal controls and establish institution board reporting requirements. The final rule will become effective on January 1, 2025.

On October 12, 2023, FCA approved a final rule on young, beginning, and small (YBS) farmer and rancher activity, effective February 1, 2024. The objectives of the rule are to expand the YBS activities of direct-lender associations to a diverse population of borrowers, to reinforce the supervisory responsibilities of the banks that fund the direct-lender associations, and require the banks to annually review and approve the associations' YBS programs and to require each direct-lender association to enhance the strategic plan for its YBS program. FCA will transition to a new YBS reporting system in 2024 to provide a clearer picture of YBS lending by allowing the agency to better break down and categorize loan data.

Relationship With the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 8, "Note Payable to the Bank," in the accompanying [consolidated] financial statements.

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

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

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

Summary:

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

Report of Independent Auditors

To the Board of Directors of Alabama Farm Credit, ACA

Opinion

We have audited the accompanying consolidated financial statements of Alabama Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2023, 2022 and 2021, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2023, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Association changed the manner in which it accounts for the allowance for credit losses in 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2023 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Austin, Texas
March 8, 2024

ALABAMA FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2023	2022	2021
Assets			
Cash	$ 10,700	$ 17,895	$ 10,700
Loans	1,084,857,091	1,059,916,803	1,023,902,768
Less: allowance for credit losses on loans	3,267,316	2,819,499	3,221,544
Net loans	1,081,589,775	1,057,097,304	1,020,681,224
Accrued interest receivable	12,145,623	9,130,585	8,912,874
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	17,958,700	18,202,435	18,127,200
Other	1,815,378	928,736	1,271,688
Other property owned, net	1,023,848	1,785,058	1,169,850
Premises and equipment	15,558,575	13,788,739	12,642,475
Other assets	4,279,297	1,183,770	885,425
Total assets	$ 1,134,381,895	$ 1,102,134,522	$ 1,063,701,436
Liabilities			
Note payable to the Farm Credit Bank of Texas	$ 965,495,373	$ 936,446,822	$ 906,616,061
Advance conditional payments	1,227,064	179,020	27,640
Accrued interest payable	3,004,039	2,321,681	1,409,829
Drafts outstanding	42,909	77,132	89,452
Dividends payable	9,342,498	13,185,614	12,296,645
Other liabilities	7,245,263	6,748,839	5,710,431
Total liabilities	986,357,146	958,959,108	926,150,058
Members' Equity			
Capital stock and participation certificates	3,434,855	3,498,465	3,439,780
Unallocated retained earnings	144,297,491	139,388,864	134,110,741
Accumulated other comprehensive income (loss)	292,403	288,084	857
Total members' equity	148,024,749	143,175,413	137,551,378
Total liabilities and members' equity	$ 1,134,381,895	$ 1,102,134,522	$ 1,063,701,436

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2023	2022	2021
Interest Income			
Loans	$ 58,946,806	$ 48,367,659	$ 43,474,303
Interest Expense			
Note payable to the Farm Credit Bank of Texas	31,641,097	22,114,793	17,123,209
Advance conditional payments	15,359	-	-
Total interest expense	31,656,456	22,114,793	17,123,209
Net interest income	27,290,350	26,252,866	26,351,094
Provision for loan losses (loan loss reversal)	(62,631)	(64,000)	(604,491)
Net interest income after provision for losses (loan loss reversal)	27,352,981	26,316,866	26,955,585
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	5,538,336	8,290,739	7,178,240
Loan fees	507,404	1,074,052	935,923
Financially related services income	672,524	6,337	7,532
Gain (loss) on other property owned, net	84,433	(157,420)	75,470
Gain on sale of premises and equipment, net	9,481	67,522	79,957
Other noninterest income	625,228	255,025	133,142
Total noninterest income	7,437,406	9,536,255	8,410,264
Noninterest Expenses			
Salaries and employee benefits	10,224,665	9,211,833	9,198,459
Directors' expense	387,022	399,126	405,713
Purchased services	1,813,939	1,189,103	1,117,044
Travel	1,101,011	1,078,639	937,550
Occupancy and equipment	1,745,080	1,320,480	1,138,130
Communications	352,654	335,024	327,879
Advertising	564,913	502,782	705,379
Public and member relations	765,806	480,074	451,045
Supervisory and exam expense	283,850	355,456	314,171
Insurance Fund premiums	1,686,585	1,635,631	1,204,757
Other noninterest expense	687,994	889,640	832,012
Total noninterest expenses	19,613,519	17,397,788	16,632,139
Income before income taxes	15,176,868	18,455,333	18,733,710
Benefit from income taxes	-	-	-
NET INCOME	15,176,868	18,455,333	18,733,710
Other comprehensive income:			
Change in postretirement benefit plans	4,319	287,227	95,144
COMPREHENSIVE INCOME	$ 15,181,187	$ 18,742,560	$ 18,828,854

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	$ 3,126,030	$ 127,740,742	$ (94,287)	$ 130,772,485
Net income		18,733,710		18,733,710
Other comprehensive income			95,144	95,144
Capital stock/participation certificates and allocated retained earnings issued	761,575			761,575
Capital stock/participation certificates and allocated retained earnings retired	(447,825)			(447,825)
Dividends declared		(12,363,711)		(12,363,711)
Balance at December 31, 2021	3,439,780	134,110,741	857	137,551,378
Net income		18,455,334		18,455,334
Other comprehensive income			287,227	287,227
Capital stock/participation certificates and allocated retained earnings issued	537,065			537,065
Capital stock/participation certificates and allocated retained earnings retired	(478,380)			(478,380)
Dividends declared		(13,177,210)		(13,177,210)
Balance at December 31, 2022	3,498,465	139,388,864	288,084	143,175,413
Net income		15,181,187		15,181,187
CECL Adjustment		(829,790)		(829,791)
Other comprehensive income			4,319	4,319
Capital stock/participation certificates and allocated retained earnings issued	319,730			319,730
Capital stock/participation certificates and allocated retained earnings retired	(383,340)			(383,340)
Dividends declared		(9,442,770)		(9,442,770)
Balance at December 31, 2023	$ 3,434,855	$ 144,297,491	$ 292,403	$ 148,024,749

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net income	$ 15,176,868	$ 18,455,333	$ 18,733,710
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses (loan loss reversal)	(92,353)	(64,000)	(604,491)
Provision for acquired property	155,886	-	-
(Gain) loss on sale of other property owned, net	(303,486)	102,872	(120,651)
Depreciation	1,056,339	955,147	739,695
Amortization (accretion) of net (premiums) discounts in investments	(650,293)	(712,941)	(255,983)
Gain on sale of premises and equipment, net	(141,457)	(67,522)	(79,957)
Increase in accrued interest receivable	(3,015,038)	(217,711)	(717,410)
(Increase) decrease in other receivables from the Farm Credit Bank of Texas	(97,658)	342,952	(742,593)
Increase in other assets	(3,049,041)	(454,339)	(411,855)
Increase (decrease) in accrued interest payable	682,358	911,852	(58,205)
Increase in other liabilities	1,460,731	1,444,982	723,008
Net cash provided by operating activities	11,182,856	20,696,625	17,205,268
Cash flows from investing activities:			
Increase in loans, net	(24,982,460)	(37,759,178)	(49,978,463)
Cash recoveries of loans previously charged off	3,711	203,509	-
Proceeds from purchase of investment in the Farm Credit Bank of Texas	(545,249)	(75,235)	(2,033,760)
Purchases of premises and equipment	(3,073,226)	(2,151,389)	(5,113,094)
Proceeds from sales of premises and equipment	388,508	118,500	1,075,600
Proceeds from sales of other property owned	1,428,299	1,385,478	666,844
Net cash used in investing activities	(26,780,417)	(38,278,315)	(55,382,873)

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2023	2022	2021
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	28,956,034	29,830,761	48,646,163
(Decrease) increase in drafts outstanding	(34,223)	(12,320)	89,303
Issuance of capital stock and participation certificates	319,730	537,065	761,575
Retirement of capital stock and participation certificates	(383,340)	(478,380)	(447,825)
Patronage distributions paid	(13,267,835)	(12,288,241)	(10,871,611)
Net cash provided by financing activities	15,590,366	17,588,885	38,177,605
Net (decrease) increase in cash	(7,195)	7,195	-
Cash at the beginning of the year	17,895	10,700	10,700
Cash at the end of the year	$ 10,700	$ 17,895	$ 10,700
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	519,489	2,104,558	1,169,850
Loans charged off	918	509,520	203,509
Accumulated other comprehensive income (loss)	4,319	287,227	95,144
Patronage distributions declared	9,442,770	13,267,835	12,281,301
Net increase (decrease) in FSA receivable	(46,486)	155,994	113,077
Increase in reserve for unfunded commitments	323,611	32,034	9,759
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	$ 30,958,739	$ 21,202,941	$ 17,181,414
Income taxes	-	-	-

ALABAMA FARM CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Alabama Farm Credit, ACA (Agricultural Credit Association), including its wholly owned subsidiaries, Alabama Farm Credit, PCA and Alabama Farm Credit, FLCA (collectively called "the Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Blount, Calhoun, Cherokee, Clay, Cleburne, Colbert, Cullman, DeKalb, Etowah, Fayette, Franklin, Jackson, Jefferson, Lamar, Lauderdale, Lawrence, Limestone, Madison, Marion, Marshall, Morgan, Randolph, Shelby, St. Clair, Talladega, Walker, and Winston in the state of Alabama.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2023, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2023, the District consisted of the Bank, one FLCA and 13 ACA parent companies, which have two wholly owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

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

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

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

The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance, and providing additional services to borrowers, such as financial management services and an investment bond program.

The Association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investments in the Association. The Bank's Annual Report to Stockholders discusses the material aspects of the District's financial condition, changes in financial condition and results of operations. In addition, the Bank's Annual Report to Stockholders identified favorable and unfavorable trends, significant events, uncertainties, and the impact of activities of the Insurance Fund. Upon request, stockholders of the Association will be provided with the Bank's Annual Report to Stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation and Consolidation

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

Use of Estimates

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

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

A. Recently Issued or Adopted Accounting Pronouncements:

On January 1, 2023, the Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to credit losses. This guidance replaced the current incurred loss impairment methodology with a single allowance framework that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance-sheet credit exposures. This guidance is applied on a modified retrospective basis. This framework requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that consider macroeconomic conditions. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance for credit losses related to these securities, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves.

Also adopted effective January 1, 2023, was the updated guidance entitled "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure." This guidance requires the creditor to determine whether a modification results in a new loan or a continuation of an existing loan, among other disclosures specific to modifications with borrowers that are experiencing financial difficulties. The update

eliminated the accounting guidance for troubled debt restructurings by creditors. The update also requires disclosure of current period gross write-offs by year of origination for financing receivables and net investments in leases on a prospective basis.

The following table presents the balance sheet impact to the allowance for credit losses and capital upon adoption of this guidance on January 1, 2023:

(in millions)	December 31, 2022	CECL adoption impact	January 1, 2023
Assets:			
Allowance for credit losses on loans	$ 2,819,499	$ 595,729	$ 3,415,228
Liabilities:			
Allowance for credit losses on unfunded commitments	80,489	234,061	314,550
Retained earnings:			
Unallocated retained earnings, net of tax	$ 2,899,988	$ 829,790	$ 3,729,778

In December 2022, the FASB issued an update entitled "Reference Rate Reform - Deferral of the Sunset Date of Topic 848." In March 2020, the FASB issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Reference Rate Reform)." The guidance provided optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform to ease the potential burden related to reference rate reform (transition away from the London Inter-Bank Offered Rate (LIBOR)). At the time the update was issued, the expectation was that LIBOR would cease to be published after December 31, 2021.

In January 2021, the FASB issued an update to Reference Rate Reform whereby certain derivative instruments could be modified to change the rate used for margining, discounting, or contract price alignment. An entity could elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2021, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments did not apply to contract modifications made or new hedging relationships entered into after December 31, 2023, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022.

Subsequent to the issuance of the January 2021 update, it was announced that the intended cessation date for various tenors of LIBOR would be September 30, 2023, thus necessitating the update to the sunset date. The amendments in the current update defer the sunset date from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief.

In March 2022, the FASB issued an update entitled "Derivatives and Hedging: Fair Value Hedging – Portfolio Layer Method." Under current guidance, the last-of-layer method enables an entity to apply fair value hedging to a stated amount of a closed portfolio of prepayable financial assets (or one or more beneficial interests secured by a portfolio of prepayable financial instruments) without having to consider prepayment risk or credit risk when measuring those assets. This guidance will allow entities to apply the portfolio layer method to portfolios of all financial assets, including both prepayable and nonprepayable financial assets. This scope expansion is consistent with the FASB's efforts to simplify hedge accounting and allows entities to apply the same method to similar hedging strategies. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The adoption of this guidance did not impact the Association's financial condition or results of operation as the System does not have a current derivative hedging strategy in which the last-of-layer method is used.

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

C. Loans and Allowance for Credit Losses on Loans: Long-term real estate mortgage loans generally have original maturities ranging from five to thirty years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount

outstanding adjusted for charge-offs and net deferred loan fees or costs. Loan origination fees and direct loan origination costs are capitalized, and the net fee or cost is amortized over the life of the related loan as an

adjustment to yield. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Nonaccrual Loans Nonaccrual loans are loans for which there is reasonable doubt that all principal and interest will not be collected according to the original contractual terms and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is modified or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

Consistent with prior practice, loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection), circumstances indicate that collection of principal and interest is in doubt or legal action, including foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest. At the time a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for credit losses on loans (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, interest payments received in cash are recognized as interest income if collectability of the loan is fully expected and certain other criteria are met. Otherwise, payments received are applied against the recorded investment in the loan. Nonaccrual loans are returned to accrual status if all contractual principal and interest are current, the borrower has demonstrated payment performance, and collection is fully expected to fulfill the contractual repayments terms and after remaining current as to principal and interest for a sustained period or have a recent repayment pattern demonstrating future repayment capacity to make on-time payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer should first be recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

Accrued Interest Receivable The Association elected to continue classifying accrued interest on loans and investment securities in accrued interest receivable and not as part of loans or investments on the balance sheet. The Association has also elected to not estimate an allowance on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected.

Loan Modifications to Borrowers Experiencing Financial Difficulty Loan modifications may be granted to borrowers experiencing financial difficulty. Modifications can be in the form of one or a combination of principal forgiveness, interest rate reduction, other-than-insignificant payment delay or a term extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions.

Collateral Dependent Loans Collateral dependent loans are loans secured by collateral, including but not limited to agricultural real estate, crop inventory, equipment, and livestock. CECL requires an entity to measure the expected credit losses based on fair value of the collateral at the reporting date when the entity determines that foreclosure is probable. Additionally, CECL allows a fair value practical expedient as a measurement approach for loans when the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulties. Under the practical expedient measurement approach, the expected credit losses are based on the difference between the fair value of the collateral less estimated costs to sell and the amortized cost basis of the loan.

Allowance for Credit Losses Effective January 1, 2023, the ACL represents the estimated current expected credit losses over the remaining contractual life of financial assets measured at amortized cost and certain off-balance-sheet credit exposures. The ACL takes into consideration relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are not unconditionally cancellable. The ACL comprises:

- the allowance for credit losses on loans (ACLL), which covers the loan portfolio and is presented separately on the balance sheet,
- the allowance for credit losses on unfunded commitments, which is presented on the balance sheet in other liabilities, and
- the allowance for credit losses on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the balance sheet.

Determining the appropriateness of the ACL is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio considering macroeconomic conditions, forecasts and other factors prevailing at the time may result in significant changes in the ACL in those future periods.

Allowance for Credit Losses on Loans The ACLL represents management's estimate of credit losses over the remaining expected life of loans. Loans are evaluated on the amortized cost basis, including premiums, discounts and fair value hedge accounting adjustments. The expected life of a loan is determined based on the contractual term of the loan, anticipated prepayment rates, cancellation features and certain extension and call options. The ACLL is estimated using a probability of default (PD) and loss given default (LGD) model wherein impairment is calculated by multiplying the PD (probability the loan will default in a given timeframe) by the LGD (percentage of the loan expected to be collected at default.)

The Association employs a disciplined process and methodology to establish its ACLL that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

Asset-specific loans are generally collateral-dependent loans (including those loans for which foreclosure is probable) and nonaccrual loans. For an asset-specific loan, expected credit losses are measured as the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate except that, for collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed or non-recoverable, the credit loss portion of the loan will be charged off against the allowance for credit losses.

In estimating the components of the ACLL that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. Relevant risk characteristics include loan type and credit quality rating, or a combination of these classes. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by credit quality rating and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool.

The ACLL also considers factors for each loan pool to adjust for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio related to:

- lending policies and procedures.
- national, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets.
- the nature of the loan portfolio, including the terms of the loans.
- the experience, ability and depth of the lending management and other relevant staff.
- the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans.

- the quality of the loan review and process.
- the value of underlying collateral for collateral-dependent loans.
- the existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- the effect of external factors such as competition and legal and regulatory requirements on the level of credit losses in the existing portfolio.

The Association's macroeconomic forecast includes a weighted selection of the baseline, upside 10th percentile and downside 90th percentile from third party economic scenarios over a reasonable and supportable forecast period of two years. Subsequent to the forecast period, the Association reverts to long-run historical loss experience over a one-year reversion period to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts, which are updated quarterly, incorporate macroeconomic variables, including the U.S. unemployment rate, Dow Jones Total Stock Market Index and U.S. corporate bond spreads. The Bank also considers loan and borrower characteristics, such as internal risk ratings, industry, and the remaining term of the loan, adjusted for expected prepayments.

In addition to the quantitative calculation, the Association considers the imprecision inherent in the process and methodology, emerging risk assessments and other subjective factors, which may lead to a management adjustment to the modeled ACLL results. Expected credit loss estimates also include consideration of expected cash recoveries on loans previously charged-off or expected recoveries on collateral dependent loans where recovery is expected through sale of the collateral. The economic forecasts are updated on a quarterly basis.

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors are considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations and appraisals to change over time. Management considered a number of factors in determining and supporting the levels of the allowances for loan losses, which include, but are not limited to, the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

Allowance for Credit Losses on Unfunded Commitments The Association evaluates the need for an allowance for credit losses on unfunded commitments under CECL and, if required, an amount is recognized and included in other liabilities on the condensed combined statement of condition. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the institution and applying the loss factors used in the ACLL methodology to the results of the usage calculation. No allowance for credit losses is recorded for commitments that are unconditionally cancellable.

D. Capital Stock Investment in the Farm Credit Bank of Texas: The Association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the Association's proportional utilization of the Bank compared to other District associations. The Bank requires a minimum stock investment of 2 percent of the Association's average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

   If needed to meet regulatory capital adequacy requirements, the board of directors of the Bank may increase the percentage of stock held by an association from 2 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5 percent of the average outstanding balance of borrowings from the Bank.

E. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, and is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the consolidated balance sheet. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the

asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the statements of comprehensive income.

F. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized. Long-lived assets are reviewed for impairment whenever events or circumstances indicate the carrying amount of an asset group may not be recoverable.

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

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

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2023, made on their behalf into various investment alternatives.

The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC plan of $497,768, $445,559, and $391,970 for the years ended December 31, 2023, 2022 and 2021 respectively. For the DB plan, the Association recognized pension costs of $99,841, $277,633, and $602,797 for the years ended December 31, 2023, 2022 and 2021, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were $350,491, $325,355, and $278,786 for the years ended December 31, 2023, 2022 and 2021, respectively.

In addition to the DB plan, the DC plan, and the Farm Credit Benefits Alliance 401(k) plans above, the Association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan; therefore, the associated liabilities are included in the Association's consolidated balance sheet in other liabilities. The expenses of the nonqualified plan included in the Association's employee benefit costs were $36,126, $24,742, and $22,375 for the years ended December 31, 2023, 2022 and 2021, respectively.

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

I. Income Taxes: The ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through the wholly owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly

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

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

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

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

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

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

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

L. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters

of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 — LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS:

A summary of loans as of December 31 follows:

	2023		2022		2021	
Loan Type	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 783,840,002	72.3%	$ 815,498,174	77.1%	$ 819,854,043	80.1%
Production and intermediate-term	156,567,108	14.4%	124,586,763	11.8%	111,040,013	10.8%
Agribusiness:						
Loans to cooperatives	5,550,290	0.5%	2,652,580	0.3%	1,932,503	0.2%
Processing and marketing	68,338,627	6.3%	60,555,243	5.7%	53,282,814	5.2%
Farm-related business	28,319,108	2.6%	25,467,961	2.4%	14,092,445	1.4%
Communication	4,668,050	0.4%	3,555,570	0.3%	1,998,922	0.2%
Energy	4,993,905	0.5%	337,706	0.0%	1,248,898	0.1%
Water and waste-water	9,417,330	0.9%	6,515,115	0.6%	1,566,828	0.2%
Rural residential real estate	16,792,418	1.5%	18,350,735	1.7%	17,972,918	1.8%
Agricultural export finance	6,370,253	0.6%	2,396,956	0.0%	913,384	0.1%
Total	$ 1,084,857,091	100.0%	$ 1,059,916,803	99.9%	$ 1,023,902,768	100.1%

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold as of December 31, 2023:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,009,110	$ 136,926,399	$ -	$ 2,000,000	$ 1,009,110	$ 138,926,399
Production and intermediate-term	33,474,065	8,542,522	-	1,279,200	33,474,065	9,821,722
Agribusiness	57,352,081	14,677,750	13,504,126	-	70,856,207	14,677,750
Communication	4,668,050	-	-	-	4,668,050	-
Energy	4,993,905	-	-	-	4,993,905	-
Water and waste-water	9,417,330	-	-	-	9,417,330	-
Rural residential real estate	-	1,321,827	-	-	-	1,321,827
International	6,370,253	-	-	-	6,370,253	-
Total	$ 117,284,794	$ 161,468,498	$ 13,504,126	$ 3,279,200	$ 130,788,920	$ 164,747,698

A geographic distribution of loans as of December 31 is below. The following percentages are based on the borrower's physical location, the borrower's headquarter location, or the physical location of the underlying collateral where applicable:

County	2023	2022	2021
DeKalb	9.8%	10.9%	13.0%
Lawrence	7.8%	7.9%	7.5%
Limestone	6.7%	5.9%	5.8%
Cullman	5.7%	5.8%	5.6%
Madison	5.5%	5.7%	6.6%
Marshall	4.6%	5.7%	6.9%
Morgan	4.3%	4.2%	3.6%
Cherokee	3.9%	4.1%	3.1%
Other counties with less than 4%	38.4%	35.7%	34.8%
Other States	17.2%	14.1%	13.1%

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

	2023		2022		2021	
Operation/Commodity	Amount	%	Amount	%	Amount	%
Poultry and eggs	$ 361,729,618	33.3%	$ 366,990,507	34.6%	$ 397,432,091	38.8%
Livestock, except dairy and poultry	190,853,566	17.6%	185,973,933	17.5%	182,880,559	17.9%
Timber	147,028,675	13.6%	156,655,807	14.8%	146,060,798	14.3%
Other	385,245,232	35.5%	350,296,556	33.1%	297,529,320	29.0%
Total	$ 1,084,857,091	100.0%	$ 1,059,916,803	100.0%	$ 1,023,902,768	100.0%

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

To mitigate the risk of loan losses, the Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the Bank. The agreements, which will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2023, 2022 and 2021, loans totaling $8,320,335, $3,288,235, and $0, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $14,825, $0, and $0 in 2023, 2022 and 2021, respectively, and are included in "other noninterest expense."

Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit and unfunded loan commitments. The entity manages credit risk associated with the retail lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies, approved by its board of directors, which provides direction to its loan officers. The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income,

including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Loans other than real estate mortgage may be made on a secured or unsecured basis.

The entity uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default occurs during the remaining life of the loan. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship. The institution reviews, at least on an annual basis, or when a credit action is taken, the probability of default category.

Each of the probability of default categories carries a distinct percentage of default probability. The probability of default rate between one and nine of the acceptable categories is very narrow and would reflect almost no default to a minimal default percentage. The probability of default rate grows more rapidly as a loan moves from acceptable to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain. These 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, or collateral pledged on the loan,
- doubtful — assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable, and
- loss — assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31, 2023, 2022 and 2021:

	2023	2022	2021
Real estate mortgage			
Acceptable	97.2 %	97.1 %	97.7 %
OAEM	1.3	1.5	1.5
Substandard/doubtful	1.5	1.4	0.8
	100.0	100.0	100.0
Production and intermediate term			
Acceptable	98.4	98.5	98.9
OAEM	0.9	1.1	0.8
Substandard/doubtful	0.7	0.5	0.3
	100.0	100.0	100.0
Loans to cooperatives			
Acceptable	100.0	100.0	100.0
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0	100.0	100.0
Processing and marketing			
Acceptable	97.3	98.5	100.0
OAEM	2.7	-	-
Substandard/doubtful	-	1.5	-
	100.0	100.0	100.0
Farm-related business			
Acceptable	100.0	100.0	100.0
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0	100.0	100.0
Communication			
Acceptable	100.0	100.0	100.0
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0	100.0	100.0
Energy			
Acceptable	100.0	-	-
OAEM	-	-	-
Substandard/doubtful	-	100.0	100.0
	100.0	100.0	100.0
Water and waste-water			
Acceptable	100.0	100.0	100.0
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0	100.0	100.0
Rural residential real estate			
Acceptable	96.8	98.4	97.4
OAEM	0.4	-	1.7
Substandard/doubtful	2.8	1.6	0.9
	100.0	100.0	100.0
Agricultural export finance			
Acceptable	100.0	100.0	100.0
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0	100.0	100.0
Total Loans			
Acceptable	97.5	97.5	97.9
OAEM	1.2	1.3	1.3
Substandard/doubtful	1.3	1.2	0.8
	100.0 %	100.0 %	100.0 %

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

	December 31, 2023	December 31, 2022	December 31, 2021
Nonaccrual loans:			
Real estate mortgage	$ 3,180,806	$ 3,496,470	$ 4,146,190
Production and intermediate-term	246,329	390,328	68,658
Agribusiness	-	922,775	-
Energy	-	337,706	1,248,898
Rural residential real estate	116,946	-	158,851
Total nonaccrual loans	3,544,081	5,147,279	5,622,597
Accruing restructured loans:			
Real estate mortgage	-	659,639	581,629
Total accruing restructured loans:	-	659,639	581,629
Accruing loans 90 days or more past due:			
Real estate mortgage	162,211	-	4,457
Total accruing loans 90 days or more past due	162,211	-	4,457
Other property owned	1,023,848	1,785,058	1,169,850
Total nonperforming assets	$ 4,730,140	$ 7,591,976	$ 7,378,533

The following table provides the amortized cost for nonaccrual loans with and without a related allowance for loan losses, as well as interest income recognized on nonaccrual during the period:

	December 31, 2023			
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	Interest Income Recognized For the Year Ended December 31, 2023
Nonaccrual loans:				
Real estate mortgage	$ 771,832	$ 2,408,973	$ 3,180,805	$ 126,467
Production and intermediate-term	$ 17,025	$ 229,303	$ 246,328	$ 1,718
Rural residential real estate	$ -	$ 116,946	$ 116,946	$ 8,476
Total nonaccrual loans	$ 788,857	$ 2,755,222	$ 3,544,079	$ 136,660

The following tables provide an aging analysis of past due loans at amortized cost by portfolio segment as of December 31, 2023:

December 31, 2023:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 5,083,994	$ 512,542	$ 5,596,536	$ 776,487,923	$ 782,084,459	$ 162,211
Production and intermediate-term	743,000	229,303	972,303	155,594,804	156,567,107	-
Loans to cooperatives	-	-	-	5,550,290	5,550,290	-
Processing and marketing	-	-	-	68,338,627	68,338,627	-
Farm-related business	-	-	-	28,319,108	28,319,108	-
Communication	-	-	-	4,668,050	4,668,050	-
Energy	-	-	-	4,993,905	4,993,905	-
Water and waste-water	-	-	-	9,417,330	9,417,330	-
Rural residential real estate	38,295	116,946	155,241	16,637,177	16,792,418	-
Agricultural export finance	-	-	-	6,370,253	6,370,253	-
Total	$ 5,865,289	$ 858,791	$ 6,724,080	$ 1,076,377,467	$ 1,083,101,547	$ 162,211

Prior to the adoption of CECL, the aging analysis of past due loans reported included accrued interest as follows:

December 31, 2022	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	$ 7,545,213	$ 1,789,351	$ 9,334,564	$ 812,371,739	$ 821,706,303	$ -
Production and intermediate-term	323,686	303,461	627,329	125,805,671	126,433,000	-
Loans to cooperatives	-	-	-	2,662,075	2,662,075	-
Processing and marketing	278,975	71,605	350,580	60,869,517	61,220,097	-
Farm-related business	-	-	-	25,752,764	25,752,764	-
Communication	-	-	-	3,556,736	3,556,736	-
Energy	-	957	957	336,748	337,705	-
Water and waste-water	-	-	-	6,518,942	6,518,942	-
Rural residential real estate	355,563	-	355,563	18,064,716	18,420,279	-
Agricultural export finance	-	-	-	2,439,487	2,439,487	-
Total	$ 8,503,437	$ 2,165,374	$ 10,668,993	$ 1,058,378,395	$ 1,069,047,388	$ -

December 31, 2021	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	$ 7,554,927	$ 719,538	$ 8,274,465	$ 819,000,303	$ 827,274,768	$ 4,457
Production and intermediate-term	849,155	-	849,155	111,446,592	112,295,747	-
Loans to cooperatives	-	-	-	1,934,036	1,934,036	-
Processing and marketing	-	-	-	53,446,126	53,446,126	-
Farm-related business	-	-	-	14,112,491	14,112,491	-
Communication	-	-	-	1,999,025	1,999,025	-
Energy	-	1,248,898	1,248,898	-	1,248,898	-
Water and waste-water	-	-	-	1,567,315	1,567,315	-
Rural residential real estate	-	158,851	158,851	17,863,961	18,022,812	-
Agricultural export finance	-	-	-	914,424	914,424	-
Total	$ 8,404,082	$ 2,127,287	$ 10,531,369	$ 1,022,284,273	$ 1,032,815,643	$ 4,457

Loan Modifications to Borrowers Experiencing Financial Difficulties

Upon adoption of the CECL accounting guidance, creditors are required to disclose specific modifications with borrowers that are experiencing financial difficulty.

The following table sets forth the amortized cost of loans to borrowers experiencing financial difficulty that received a modification during 2023 and that defaulted in the period presented:

	Modified Loans that Subsequently Defaulted									
					Combination					
	Interest Rate Reduction	Term Extension	Payment Deferral	Principal Forgiveness	Interest Rate & Term Extension	Interest Rate & Payment Deferral	Interest Rate & Principal Forgiveness	Term Extension & Principal Forgiveness	Term Extension & Payment Deferral	Payment Deferral & Principal Forgiveness
Real estate mortgage	$ 219,431	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Production and intermediate-term	-	-	-	-	-	-	-	-	-	-
Agribusiness	-	-	-	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-
Water and waste-water	-	-	-	-	-	-	-	-	-	-
Agricultural export finance	-	-	-	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-	-	-	-	-
Total	$ 219,431	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty during 2023 was $1,794 at December 31, 2023.

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during 2023:

	Financial Effect
	For the Year Ended December 31, 2023
	Interest Rate Reduction Financial Effect
Real estate mortgage	$ 219,431
Agribusiness	-
Other loan types	-

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified on or after January 1, 2023, the date of the adoption of the guidance noted above, through December 31, 2023:

	Payment Status of Loans Modified in the Past 12 Months		
	Current	30-89 Days Past Due	90 Days or More Past Due
Real estate mortgage	-	219,431	-
Production and intermediate-term	-	-	-
Agribusiness	-	-	-
Communication	-	-	-
Energy	-	-	-
Water and waste-water	-	-	-
Agricultural export finance	-	-	-
Rural residential real estate	-	-	-
Lease receivables	-	-	-
Mission-related investments	-	-	-
Total	$ -	$ 219,431	$ -

Troubled Debt Restructurings

Prior to January 1, 2023, the adoption of updated FASB guidance on loan modifications, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program and were borrower-specific and could include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a troubled debt restructuring, these loans were included within our impaired loans under nonaccrual or accruing restructured loans. The following tables present additional information regarding troubled debt restructurings that occurred during the year ended December 31, 2022, and 2021:

	For the Year Ended December 31, 2022	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	$ 659,639	$ -
Production and intermediate-term	-	-
Total	$ 659,639	$ -

	For the Year Ended December 31, 2021	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	$ 909,218	$ -
Production and intermediate-term	-	-
Total	$ 909,218	$ -

* Pre-modification represents the recorded investment just prior to restructuring and post-modification represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable 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.

Additional commitments to lend to borrowers whose loans have been modified in TDRs was $659,639 at December 31, 2022, and $909,218 at December 31, 2021.

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:

	December 31, 2022	
	Loans Modified as TDR	TDR in Nonaccrual Status*
Real estate mortgage	$ 659,639	$ -
Production and intermediate-term	-	-
Total	$ 659,639	$ -

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

Allowance for Credit Losses

The credit risk rating methodology is a key component of the Association's allowance for credit losses evaluation and is generally incorporated into the Association's loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established by the Association to manage credit exposure. The regulatory limit to a single borrower or lessee is 15percent of the Association's lending and leasing limit base but the Association's board of directors have generally established more restrictive lending limits.

Effective January 1, 2023, the Association adopted the CECL accounting guidance as described in Note 2. A summary of changes in the allowance for credit losses by portfolio segment for the year ended December 31, 2023, are as follows:

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Allowance for Credit Losses on Loans:								
Balance at December 31, 2022	$ (2,347,931)	$ (121,179)	$ (256,145)	$ (1,528)	$ (72,977)	$ (17,233)	$ (2,507)	$ (2,819,499)
Cumulative effect of a change in accounting principle	(455,179)	(3,665)	(63,532)	(823)	(2,214)	(11,264)	(700)	(537,377)
Balance at January 1, 2023	(2,803,110)	(124,845)	(319,677)	(2,350)	(75,190)	(28,497)	(3,207)	(3,356,877)
Charge-offs	919	-	-	-	-	-	-	919
Recoveries	(3,711)	-	-	-	-	-	-	(3,711)
Provision for loan losses (loan loss reversal)	178,626	(125,908)	20,092	(5,321)	56,086	(27,810)	(3,413)	92,353
Balance at December 31, 2023	$ (2,627,276)	$ (250,753)	$ (299,585)	$ (7,671)	$ (19,104)	$ (56,307)	$ (6,620)	$ (3,267,316)
Allowance for Credit Losses on Unfunded Commitments:								
Balance at December 31, 2022	$ (526)	$ (34,750)	$ (43,622)	$ -	$ (398)	$ -	$ (1,194)	$ (80,489)
Cumulative effect of a change in accounting principle	(2,217)	(116,681)	(110,622)	-	(191)	-	(4,350)	(234,061)
Balance at January 1, 2023	(2,743)	(151,431)	(154,244)	-	(589)	-	(5,543)	(314,550)
Provision for unfunded commitments	1,332	(148,232)	57,224	(450)	(409)	-	984	(89,551)
Balance at December 31, 2023	$ 1,411	$ 299,663	$ 97,019	$ 450	$ 999	$ -	$ 4,559	$ (404,101)

The allowance for credit losses as of December 31, 2023, was $3,267,316, reflecting an increase of $477,817 from December 31, 2022. Excluding the impact of the adoption of the CECL accounting guidance as previously discussed, the increase was driven by the following scenarios: a baseline scenario which represents a relatively stable economic environment; a downside scenario reflecting an economic recession during 2024; and an upside scenario that considers the potential for economic improvement relative to the baseline scenario.

Allowance for Credit Losses - Prior to CECL Adoption

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	Communi-cations	Energy & Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Total
Allowance for Credit Losses:								
Balance at December 31, 2021	$ 2,639,193	$ 162,863	$ 177,087	$ 851	$ 222,157	$ 18,666	$ 727	$ 3,221,544
Charge-offs	(411,980)	(449)	-	-	(97,091)	-	-	(509,520)
Recoveries	203,509	-	-	-	-	-	-	203,509
Provision for loan losses	(83,606)	(22,338)	91,910	677	(51,937)	(1,434)	2,728	(64,000)
Other	815	(18,897)	(12,852)	-	(152)	-	(948)	(32,034)
Balance at December 31, 2022	$ 2,347,931	$ 121,179	$ 256,145	$ 1,528	$ 72,976	$ 17,232	$ 2,507	$ 2,819,499

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Communi-cations	Energy & Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Total
Allowance for Credit Losses:								
Balance at December 31, 2020	$ 3,704,310	$ 196,966	$ 122,329	$ 786	$ 2,152	$ 12,760	$ -	$ 4,039,303
Charge-offs	(203,509)	-	-	-	-	-	-	(203,509)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(861,050)	(30,467)	59,942	65	220,140	5,906	973	(604,491)
Other	(558)	(3,637)	(5,184)	-	(135)	-	(245)	(9,759)
Balance at December 31, 2021	$ 2,639,193	$ 162,862	$ 177,087	$ 851	$ 222,157	$ 18,666	$ 727	$ 3,221,543

NOTE 4 — INVESTMENT IN THE FARM CREDIT BANK OF TEXAS:

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. Estimating the fair value of the Association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The Association owned 3.6 percent, 3.9 percent, and 4.4 percent of the issued stock of the Bank as of December 31, 2023, 2022 and 2021. As of those dates, the Bank's assets totaled $37.3 billion, $36.0 billion and $28.2 billion and members' equity totaled $1.7 billion, $1.6 billion and $2.0 billion. The Bank's earnings were $199.9 million, $270.0 million, and $254.6 million during 2023, 2022 and 2021.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2023	2022	2021
Land and improvements	$ 1,663,446	$ 1,884,149	$ 1,708,005
Building and improvements	12,187,391	10,179,945	9,968,298
Furniture and equipment	1,255,678	1,218,530	1,180,863
Computer equipment and software	848,348	741,094	706,689
Automobiles	2,066,236	1,965,098	1,483,750
Construction in progress	1,372,872	1,032,061	-
	19,393,971	17,020,877	15,047,605
Accumulated depreciation	(3,835,396)	(3,232,138)	(2,405,130)
Total	$ 15,558,575	$ 13,788,739	$ 12,642,475

The Association entered into operating leases for office equipment for all branch offices. Lease expense was $93,021, $59,741, and $59,741 for 2023, 2022 and 2021, respectively. Minimum annual lease payments for the next three years are as follows:

	Operating Leases
2024	$ 40,316
2025	8,543
2026	3,738
Total	$ 52,597

NOTE 6 — OTHER PROPERTY OWNED, NET:

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

	2023	2022	2021
Gain (loss) on sale, net	$ 303,486	$ (102,872)	$ 120,651
Carrying value adjustments	-	-	-
Operating income (expense), net	(219,053)	(54,548)	(45,181)
Net gain (loss) on other property owned	$ 84,433	$ (157,420)	$ 75,470

The Association had four properties in other property owned at the beginning of 2023. During 2023, the Association acquired three additional properties from various counties in north Alabama. The Association sold three properties during 2023, resulting in a net increase of $761,210, including a gain of $303,486. At December 31, 2023, the Association held four properties with a carrying value of $1,023,848, net of allowance, which consisted of 365 acres of land.

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2023	2022	2021
Guaranteed loan receivables	$ 163,811	$ 117,325	$ 155,994
Investment in FCS Association captive insurance	653,760	656,708	545,587
Other	3,461,726	409,737	183,844
Total	$ 4,279,297	$ 1,183,770	$ 885,425

Other liabilities comprised the following at December 31:

	2023	2022	2021
Accumulated postretirement benefit obligation	$ 1,685,612	$ 1,643,521	$ 1,900,023
Accounts payable, other	2,488,365	2,351,845	1,763,629
FCS Insurance premium	1,459,759	1,635,631	1,204,757
Accrued annual leave	553,801	478,903	423,632
Other	1,057,726	817,960	446,030
Total	$ 7,245,263	$ 6,927,860	$ 5,738,071

NOTE 8 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the Association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2024 unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2023, 2022 and 2021, was $965,495,373 at 2.5 percent, $936,446,822 at 1.6 percent and $906,616,061 at 1.8 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2023, 2022 and 2021, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2023, was $1,089,476,906, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2023, 2022 and 2021, the Association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 9 — MEMBERS' EQUITY:

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

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

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

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

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

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

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class A to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the Association's board of directors. At December 31, 2023, 2022 and 2021, the Association had no Class C stock.

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

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2023, 2022 and 2021, respectively:

Date Declared	Date Paid	Patronage
December 31, 2023	March 2024	$ 9,442,770
December 31, 2022	March 2023	$13,267,835
December 31, 2021	March 2022	$12,281,301

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the banks and associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-weighted assets are calculated differently than in the past. As of December 31, 2023, the Association is not prohibited from retiring stock or distributing earnings.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2023:

Risk-weighted:	Regulatory Minimums	Regulatory Minimums with Buffer	As of December 31, 2023
Common equity tier 1 ratio	4.5%	7.0%	12.1%
Tier 1 capital ratio	6.0%	8.5%	12.1%
Total capital ratio	8.0%	10.5%	12.5%
Permanent capital ratio	7.0%	7.0%	12.2%
Non-risk-weighted:			
Tier 1 leverage ratio	7.0%	8.0%	11.8%
UREE leverage ratio	1.5%	1.5%	11.5%

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

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

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

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

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-weighted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-weighted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-weighted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-weighted assets.
- Tier 1 leverage ratio is tier 1 capital (at least 1.5 percent must be URE and URE equivalents), including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

The components of the Association's risk-weighted capital, based on 90-day average balances, were as follows at December 31, 2023:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	148,172,720	148,172,720	148,172,720	148,172,720
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	3,447,199	3,447,199	3,447,199	3,447,199
Allowance for loan losses and reserve for credit losses subject to certain limitations*			3,683,975	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(19,237,445)	(19,237,445)	(19,237,445)	(19,237,445)
Other regulatory required deductions	(2,947,562)	(2,947,562)	(2,947,562)	(2,947,562)
	129,434,912	129,434,912	133,118,887	129,434,912
Denominator:				
Risk-adjusted assets excluding allowance	1,088,342,390	1,088,342,390	1,088,342,390	1,088,342,390
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(22,185,007)	(22,185,007)	(22,185,007)	(22,185,007)
Allowance for loan losses				(3,324,996)
	1,066,157,383	1,066,157,383	1,066,157,383	1,062,832,387

*Capped at 1.25 percent of risk-weighted assets and inclusive of the reserve for unfunded commitments.

The components of the Association's non-risk-weighted capital, based on 90-day average balances, were as follows at December 31, 2023:

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	148,172,720	148,172,720
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	3,447,199	-
Amount of allocated investments in other System institutions	(19,237,445)	(19,237,445)
Other regulatory required deductions	(2,947,562)	(2,947,562)
	129,434,912	125,987,713
Denominator:		
Total Assets	1,122,994,763	1,122,994,763
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(26,502,910)	(26,502,910)
	1,096,491,853	1,096,491,853

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

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

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

	2023	2022	2021
Class A stock	-	-	-
Class B stock	642,455	654,750	644,836
Participation certificates	44,516	44,943	43,120
Total	686,971	699,693	687,956

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

Accumulated Other Comprehensive Income (Loss)			
December 31, 2023	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ 292,403	$ -	$ 292,403
December 31, 2022	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ 288,084	$ -	$ 288,084
December 31, 2021	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ 857	$ -	$ 857

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

	2023	2022	2021
Accumulated other comprehensive income (loss) at January 1	$ 857	$ (94,287)	$ (224,110)
Amortization of actuarial (gain) loss included			
in salaries and employee benefits	291,546	95,144	129,823
Accumulated other comprehensive income at December 31	$ 292,403	$ 857	$ (94,287)

NOTE 10 — INCOME TAXES:

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

	2023	2022	2021
Federal tax at statutory rate	$ 3,188,049	$ 3,875,620	$ 3,934,079
State tax, net	986,777	1,199,597	1,217,691
Effect of nontaxable FLCA subsidiary	(5,086,478)	(5,699,226)	(5,688,244)
Change in valuation allowance	911,650	624,009	536,474
Provision for (benefit from) income taxes	$ -	$ -	$ -

	2023	2022	2021
Deferred Tax Assets			
Allowance for loan losses	$ 141,919	$ 40,739	$ 46,272
Loss carryforwards	4,373,001	3,539,746	2,819,851
Deferred origination fees	(448,088)	(423,002)	(332,650)
Gross deferred tax assets	4,066,832	3,157,483	2,533,473
Deferred tax asset valuation allowance	(4,066,832)	(3,157,483)	(2,533,473)
Net deferred tax asset (liability)	$ -	$ -	$ -

At December 31, 2023, the Association had a net operating loss carryover of $14,796,851 available to offset against future taxable income that will begin to expire in 2030. Due to the changes in tax law in 2018, $10,900,392 of the net operating loss carryover can be carried forward indefinitely, while the remaining $5,001,429 will expire 20 years from the time it was originally incurred.

The Association recorded valuation allowances of $4,066,832, $3,157,483, and $2,533,473 during 2023, 2022 and 2021, respectively. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

NOTE 11 — EMPLOYEE BENEFIT PLANS:

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

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

- Restored Employer Contributions – to allow "make-up" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year.

- Elective Deferrals – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan.
- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule.

The Association made contributions to this plan in the amount of $30,967, $24,742, and $22,375 for the years ended December 31, 2023, 2022 and 2021. There were no payments made from the Supplemental 401(k) Plan to active employees during 2023, 2022 and 2021.

The DB Plan is non-contributory, and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB Plan is not subject to any contractual expiration dates. The DB Plan's funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by a percentage approved by the plan sponsor. The DB Plan sponsor is the board of the Farm Credit Bank of Texas. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2023.

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

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

The following table includes additional information regarding the funded status of the DB Plan, the Association's contributions, and the percentage of Association contribution to total plan contributions for the years ended December 31, 2023, 2022 and 2021:

	2023	2022	2021
Funded status of plan	73.3 %	70.9 %	70.5 %
Association's contribution	$ 99,841	$ 277,633	$ 602,797
Percentage of Association's contribution to total contributions	1.5 %	2.7 %	4.0 %

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 74.1 percent, 71.8 percent, and 72.0 percent at December 31, 2023, 2022 and 2021, respectively.

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

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

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	2023	2022	2021
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	$ 1,643,521	$ 1,900,028	$ 1,966,153
Service cost	25,387	29,550	34,443
Interest cost	83,839	58,939	54,424
Plan participants' contributions	4,140	4,226	4,485
Actuarial loss (gain)	20,299	(295,903)	(103,832)
Benefits paid	(50,976)	(53,319)	(55,645)
Accumulated postretirement benefit obligation, end of year	$ 1,726,210	$ 1,643,521	$ 1,900,028
Change in Plan Assets			
Company contributions	46,836	49,093	51,160
Plan participants' contributions	4,140	4,226	4,485
Benefits paid	(50,976)	(53,319)	(55,645)
Plan assets at fair value, end of year	$ -	$ -	$ -
Funded status of the plan	$ (1,726,210)	$ (1,643,521)	$ (1,900,028)
Amounts Recognized on the balance sheet			
Other liabilities	$ (1,726,210)	(1,643,521)	(1,900,028)
Amounts Recognized in accumulated other comprehensive income			
Net actuarial loss (gain)	$ (210,393)	$ (237,990)	$ 57,913
Prior service cost (credit)	(41,412)	(50,094)	(58,776)
Net transition obligation (asset)	-	-	-
Total	$ (251,805)	$ (288,084)	$ (863)
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	12/31/2023	12/31/2022	12/31/2021
Discount rate	5.50%	5.20%	3.15%
Interest crediting rate			
Health care cost trend rate assumed for next year (pre-/post-65) - medi	7.50%/8.40%	7.20%/7.70%	6.80%/6.00%
Health care cost trend rate assumed for next year - Rx		7.20%	6.80%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2034/2034	2030/2030	2030/2030

Total Cost	2023	2022	2021
Service cost	$ 27,124	$ 29,550	$ 34,443
Interest cost	93,106	58,939	54,424
Unrecognized prior service cost	(8,682)	(8,682)	(8,682)
Unrecognized net loss (gain)	(4,079)	-	-
Net postretirement benefit cost	$ 107,469	$ 79,807	$ 80,185
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	$ 20,299	$ (295,903)	$ (103,832)
Amortization of prior service cost	8,682	8,682	8,682
Net actuarial gain/(loss)	7,298	-	-
Amortization of transition liability (asset)	-	-	-
Total recognized in other comprehensive income	$ 36,279	$ (287,221)	$ (95,150)
AOCI Amounts Expected to be Amortized Into Expense in 2024			
Unrecognized net transition obligation (asset)	$ -	$ -	$ -
Unrecognized prior service cost	(8,682)	(8,682)	(8,682)
Unrecognized net loss (gain)	(4,079)	(7,298)	-
Total	$ (12,761)	$ (15,980)	$ (8,682)
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	12/31/2022	12/30/2021	12/31/2020
Discount rate	5.50%	3.15%	2.80%
Interest crediting rate			
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.50%/8.40%	6.80%/6.00%	6.90%/6.40%
Health care cost trend rate assumed for next year - Rx		6.80%	6.90%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2034/2034	2030/2030	2028/2029

Expected Future Cash Flows	
Expected Benefit Payments (net of employee contributions)	
Fiscal 2024	$ 67,655
Fiscal 2025	75,638
Fiscal 2026	74,673
Fiscal 2027	83,359
Fiscal 2028	92,840
Fiscal 2029–2033	580,160
Expected Contributions	
Fiscal 2024	$ 67,655

NOTE 12 — RELATED PARTY TRANSACTIONS:

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

Total loans to such persons at December 31, 2023, 2022 and 2021 for the Association amounted to $37,315,462, $42,824,458, and $44,234,328. During 2023, 2022 and 2021, $22,198,178, $19,323,298, and $29,521,349 of new loans were made, and repayments totaled $19,074,390, $19,610,060, and $21,623,587, respectively. In the opinion of management, no such loans outstanding at December 31, 2023, 2022 and 2021 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the District associations, such as FCSIC expenses. The Bank charges the individual District associations directly for these services based on each association's proportionate usage. These expenses totaled $1,548,246, $1,728,237, and $1,258,647 in 2023, 2022 and 2021, respectively.

The Association entered into a transaction for the hosting of the Athens Branch customer appreciation dinner in 2022 and 2021 with Tate Farms, of which Stewart McGill is a partner. Mr. McGill had no interest in the transaction. Total amount paid to Tate Farms for the catering, rental and customer giveaways totaled $16,000 and $16,000, respectively. The Association has utilized the Tate Farms venue for this annual event since 2013, which was prior to Mr. McGill becoming a board member in 2016.

The Association received patronage payments from the Bank totaling $5,538,336, $8,290,739, and $7,178,240 during 2023, 2022 and 2021, respectively.

NOTE 13 — FAIR VALUE MEASUREMENTS:

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

Assets and liabilities measured at fair value on a recurring basis at December 31, 2023, 2022 and 2021 for each of the fair value hierarchy values are summarized below:

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

December 31, 2023	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 766,268	$ 766,268
Other property owned	-	-	1,023,848	1,023,848

December 31, 2022	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 1,127,488	$ 1,127,488
Other property owned	-	-	1,785,058	1,785,058

December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 1,717,213	$ 1,717,213
Other property owned	-	-	1,172,351	1,172,351

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

	December 31, 2023 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 10,700	$ 10,700	$ -	$ -	$ 10,700
Net loans	1,080,823,507	-	-	1,016,283,940	1,016,283,940
Total Assets	$ 1,080,834,207	$ 10,700	$ -	$ 1,016,283,940	$ 1,016,294,640
Liabilities:					
Note payable to Bank	$ 965,495,373	$ -	$ -	$ 908,014,961	$ 908,014,961
Total Liabilities	$ 965,495,373	$ -	$ -	$ 908,014,961	$ 908,014,961

	December 31, 2022 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 17,895	$ 17,895	$ -	$ -	$ 17,895
Net loans	1,055,969,816	-	-	963,474,368	963,474,368
Total Assets	$ 1,055,987,711	$ 17,895	$ -	$ 963,474,368	$ 963,492,263
Liabilities:					
Note payable to Bank	$ 936,446,822	$ -	$ -	$ 854,628,408	$ 854,628,408
Total Liabilities	$ 936,446,822	$ -	$ -	$ 854,628,408	$ 854,628,408

	December 31, 2021 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 10,700	$ 10,700	$ -	$ -	$ 10,700
Net loans	1,018,964,011	-	-	986,037,349	986,037,349
Total Assets	$ 1,018,974,711	$ 10,700	$ -	$ 986,037,349	$ 986,048,049
Liabilities:					
Note payable to Bank	$ 906,616,061	$ -	$ -	$ 871,300,689	$ 871,300,689
Total Liabilities	$ 906,616,061	$ -	$ -	$ 871,300,689	$ 871,300,689

Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Information about other financial instruments fair value measurements:

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

About 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 consider unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

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

Investments

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. This would include certain mortgage-backed and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include a small portion of asset-backed securities and certain mortgage-backed securities, including private label FHA/VA securities and those issued by Farmer Mac.

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.

Standby Letters of Credit

The fair value of letters of credit approximates the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans Evaluated for Impairment

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

that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

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

NOTE 14 — COMMITMENTS AND CONTINGENCIES

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

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2023, $115,519,493 of commitments and no commercial letters of credit were outstanding.

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

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. Standby letters of credit are recorded, at fair value, on the consolidated balance sheets by the Association. At December 31, 2023, $224,125 of standby letters of credit were issued primarily in conjunction with participation loans. The fair value of these obligations at December 31, 2023, is based on fees for the unexpired period remaining, which are negligible.

NOTE 15 — REGULATORY ENFORCEMENT MATTERS

The Association has not received notice for any cease-and-desist orders, temporary cease and desist orders, supervisory or other written agreements, notices of charges, prohibitions or removals of officers and directors, civil money penalties, or other enforcement matters which have or could have a significant impact on the financial statements as of December 31, 2023.

NOTE 16 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2023				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,901	$ 6,634	$ 6,813	$ 6,942	$ 27,290
(Provision for) reversal of loan losses	320	(45)	(8)	(186)	81
Noninterest income (expense), net	(2,570)	(2,674)	(2,996)	(3,954)	(12,194)
Net income	$ 4,651	$ 3,915	$ 3,809	$ 2,802	$ 15,177

	2022				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,423	$ 6,477	$ 6,539	$ 6,814	$ 26,253
(Provision for) reversal of loan losses	(85)	(74)	116	107	64
Noninterest income (expense), net	(2,300)	(2,487)	(1,740)	(1,335)	(7,862)
Net income	$ 4,038	$ 3,916	$ 4,915	$ 5,586	$ 18,455

	2021				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,633	$ 6,775	$ 6,562	$ 6,381	$ 26,351
(Provision for) reversal of loan losses	(89)	537	(147)	303	604
Noninterest income (expense), net	(1,913)	(2,189)	(2,340)	(1,779)	(8,221)
Net income	$ 4,631	$ 5,123	$ 4,075	$ 4,905	$ 18,734

NOTE 17 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 8, 2024, which is the date the financial statements were issued or available to be issued and has determined that there were no other events requiring disclosure.

DISCLOSURE INFORMATION AND INDEX

(Unaudited)

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

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

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

DESCRIPTION OF PROPERTY

Alabama Farm Credit, ACA (Association) serves its 27-county territory through its main administrative and lending office at 300 2nd Avenue SW, Cullman, Alabama 35055. Additionally, there are seven branch lending offices located throughout the territory. The Association owns the office buildings in Albertville, Athens, Cullman, Rainbow City, Talladega, and Tuscumbia, free of debt. The Association leases space for its crop insurance enterprise in Huntsville, Alabama. The Association has purchased a property for a branch office in Scottsboro, Alabama. The property is being renovated and is expected to be placed in service in the second quarter of 2024.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

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

DESCRIPTION OF LIABILITIES

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

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

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

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

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

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

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2023, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to stockholders.

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

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

DIRECTORS AND SENIOR OFFICERS

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

Name	Position	Date Elected/ Employed	Term Expires	Years in Current Position
Matthew J. Christjohn, DVM	Chairman (Member-Elected)	2005	2026	
J. Stewart McGill	Vice-Chairman (Member-Elected)	2016	2025	
Elizabeth Spruell	Member-Elected	2021	2024	
Danny Baugh	Member-Elected	2015	2024	
Rickey Cornutt	Member-Elected	2017	2026	
David Daily	Member-Elected	2019	2025	
John R. Adams, CPA	Director-Elected Member	2006	2024	
Hugh C. Harris	Director-Elected Member	2014	2026	
Melvin "Mel" K. Koller	President/Chief Executive Officer	2018		5.6 years
Jody L. Campbell	Executive Vice President/Chief Risk Officer	2019		4.8 years
Kedric Karkosh	Executive Vice President/Chief Financial Officer	2021		2.9 years

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

Matthew J. Christjohn, DVM, is the owner and operator of Large Animal Veterinary Services, LLC, a practice concentrating on livestock, mainly cattle. In addition to his veterinary business, he presently owns and operates a 360-acre cattle farm in Wedowee, Alabama, operating as Sandy Creek Ranch, LLP. Dr. Christjohn was elected Chairman of the Board in 2017 and is a member of the Association's Audit Committee.

Stewart McGill is one of four managing partners and operators of Tate Farms General Partnership (Tate Farms). Tate Farms is located in Madison County and includes approximately 8,000 acres of cotton, corn, soybeans, wheat, and pumpkins, as well as an agritourism business that hosts approximately 70,000 guests each fall. He is a member of the Alabama Farmers Federation, serves as Vice Chairman for the Association's Board of Directors, and is a member of the Association's Audit Committee.

Elizabeth Spruell lives in Mount Hope, Alabama (Lawrence County). . Ms. Spruell previously worked in Treasury Management at First Horizon Bank for 22 years before transitioning into managing Spruell Farms Partnership - a highly esteemed family-owned business spanning over 6,000 acres in North Alabama. Her board service includes, Cotton Incorporated, Southern Southeastern Cotton Growers, & Alabama Cotton Commission. In addition, she supports benevolent missions in her community with the family established The Caring Place. Ms. Spruell was elected to the Board of Directors for Alabama Farm Credit in 2021 and is a member of the Association's Audit and Business Investment Committees.

Danny Ray Baugh is a full-time cattle and poultry farmer from Marshall County. He owns and operates a 285-acre farm in Marshall County. Mr. Baugh runs an approximately 160-head cow-calf operation along with a 200-acre hay operation on rented lands. He currently grows for Wayne Farms, operating eight broiler houses with a farm capacity of 176,000. Mr. Baugh retired from Albertville Municipal Utilities Board in 2005 as their water plant manager after 30 years of service. He is a member of the Alabama Poultry and Egg Association, Alabama Cattlemen's Association, Marshall County Farmers Cooperative, and Marshall/Dekalb Electric Cooperative. Mr. Baugh was elected to the Board of Directors for Alabama Farm Credit in 2015 and serves as a member of the Association's Compensation Committee.

Rickey Cornutt is a full-time row-crop and cattle farmer. He and his brother own Cornutt Farms, LLC in Marshall County, Alabama. Cornutt Farms, LLC consists of approximately 2,000 acres of owned and leased land of corn, soybeans, wheat, and pastureland, and operates a 300-head cow-calf operation. Additionally, Mr. Cornutt is a Director of Marshall County Farmers Federation, Dekalb Farmers' Cooperative, Marshall County TVA Discretionary Fund

Committee, State Board Committee of Soil and Water, Marshall County Conservation District, and State Board of Alabama Farmers' Cooperative. Mr. Cornutt was elected to the Board in 2017 and is a member of the Association's Compensation and Business Investment Committees.

David Daily owns 500 brood cows, specializes in farm to table beef, and operates a small stocker operation in Russellville, Alabama. Mr. Daily's primary business is agricultural sales, as the part owner of Daily AG Products and Daily Farm Supply, which sell ag-lime and fertilizer in five states. He is currently a member of the Franklin County Cattlemen's Association and the Angus Association. Mr. Daily is also the Chairman of the Association's Business Investment Committee and a member of the Association's Compensation Committee.

John R. Adams, CPA, is a certified public accountant with over 40 years of experience in public accounting. He is a partner in a local accounting firm in Decatur, Alabama. Mr. Adams received his bachelor of science degree with a major in accounting from the University of Alabama. He is a member of the American Institute of Certified Public Accountants, Alabama Society of Certified Public Accountants, and National Society of Accountants for Cooperatives. Mr. Adams is also the Chairman of the Association's Audit Committee and member of the Association's Business Investment Committee.

Hugh C. Harris is a practicing attorney with over 47 years of experience in the legal profession. Mr. Harris received both his undergraduate and juris doctorate degrees from the University of Alabama. He spent 11 years as Deputy District Attorney for Cullman County, Alabama, and has been in the private practice of law since 1987. He practices with the law firm of Bland, Harris & McClellan in Cullman, Alabama, and is a member of the Cullman County Bar Association, Alabama State Bar, and the Alabama Defense Lawyers Association. He serves as a director of the East Cullman Water Board and is an active member of the Alabama and Cullman Cattlemen's Association. Mr. Harris operates a small, part-time farm in Cullman County. Mr. Harris is also the Chairman of the Association's Compensation Committee.

SENIOR OFFICERS

Melvin "Mel" K. Koller, President/Chief Executive Officer. Mr. Koller was employed by the Association as CEO in September 2018. Mr. Koller brings over 17 years' experience within Agriculture Finance, with 13 of those years in the Farm Credit System. Before becoming Chief Executive Officer for the Association, he served as Vice President, Manager of the Association Direct Lending Unit for the Farm Credit Bank of Texas (FCBT). His background includes production lending portfolio management, participation lending, and software project management.

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

Kedric Karkosh, Executive Vice President/Chief Financial Officer. Mr. Karkosh was employed by the Association in April 2021. Mr. Karkosh worked at the FCBT for 21 years where he was the Vice President – Assistant Treasurer. In this role, he was responsible for the Bank's liquidity management, funding strategies and interest-rate risk management. His background includes financial modeling, credit administration and loan portfolio analytics.

COMPENSATION OF DIRECTORS

With the exception of the chairman, who receives $1,190 per month, directors were compensated for their service to the Association in the form of an honorarium at the rate of $940 per month and $840 per day for director meetings. Directors receive an additional $375 for special committee meetings held on the same day as the regular meetings. Additionally, the directors receive $180 for each conference call meeting. Certain expenses incurred while representing the Association in an official capacity were reimbursed. Mileage for attending official meetings during 2023 was paid at the IRS-approved rate of 65.5 cents per mile. A copy of the travel policy is available to stockholders of the Association upon request.

Director	Board Meetings	Other Official Activities	2023 Total Compensation
Matthew J. Christjohn, DVM	9	9	$ 38,275
J. Stewart McGill	9	12	41,536
Elizabeth Spruell	9	9	37,123
Danny Baugh	9	7	31,996
Rickey Cornutt	9	8	33,517
John R. Adams, CPA	9	6	31,922
Hugh C. Harris	9	10	37,883
David Daily	9	10	36,380
			$ 288,632

The aggregate compensation paid to directors in 2023, 2022 and 2021 was $288,632, $283,600, and $261,450, respectively. Additionally, no director received noncash compensation exceeding $5,000 in 2023, 2022, and 2021.

Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2023:

	Committee	
Director	**Audit**	**Compensation**
Matthew J. Christjohn, DVM	$ 2,400	$ -
Liz Rhodes	2,580	
J. Stewart McGill	2,580	-
Danny Baugh	-	1,350
Rickey Cornutt	-	1,350
John R. Adams, CPA	3,280	-
Hugh C. Harris	-	1,700
David Daily	-	1,350
	$ 10,840	$ 5,750

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $107,098, $115,907, and $144,263 in 2023, 2022 and 2021, respectively.

COMPENSATION OF SENIOR OFFICERS

Information regarding senior officer compensation is included in the Annual Meeting Information Statement (AMIS). The AMIS is available for public inspection at the association offices pursuant to §620.2(b).

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

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

DIRECTORS’ AND SENIOR OFFICERS’ INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

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

RELATIONSHIP WITH INDEPENDENT AUDITOR

The Association’s audit committee engaged the independent accounting firm of PricewaterhouseCoopers, LLC (PwC) to perform the annual audit of the Association’s financial statements included in this annual report. The total fees paid per the 2023 audit engagement letter for professional services rendered for the Association by PwC were $123,214.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The Association had no relationships with unincorporated business entities at December 31, 2023.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers, LLC dated March 8, 2024, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

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

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

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

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

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

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

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

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

The most recent USDA Census of Agriculture for Alabama indicates that 7 percent of farm operators are "young," 30 percent are "beginning" and 69 percent of the farms are "small." The Association's YBS lending goals per its 2024 business plan were as follows:

YBS Class	Percentage of Total Loans	Percentage of Loan Volume
Young	> 27%	> 23%
Beginning	> 62%	> 58%
Small	> 75%	> 58%

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

	2021		2022		2023	
	Percent of Total Loans	Percent of Loan Volume	Percent of Total Loans	Percent of Loan Volume	Percent of Total Loans	Percent of Loan Volume
Young	26.1%	23.8%	26.6%	23.9%	26.4%	22.6%
Beginning	52.6%	49.5%	53.9%	48.4%	54.6%	46.6%
Small	71.6%	47.2%	71.6%	45.1%	70.8%	42.1%

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

	2021		2022		2023	
	Percent of New Loans	Percent of New Loan Volume	Percent of New Loans	Percent of New Loan Volume	Percent of New Loans	Percent of New Loan Volume
Young	25.6%	19.5%	26.1%	24.3%	22.4%	14.5%
Beginning	54.2%	47.9%	55.9%	48.7%	55.7%	45.3%
Small	65.1%	47.9%	68.4%	47.5%	63.6%	47.2%

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

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

You grow it.
Let us protect it.

Crop Insurance | Pasture Insurance | Livestock Insurance

farmshieldinsurance.com