ALABAMA FARM CREDIT, ACA

2023
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2023

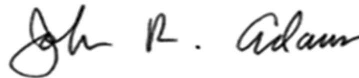
REPORT OF MANAGEMENT

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

Mel Koller, Chief Executive Officer/President
November 9, 2023

Matthew Christjohn, DVM, Chairman, Board of Directors
November 9, 2023

Kedric Karkosh, Chief Financial Officer
November 9, 2023



John R. Adams, Chairman, Audit Committee
November 9, 2023

Third Quarter 2023 Financial Report

Table of Contents

Management's Discussion and Analysis……………………………………………………………………………………….4

Consolidated Balance Sheets………………………………………………………………………………...…..……..…...9
Consolidated Statements of Comprehensive Income……………………………………………………………………..…10
Consolidated Statement of Changes in Members' Equity……………………………………………………………………..11

Notes to the Consolidated Financial Statements……………………………………………………………………………12

ALABAMA FARM CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(dollars in thousands, except as noted)

The following commentary reviews the financial performance of the Alabama Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended September 30, 2023. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2022 Annual Report to Stockholders.

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

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

Significant Events

In January 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.

Loan Portfolio

Total loans outstanding at September 30, 2023, including nonaccrual loans and sales contracts, were $1,058,334,161 compared to $1,059,916,803 at December 31, 2022, reflecting a decrease of 0.1%. Nonaccrual loans as a percentage of total loans outstanding were 0.3% at September 30, 2023, compared to 0.5% at December 31, 2022.

The Association recorded $3,711.35 in recoveries and $918.57 in charge-offs for the quarter ended September 30, 2023. The Association's allowance for loan losses was 0.3% and 0.3% of total loans outstanding as of September 30, 2023, and December 31, 2022, respectively. A summary of credit quality at September 30, 2023, compared to December 31, 2022 is as follows:

	September 30, 2023	December 31, 2022
Total loans		
Acceptable	**97.3**	97.5
OAEM	**1.4**	1.3
Substandard/doubtful	**1.3**	1.2
	100.0 %	100.0 %

The Association's largest commodity concentration in its loan portfolio continues to be poultry, which is approximately 32.9 percent or $387,615,847. 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 26.2 percent of its poultry portfolio guaranteed, which helps to reduce loss exposure in this commodity. Projections for 2023 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 it remains a threat. As of November 1st, the association is aware of two recent 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 weak the outbreak has not appeared to spread at this point. The association as a proactive measure 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 September 30, 2023.

In July 2017, the United Kingdom's Financial Conduct Authority, the authority regulating the London Inter-Bank Offered Rate (LIBOR) announced that it will stop persuading or compelling banks to submit rates for the calculation of the LIBOR after 2022. Since this announcement, central banks around the world, including the Federal Reserve, have commissioned working groups with the goal of finding suitable replacements for LIBOR. In the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York. Specifically, the ARRC has proposed the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR. SOFR is based on a broad segment of the overnight Treasury repurchase market and is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

The Bank has made available alternate variable rate products including term-SOFR and Farm Credit SOFR-Index (FCSI). The Association has made significant progress in moving loans off of LIBOR, primarily to FCSI. This transition was completed in June 2023, with only a small number of loans remaining. These loans will be moved off of LIBOR at their next rate reset.

With a favorable lending package, we are prepared to experience steady growth in the years ahead. We will continue to work with our borrowers as all market segments make corrections with minimal restructuring. We will also continue to work within our policies and procedures to mitigate any risk that may arise. The Association's 2023 goal will be to increase its presence in the agricultural and rural credit market and uphold its position as the premier agricultural lender for the area. The Association intends to maintain the same emphasis on providing sound, constructive, short-, intermediate- and long-term credit to the agricultural and rural sector within its territory.

Risk Exposure

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

	September 30, 2023		December 31, 2022	
	Amount	%	Amount	%
Nonaccrual	$ 3,455,135	74.6%	$ 2,702,930	60.2%
Other property owned, net	1,173,351	25.4%	1,785,058	39.8%
Total	**$ 4,628,486**	**100.0%**	**$ 4,487,988**	**100.0%**

High-risk assets increased by $140,498, or 3.1 percent, primarily due to the increase in loans 90 days past due and still accruing interest, and a decrease in other property owned. Nonaccrual loans as a percentage of total loans outstanding were 0.4 percent at September 30, 2023. Since December 31, 2022, the Association moved 17 loans and 5 borrowers, totaling $2,625,030 to nonaccrual status due to delinquency and cash flow issues. The Association acquired 2 properties during the nine months ending September 30,

2023, however, has disposed of property on two borrowers and the partial disposal of a third. At September 30, 2023 the Association held four properties totaling $1,173,351, which consisted primarily of approximately 250 acres of land. Management continues to be alert to portfolio trends and has attempted to identify and report problem loans as quickly as possible. Management strives to implement proactive steps and allocate resources to work with distressed borrowers to either work through temporary repayment problems or to orderly liquidate collateral to repay the loan when the borrower's operation is no longer viable.

Impaired loans consist of all high-risk assets except other property owned. At September 30, 2023 and December 31, 2022, loans that were considered impaired were $3,459,327 and $5,806,918 respectively. The Association recorded $919 in charge-offs and $3,711 in recoveries for the nine months ended September 30, 2023, and no charge-offs and no recoveries for the same period in 2022. The Association's allowance for loan losses was 0.3 percent of total loans outstanding as of September 30, 2023, and December 31, 2022.

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. The Association has participation loans with other Farm Credit Associations and Farm Credit banks. Additionally, because the Association has approximately 32.9 percent of its portfolio concentrated in poultry, it mitigates inherent risks in the poultry markets and the integrators by heavy utilization of government guarantees. Also, the Association's lending territory has multiple integrators, which would minimize the risk of counterparty failure or lack of performance. Management analyzes the financial position and performance of these integrators by regularly gathering updated financials and other reports that are made available to the public.

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 September 30, 2023, the Association had approximately $111,968,726, or 10.6 percent, of its portfolio that had guarantees with the Farm Service Agency (FSA) or the Small Business Administration (SBA).

Results of Operations

The Association had net income of $3,868,181 and $12,553,441 for the three and nine months ended September 30, 2023, as compared to net income of $4,915,123 and $12,869,142 for the same period in 2022, reflecting a decrease of 21.3% and 2.5%. Net interest income was $6,804,645 and $20,338,225 for the three and nine months ended September 30, 2023, compared to $6,538,931 and $19,439,183 for the same period in 2022.

	Nine Months Ended			
	September 30, 2023		September 30,2022	
	Average Balance	Interest	Average Balance	Interest
Loans	$ 1,061,008,842	$ 43,289,768	$ 1,070,911,504	$ 34,729,595
Interest-bearing liabilities	946,715,887	22,951,543	958,547,740	15,290,412
Impact of capital	$ 114,292,955		$ 112,363,764	
Net interest income		$ 20,338,225		$ 19,439,183

	2023 Average Yield	2022 Average Yield
Yield on loans	5.46%	4.34%
Total yield on interest-earning assets	5.46%	4.34%
Cost of interest-bearing liabilities	3.24%	2.13%
Interest rate spread	2.21%	2.20%
Net interest income as a percentage of average earning assets	2.56%	2.43%

	Nine months ended:		
	September 30, 2023 vs. September 30, 2022		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	$ (321,145)	$ 8,881,318	$ 8,560,173
Interest expense	(188,735)	7,849,866	7,661,131
Net interest income	$ (132,410)	$ 1,031,452	$ 899,042

Interest income for the three and nine months ended September 30, 2023, increased by $265,714 and $899,042, or 4.1% and 4.6% respectively, from the same period of 2022, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2023, increased by $2,186,395 and $7,661,131, or 36.9% and 50.1%, from the same period of 2022 due to an increase in interest rates offset by a decrease in average debt volume. Average loan volume for the third quarter of 2023 was $1,061,009, compared to $1,070,912 in the third quarter of 2022. The average net interest rate spread on the loan portfolio for the third quarter of 2023 was 2.2%, compared to 2.2% in the third quarter of 2022.

The Association's return on average assets for the nine months ended September 30, 2023, was 1.5% compared to 1.6% for the same period in 2022. The Association's return on average equity for the nine months ended September 30, 2023, was 11.3%, compared to 11.9% for the same period in 2022.

Liquidity and Funding Sources

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

	September 30, 2023	December 31, 2022
Note payable to the bank	$ 943,862,483	$ 936,446,822
Accrued interest on note payable	2,733,195	2,321,681
Total	$ 946,597,701	$ 938,768,503

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2024. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $943,862,483 as of September 30, 2023, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.62 percent at September 30, 2023. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2022, is due to the Association's increase in the Association's loan portfolio as a result of increased loan demand in its 27-county territory and an increase in capital market loans. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $119,770,013 at September 30, 2023. The maximum amount the Association may borrow from the Bank as of September 30, 2023, was $1,060,905,173 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.

Capital Resources

The Association's capital position increased by $11,493,550 at September 30, 2023, compared to December 31, 2022. The Association's debt as a percentage of members' equity was 6.17:1 as of September 30, 2023, compared to 6.70:1 as of December 31, 2022.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2023, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

In March 2022, the Financial Accounting Standards Board (FASB) issued an update entitled "Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures." The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. The creditor will have to apply the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. In addition to the TDR guidance, the update requires public business entities to disclose current period gross write offs by year of origination for financing receivables and net investments in leases within the scope of the credit losses standard. These amendments were effective for the entity upon adoption of the measurement of credit losses on financial instruments standard on January 1, 2023.

The entity adopted the FASB guidance entitled "Measurement of Credit Losses on Financial Instruments" on January 1, 2023. This guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. The guidance 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. Prior to the adoption, the allowance for loan losses represented management's estimate of the probable credit losses inherent in its loan portfolio and certain unfunded commitments. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves. The adoption of this guidance was not material to the allowance for credit losses and retained earnings.

Relationship With the Farm Credit Bank of Texas

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2022 Annual Report of Association more fully describe the Association's relationship with the Bank.

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

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

Alabama Farm Credit, ACA

CONSOLIDATED BALANCE SHEETS

	September 30, 2023 (unaudited)	December 31, 2022
ASSETS		
Cash	$ 148,130	$ 17,895
Loans	1,058,334,161	1,059,916,803
Less: allowance for loan losses	3,326,726	2,819,499
Net loans	1,055,007,435	1,057,097,304
Accrued interest receivable	10,193,202	9,130,585
Capital stock	17,189,745	18,202,435
Other	5,623,256	928,736
Other property owned, net	1,173,351	1,785,058
Premises and equipment, net	15,240,273	13,788,739
Other assets	4,308,465	1,183,770
Total assets	1,108,883,857	$ 1,102,134,522
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	943,862,483	$ 936,446,822
Advance conditional payments	1,237,350	179,020
Accrued interest payable	2,735,818	2,321,681
Drafts outstanding	88,910	77,132
Dividends payable	(98,797)	13,185,614
Other liabilities	6,389,129	6,748,839
Total liabilities	$ 954,214,893	$ 958,959,108
MEMBERS' EQUITY		
Capital stock and participation certificates	$ 3,456,825	$ 3,498,465
Unallocated retained earnings	150,936,042	139,388,864
Accumulated other comprehensive income (loss)	276,096	288,084
Total members' equity	154,668,963	143,175,413
Total liabilities and members' equity	$ 1,108,883,856	$ 1,102,134,521

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

Alabama Farm Credit, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
INTEREST INCOME				
Loans	$14,921,835.00	$12,469,726.00	$43,289,768.00	$34,729,595.00
Other	-	-	-	-
Total interest income	14,921,835.00	12,469,726.00	43,289,768.00	34,729,595.00
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	8,114,464.00	5,930,795.00	22,939,289.00	15,290,412.00
Advance conditional payments	2,726.00	-	12,254.00	-
Total interest expense	8,117,190	5,930,795	22,951,543	15,290,412
Net interest income	6,804,645	6,538,931	20,338,225	19,439,183
PROVISION FOR LOAN LOSSES	(125,790.00)	(116,470.00)	(49,899.00)	43,000.00
Net interest income after provision for loan losses	6,930,435	6,655,401	20,388,124	19,396,183
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	825,161.00	1,850,506.00	4,748,261.00	5,353,005.00
Loan fees	86,879.00	244,419.00	387,992.00	851,056.00
Financially related services income	423,953.00	1,649.00	427,214.00	5,088.00
Gain (loss) on other property owned, net	(6,824.00)	49,671.00	269,951.00	(127,134.00)
Gain (loss) on sale of premises and equipment, net	129,203.00	30,150.00	320,310.00	51,973.00
Other noninterest income	181,930.00	27,140.00	490,451.00	234,050.00
Total noninterest income	1,640,302	2,203,535	6,644,179	6,368,038
NONINTEREST EXPENSES				
Salaries and employee benefits	2,678,904.00	2,040,606.00	7,837,565.00	7,048,729.00
Directors' expense	72,238.00	121,330.00	271,993.00	314,295.00
Purchased services	344,109.00	303,580.00	1,049,214.00	865,884.00
Travel	285,221.00	281,844.00	801,464.00	682,743.00
Occupancy and equipment	339,005.00	279,968.00	1,140,340.00	922,002.00
Communications	82,778.00	80,193.00	271,023.00	259,694.00
Advertising	69,082.00	67,351.00	393,261.00	412,769.00
Public and member relations	151,563.00	58,346.00	607,772.00	359,645.00
Supervisory and exam expense	101,391.00	91,229.00	283,850.00	264,227.00
Insurance fund premiums	351,023.00	415,901.00	1,086,963.00	1,207,342.00
Other noninterest expense	227,242.00	203,465.00	735,417.00	557,749.00
Total noninterest expenses	4,702,556	3,943,813	14,478,862	12,895,079
Income before income taxes	3,868,181	4,915,123	12,553,441	12,869,142
Provision for (benefit from) income taxes	-	-	-	-
NET INCOME	3,868,181	4,915,123	12,553,441	12,869,142
Other comprehensive income:				
Change in postretirement benefit plans	(3,996.00)	(2,172.00)	(11,988.00)	(6,516.00)
comprehensive income	-	-	-	-
Other comprehensive income, net of tax	(3,996)	(2,172)	(11,988)	(6,516)
COMPREHENSIVE INCOME	$ 3,864,185	$ 4,912,951	$ 12,541,453	$ 12,862,626

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

Alabama Farm Credit, ACA

STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2021	$ 3,439,780	$ 134,179,380	$ 857	$ 137,620,017
Net income	-	12,869,143	-	12,869,143
Other comprehensive income	-	-	(11,988)	(6,516)
Comprehensive income	-	12,869,143	(11,988)	12,862,627
Capital stock/participation certificates and allocated retained earnings issued	440,530	-	-	440,530
Capital stock/participation certificates and allocated retained earnings retired	(373,890)	-	-	(373,890)
Capital stock/participation certificates and allocated retained earnings	-	(54,686)	-	(54,686)
Balance at September 30, 2022	$ 3,506,420	$ 146,993,837	$ (5,659)	$ 150,494,598
Balance at December 31, 2022	$ 3,498,465	$ 139,388,864	$ 288,084	$ 143,175,413
Net income	-	12,378,444	-	12,378,444
Other comprehensive income	-	-	(7,992)	(11,988)
Comprehensive income	-	12,378,444	(7,992)	12,366,456
Capital stock/participation certificates and allocated retained earnings issued	255,475	-	-	255,475
Capital stock/participation certificates and allocated retained earnings retired	(297,115)	-	-	(297,115)
Patronage refunds:				
Cash	-	(831,266)	-	(831,266)
Balance at September 30, 2023	$ 3,456,825	$ 150,936,042	$ 276,096	$ 154,668,963

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

ASSOCIATION NEW MODEL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (dollar amounts in thousands, except per share amounts and as otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

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

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2022, as contained in the 2022 Annual Report to Stockholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2023. Descriptions of the significant accounting policies are included in the 2022 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In March 2022, the Financial Accounting Standards Board (FASB) issued an update entitled, "Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures." The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancing and restructurings when a borrower is experiencing financial difficulty. The creditor will have to apply the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. The Association had no modifications to report during the quarter ending September 30, 2023. In addition to the TDR guidance, the update requires public business entities to disclose current period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of the credit losses standard. These amendments will be effective for the Association at the time of adoption of the measurement of credit losses on financial instruments standard on January 1, 2023.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost, which reflects management's estimate of expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to held-to maturity securities and depending on the situation available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers including this, entity, this guidance becomes effective for interim and annual reporting periods beginning after December 15, 2023.

The entity estimates losses over a two-year forecast period using a range of macroeconomic variables and then revert to the entity's historical loss experience over an extended period of time. This estimate depends on the nature of the loan portfolio, validation of models and methodologies, management's judgments, including macroeconomic conditions and related forecasts at the calculation date for each quarter.

The consolidated financial statements comprise the operations of the ACA and its wholly owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2023, are not necessarily indicative of the results to be expected for the year ended December 31, 2023. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

Recently 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 impact to the allowance for credit losses and retained earnings 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	$2,819,499.45	$ (369,040.44)	$3,188,539.89
Liabilities:			
Allowance for credit losses on unfunded commitment	80,489.48	(220,861.51)	301,350.99
Retained earnings:			
Unallocated retained earnings, net of tax	$2,899,988.93	$ (589,901.95)	$3,489,890.88

A. Loans and Allowance for Credit Losses

Loans are generally carried at their principal amount outstanding adjusted for charge-offs, deferred loan fees or costs, and valuation adjustments relating to hedging activities. Loan origination fees and direct loan origination costs are netted and capitalized, and the net fee or cost is amortized over the average life of the related loan as an adjustment to interest income. Loan prepayment fees are reported in interest income. Interest on loans is accrued and credited to interest income based on 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 the 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 that is considered uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, interest payments received in cash are generally recognized as interest income if the collectability of the loan principal is fully expected and certain other criteria are met. Otherwise, payments received on nonaccrual loans are applied against the recorded investment in the loan asset. Nonaccrual loans are returned to accrual status if all contractual principal and interest is current, the borrower is fully expected to fulfill the contractual repayments terms and after remaining current as to principal and interest for a sustained period or having a recent repayment pattern demonstrating future repayment capacity to make on-time payments. 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 Condensed Statement of Condition. The Association 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 the Association to measure the expected credit losses based on fair value of the collateral at the reporting date when the Association 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 is 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 allowance for credit losses (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)
- 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 Condensed Statement of Condition.

Determining the appropriateness of the allowance 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.

Methodology for Allowance for Credit Losses on Loans – Per ASC 326-20-30-2 an entity "shall measure expected credit losses of financial assets on a collective basis when similar risk characteristics exist…" Within ImpairmentStudio, reserves on collectively evaluated assets are calculated at the individual loan level based on each record's attributes. In the association's key loan-level attributes influencing the reserve estimate calculated for individual records include PD Rating, LGD rating, Industry, Geography and Contractual term.

The association intends to use a consistent calculation approach across the collectively evaluated portfolio. Assumptions and other configuration options are applied to distinct groups of loans as needed in ImpairmentStudio. Nonaccrual loans do not share similar risk characteristics with the remainder of the portfolio and will be evaluated individually by the association. Loans evaluated individually will not be included in the collective reserve evaluation.

Reserves are calculated using the amortized cost of the instrument as of the effective date of the calculation. Amortized cost is defined as the recorded investment of the instrument (unpaid principal plus net premium/discount less funds held, net charge-offs and deferred origination fees) plus accrued interest.

Exposure at default is the recorded investment plus all or a portion of unfunded commitments. The credit conversion factor (CCF) assumptions define the percentage of unfunded commitments that would be expected to be drawn prior to default and therefore on which reserves will be allocated. Please see the Critical Assumptions section for further discussion.

The PD percentage applicable to each instrument is a key input into the PD/LGD calculation. Currently, the district calculates PD percentages for each rating utilizing internal sourced default data. The resulting output, referred to as the District PD Curve, is utilized by the bank and district associations. By design, the District PD Curve is intended to represent long-term average, or through-the-cycle (TTC) PD percentages.

In the ImpairmentStudio framework, the interpretation of prepayment rates can vary based on the chosen configuration. Under the PD/LGD approach, prepayment rates represent the total of scheduled and unscheduled amortization through loan maturity. Stated differently, any repayment of principal outside of contractual loan maturity is considered a prepayment. Currently the Association uses a prepayment rate of 16% for core portfolio loans and 40% for Lines of Credit.

Macroeconomic Scenarios within the ImpairmentStudio, there are eleven different macroeconomic scenarios that can be used to model the current expected credit loss of the portfolio. Economic scenarios are updated by Moody's monthly and are adjusted according to ongoing changes in economic conditions and expectations. The forecasting process is widely known throughout the industry, and FCBT and AFC have reviewed documentation provided by Moody's supporting its usage of the scenarios generated via this model.

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 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. 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 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, 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.

The component of 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;
- Nature of the loan portfolio, including the terms of the loans;
- Experience, ability and depth of the lending management and other relevant staff;
- Volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- Quality of the loan review and process;
- Value of underlying collateral for collateral-dependent loans;
- Existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- Effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

The Association uses multiple scenarios over reasonable and supportable forecast period of two years. Subsequent to the forecast period, the Association reverts to long run historical loss experience beyond the two years on a straight-line basis over a once-year reversion period to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts incorporate macroeconomic variables, including unemployment rates, real gross domestic product levels and corporate bond spreads, as well as net farm income and agricultural commodity prices. Also considered are loan and borrower characteristics, such as internal risk ratings, delinquency status, collateral type, 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 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 Association and applying the loss factors used in the ACLL methodology to the results of the usage calculation. No allowance for credit losses are recorded for commitments that are unconditionally cancellable.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	September 30, 2023 Amount	December 31, 2022 Amount
Production agriculture:		
Real estate mortgage	$ 779,725,187	$ 815,492,187
Production and intermediate-term	144,173,958.00	124,586,763.00
Agribusiness:		
Loans to cooperatives	6,494,659.00	2,652,580.00
Processing and marketing	59,397,812.00	60,555,243.00
Farm-related business	26,656,096.00	25,467,961.00
Communication	4,674,234.00	3,555,570.00
Energy	4,993,527.00	337,706.00
Water and waste-water	7,980,682.00	6,515,115.00
Rural residential real estate	16,978,640.00	18,350,735.00
Agricultural export finance	7,255,321.00	2,396,956.00
Total	$ 1,058,330,116	$ 1,059,910,816

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 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	$ 1,038,781	$ 142,227,372	$ -	$ -	$ 1,038,781	$ 142,227,372
Production and intermediate-term	33,860,591	10,012,361	-	-	$ 33,860,591	$ 10,012,361
Agribusiness	63,921,832	11,005,652	-	-	$ 63,921,832	$ 11,005,652
Communication	4,674,234	-	-	-	$ 4,674,234	$ -
Energy	4,993,527	-	-	-	$ 4,993,527	$ -
Water and waste-water	7,980,682	-	-	-	$ 7,980,682	$ -
Rural residential real estate	-	1,335,958	-	-	$ -	$ 1,335,958
International	7,255,321	-	-	-	$ 7,255,321	-
Total	$ 123,724,967	$ 164,581,342	$ -	$ -	$ 123,724,967	$ 164,581,342

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $21,297,192 and $40,912,569 at September 30, 2023, and December 31, 2022, respectively.

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 Association 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, institutions that make 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% of the original appraised value of the property taken as security or up to 97% 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 Association 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 Association 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 presents credit quality indicators by loan type and the related principal balance as of September 30, 2023:

	Detail amounts	
	September 30, 2023	December 31, 2022
Real estate mortgage		
Acceptable	756,204,059	798,066,589
OAEM	11,247,752	12,502,896
Substandard	12,226,599	11,130,830
	779,678,410	821,700,315
Production and intermediate-term		
Acceptable	141,066,106	124,485,948
OAEM	1,528,955	1,330,579
Substandard	1,578,897	616,473
	144,173,958	126,433,000
Agribusiness		
Acceptable	90,883,023	88,712,206
OAEM	1,665,544	(46)
Substandard	-	922,775
	92,548,567	89,634,935
Energy		
Acceptable	4,993,527	-
OAEM	-	-
Substandard	-	337,706
	4,993,527	337,706
Water/waste-water		
Acceptable	7,980,682	6,518,942
OAEM	-	-
Substandard	-	-
	7,980,682	6,518,942
Communication		
Acceptable	4,674,234	3,556,736
OAEM	-	-
Substandard	-	-
	4,674,234	3,556,736
Rural residential real estate		
Acceptable	16,475,387	18,120,806
OAEM	31,839	-
Substandard	471,414	299,473
	16,978,640	18,420,279
Agricultural export finance		
Acceptable	7,255,321	2,439,487
OAEM	-	-
Substandard	-	-
	7,255,321	2,439,487
Total loans		
Acceptable	1,029,532,339	1,041,900,714
OAEM	14,474,090	13,833,429
Substandard	14,276,910	13,307,257
	1,058,283,339	1,069,041,400

The following table shows loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type:

	September 30, 2023	December 31, 2022
Real estate mortgage		
Acceptable	97.0 %	97.1
OAEM	1.4	1.5
Substandard/doubtful	1.6	1.4
	100.0	100.0
Production and intermediate-term		
Acceptable	97.8	98.5
OAEM	1.1	1.1
Substandard/doubtful	1.1	0.5
	100.1	100.1
Agribusiness		
Acceptable	98.2	99.0
OAEM	1.8	-
Substandard/doubtful	-	1.0
	100.0	100.0
Energy and water/waste-water		
Acceptable	100.0	95.1
OAEM	-	-
Substandard/doubtful	-	4.9
	100.0	100.0
Communication		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Rural residential real estate		
Acceptable	97.0	98.4
OAEM	0.2	-
Substandard/doubtful	2.8	1.6
	100.0	100.0
Agricultural export finance		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Total loans		
Acceptable	97.3	97.5
OAEM	1.4	1.3
Substandard/doubtful	1.3	1.2
	100.0 %	100.0 %

The following table reflects nonperforming assets, which consist of nonaccrual loans and other property owned and related credit quality statistics:

	September 30, 2023 Amount	December 31, 2022 Amount
Nonaccrual loans:		
Real estate mortgage	$ 4,528,873	$ 3,496,470
Production and intermediate-term	347,128	390,328
Agribusiness	-	922,775
Energy	-	337,706
Total nonaccrual loans	$ 4,876,001	$ 5,147,279
Other property owned	1,173,351	1,785,058
Total nonperforming assets	$ 6,049,352	$ 6,932,337
Nonaccrual loans as a percentage of total loans	0.33%	0.49%
Nonperforming assets as a percentage of total loans and other property owned	0.57%	0.65%
Nonperforming assets as a percentage of capital	3.91%	4.84%

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

September 30, 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	$ 5,049,698	$ 1,736,991	$ 6,786,689	$ 772,891,721	$ 779,678,410	$ 1,416,673
Production and intermediate term	682,647	347,128	1,029,775	143,144,184	144,173,959	-
Loans to cooperatives	-	-	-	6,494,659	6,494,659	-
Processing and marketing	7,172	-	7,172	59,390,640	59,397,812	-
Farm-related business	-	-	-	26,656,096	26,656,096	-
Communication	-	-	-	4,674,234	4,674,234	-
Energy	-	-	-	4,993,527	4,993,527	-
Water and waste-water	-	-	-	7,980,682	7,980,682	-
Rural residential real estate	179,702	-	179,702	16,798,939	16,978,641	-
Agricultural export finance	-	-	-	7,255,321	7,255,321	-
Total	$ 5,919,219	$ 2,084,119	$ 8,003,338	$ 1,050,280,003	$ 1,058,283,341	$ 1,416,673

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	$ 7,889,038	$ 1,789,351	$ 9,678,389	$ 812,021,927	$ -	$ -
Production and intermediate term	324,048	303,461	627,509	125,805,491	-	-
Loans to cooperatives	-	-	-	2,662,075	-	-
Processing and marketing	278,975	71,605	350,580	60,869,517	-	-
Farm-related business	-	-	-	25,752,764	-	-
Communication	-	-	-	3,556,736	-	-
Energy	-	957	957	336,748	-	-
Water and waste-water	-	-	-	6,518,942	-	-
Rural residential real estate	539,328	-	539,328	17,880,951	-	-
Agricultural export finance	-	-	-	2,439,487	-	-
Total	$ 9,031,389	$ 2,165,374	$ 11,196,763	$ 1,057,844,638	$ -	$ -

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The collateral dependent loans are primarily real estate mortgage and rural residential real estate loans.

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 15% of the Association's lending and leasing limit base but the Association's boards of directors have generally established more restrictive lending limits.

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

	Real Estate Mortgage	Production and Intermediate-Term	Agri-business	Communi-cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	Inter-national	Total
Allowance for Credit Losses on Loans:								
Balance at June 30, 2023	$ (2,591,227)	$ (171,458)	$ (654,820)	$ (5,850)	$ (18,844)	$ (58,257)	$ (3,865)	$ (3,504,321)
Charge-offs	$ 919	$ -	$ -	$ -	$ -	$ -	$ -	$ 919
Recoveries	$ (3,677)	$ -	$ -	$ -	$ -	$ -	$ -	$ (3,677)
Provision for credit losses/(Loan loss reversal)	$ (177,566)	$ (60,612)	$ 420,351	$ (1,493)	$ 879	$ 1,654	$ (66)	$ 183,146
Balance at September 30, 2023	$ (2,771,551)	$ (232,070)	$ (234,469)	$ (7,343)	$ (17,965)	$ (56,603)	$ (3,931)	$ (3,323,933)
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	$ (208,820)	$ (64,162)	$ (205,043)			$ (46,346)	$ 964	$ (523,407)
Balance at January 1, 2023	$ (2,556,752)	$ (185,341)	$ (461,188)	$ (1,528)	$ (72,977)	$ (63,579)	$ (1,543)	$ (3,342,906)
Charge-offs	$ 919	$ -	$ -	$ -	$ -	$ -	$ -	$ 919
Recoveries	$ (3,677)	$ -	$ -	$ -	$ -	$ -	$ -	$ (3,677)
Provision for loan losses (loan loss reversal)	$ (212,041)	$ (46,729)	$ 226,719	$ (5,815)	$ 55,011	$ 6,975	$ (2,389)	$ 21,732
Balance at September 30, 2023	$ (2,771,551)	$ (232,070)	$ (234,469)	$ (7,343)	$ (17,965)	$ (56,603)	$ (3,931)	$ (3,323,933)
Allowance for Unfunded Commitments:								
Balance at June 30, 2023	$ (221)	$ (230,746)	$ (64,898)	$ -	$ (3,011)	$ -	$ (3,949)	$ (302,825)
Provision for unfunded commitments	$ 56	$ (56,277)	$ 2,139	$ (458)	$ 406	$ -	$ (462)	$ (54,597)
Balance at September 30, 2023	$ (165)	$ (287,024)	$ (62,759)	$ (458)	$ (2,606)	$ -	$ (4,411)	$ (357,423)
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	$ 5,320	$ 15,839	$ 245,729	$ (458)	$ (1,427)	$ -	$ 6,675	$ 271,677
Balance at September 30, 2023	$ (165)	$ (287,024)	$ (62,759)	$ (458)	$ (2,606)	$ -	$ (4,411)	$ (357,423)

[1] For periods prior to January 1, 2023, the allowance for loan losses was based on probable and estimable losses inherent in the loan portfolio.

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 table presents additional information regarding troubled debt restructurings that occurred during the period:

	For the Nine Months Ended September 30, 2023	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	$ 655,805.01	$ 190,651.59
Production and intermediate-term	-	-
Agribusiness	-	-
Communication	-	-
Energy and Water/waste disposal	-	-
Rural residential real estate	-	-
International	-	-
Total	$ 655,805.01	$ 190,651.59

*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.

The following table presents information regarding troubled debt restructurings that occurred within the previous 12 months and for which there was a payment default during the period:

	September 30, 2023
Troubled debt restructurings that subsequently defaulted:	
Real estate mortgage	$ 663,155
Production and intermediate-term	-
Agribusiness	-
Rural residential real estate	-
Total	$ 663,155

NOTE 3 —CAPITAL:

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

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Minimums with Buffer	As of September 30, 2023
Common equity tier 1 ratio	7.00%	12.18%
Tier 1 capital ratio	8.50%	12.18%
Total capital ratio	10.50%	12.53%
Permanent capital ratio	7.00%	12.22%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	11.83%
UREE leverage ratio	1.50%	11.51%

The details for the amounts used in the calculation of the regulatory capital ratios as of September 30, 2023:

Risk-adjusted Capital Ratios

	Common Equity Tier 1 Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Permanent Capital Ratio
Numerator:				
Unallocated retained earnings	$ 145,476,027	$ 145,476,027	$ 145,476,027	$ 145,476,027
Statutory minimum purchased borrower stock	3,460,006	3,460,006	3,460,006	3,460,006
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	3,635,196	-
Amount of allocated investments in other System institutions	(19,220,135)	(19,220,135)	(19,220,135)	(19,220,135)
Other regulatory required deductions	(3,006,327)	(3,006,327)	(3,006,327)	(3,006,327)
	$ 126,709,571	$ 126,709,571	$ 130,344,767	$ 126,709,571
Denominator:				
Risk-adjusted assets excluding allowance	$ 1,062,282,733	$ 1,062,282,733	$ 1,062,282,733	$ 1,062,282,733
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(22,226,462)	(22,226,462)	(22,226,462)	(22,226,462)
Allowance for loan losses	-	-	-	(3,331,158)
	$ 1,040,056,271	$ 1,040,056,271	$ 1,040,056,271	$ 1,036,725,113

Non-risk-adjusted Capital Ratios

	Tier 1 Leverage Ratio	UREE Leverage Ratio
Numerator:		
Unallocated retained earnings	$ 145,476,027	$ 145,476,027
Statutory minimum purchased borrower stock	3,460,006	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(19,220,135)	(19,220,135)
Other regulatory required deductions	(3,006,327)	(3,006,327)
	$ 126,709,571	$ 123,249,565
Denominator:		
Total Assets	$ 1,097,419,150	$ 1,097,419,150
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(26,198,099)	(26,198,099)
	$ 1,071,221,051	$ 1,071,221,051

The following table presents the changes in Members' Equity

	September 30, 2023	December 31, 2022
Capital stock and participation certificates	$ 3,456,825	$ 3,498,465
Accumulated other comprehensive loss	276,096	288,084
Retained earnings1	150,936,042	139,388,864
Total Capital	$ 154,668,963	$ 143,175,413

[1] Retained earnings for the quarter ended September 30, 2023, reflects an increase/decrease from the cumulative effect of a change in accounting principle for CECL on January 1, 2023.

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

	Unrealized gains/losses on investments available for sale, net	Unrealized losses on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at June 30, 2023	$ -	$ -	$ -	$ 280,092
Net current period other comprehensive income	-	-	-	(3,996)
Balance at September 30, 2023	$ -	$ -	$ -	$ 276,096
Balance at January 1, 2023	$ -	$ -	$ -	$ 288,084
Net current period other comprehensive income	-	-	-	(11,988)
Balance at September 30, 2023	$ -	$ -	$ -	$ 276,096

	Unrealized gains/losses on investments available for sale, net	Unrealized losses on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at June 30, 2022	$ -	$ -	$ -	$ (3,487)
Net current period other comprehensive income	-	-	-	(2,172)
Balance at September 30, 2022	$ -	$ -	$ -	$ (5,659)
Balance at January 1, 2022	$ -	$ -	$ -	$ 857
Net current period other comprehensive income	-	-	-	(6,516)
Balance at September 30, 2022	$ -	$ -	$ -	$ (5,659)

NOTE 4 — 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 the principal or most advantageous market for the asset or liability. See Note 15 in the 2022 Annual Report to Stockholders for a more complete description.

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

September 30, 2023	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans	$ -	$ -	$ -	$ -	$ -
Other property owned	-	-	1,173,351	1,173,351	6,824

December 31, 2022	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans	$ -	$ -	$ 1,127,488	$ 1,127,488	$ -
Other property owned	-	-	1,785,058	1,785,058	(157,420)

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

Valuation Techniques

As more fully discussed in Note 13 to the 2022 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see the 2022 Annual Report to Stockholders.

Assets Held in Nonqualified Benefits Trusts

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

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

Other Property Owned

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

Cash

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

Loans

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

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

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

Commitments to Extend Credit

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

NOTE 5 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three and nine months ended September 30:

Three months ended September 30:	Other Benefits	
	2023	2022
Service cost	$ 6,347	$ 7,388
Interest cost	20,960	14,735
Amortization of prior service (credits) costs	(2,171)	(2,171)
Net periodic benefit cost	$ 25,136	$ 19,952

Nine months ended September 30:	Other Benefits	
	2023	2022
Service cost	$ 19,041	$ 14,776
Interest cost	62,880	29,470
Amortization of prior service (credits) costs	(6,513)	(4,342)
Net periodic benefit cost	$ 75,408	$ 39,904

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2023, was $1,689,746 and is included in other liabilities on the balance sheet.

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

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and Associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2022, that it expected to contribute $63,279 to the district's defined benefit pension plan in 2023. As of September 30, 2023, $35,702 of contributions have been made. The Association presently anticipates contributing an additional $47,459 to fund the defined benefit pension plan in 2023 for a total of $83,161.

NOTE 6 — COMMITMENTS AND CONTINGENT LIABILITIES:

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