ALABAMA AG CREDIT, ACA

2024
Quarterly Report

For the Quarter Ended March 31, 2024

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.

Douglas Thiessen, Chief Executive Officer
May 6, 2024

Larry H. Gibson, Jr., Chairman, Board of Directors
May 6, 2024

Heather Smith, Sr. VP/Chief Financial Officer
May 6, 2024

Richard M. Stabler, CPA, retired, Chairman, Audit Committee
May 6, 2024

First quarter 2024 Financial Report

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(dollars in thousands, except as noted)

The following commentary reviews the financial performance of the Alabama Ag Credit, ACA, referred to as the Association, for the quarter ended March 31, 2024. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2023 Annual Report to Stockholders.

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

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

Significant Events

Lingering elevated inflation has led the Federal Reserve Board to continue to hold rates at the highest levels in the past twenty years. The high rates have had a significant impact on the Association as well as all farm credit and commercial lenders. Additionally, the impact to the Farm Credit Bank of Texas (the Bank) led to a significant decline in the patronage paid by the Bank on the Association's direct note average balance in 2023. As part of the Bank's plan to improve its capital position, patronage payments will continue to be lower in 2024.

Loan Portfolio

The Association makes and services loans to farmers, ranchers, rural homeowners, and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loans are available to eligible borrowers with competitive prime- and index-based, fixed, and adjustable interest rates and loan maturities ranging up to 40 years. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with seasonal cash-flow capabilities of the borrower.

Total loans outstanding at March 31, 2024, including nonaccrual loans and sales contracts, were $1,359,452,324 compared to $1,344,188,480 at December 31, 2023, reflecting an increase of 1.1%. Nonaccrual loans as a percentage of total loans outstanding were 0.1% at March 31, 2024, compared to 0.1% at December 31, 2023.

The Association recorded $24,665 in recoveries for the quarter ended March 31, 2024, and $9,215 in recoveries for the same period in 2023. The Association's allowance for loan losses was 0.7% and 0.7% of total loans outstanding as of March 31, 2024, and December 31, 2023, respectively.

Risk Exposure

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

	March 31, 2024		December 31, 2023	
	Amount	**%**	**Amount**	**%**
Nonaccrual	$ 862,546	100.0%	$ 872,457	100.0%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Other property owned, net	-	0.0%	-	0.0%
Total	**$ 862,546**	**100.0%**	**$ 872,457**	**100.0%**

Results of Operations

The Association had net income of $5,328,963 for the three months ended March 31, 2024, as compared to net income of $5,051,674 for the same period in 2023, reflecting an increase of 5.5%. Net interest income was $9,265,509 for the three months ended March 31, 2024, compared to $8,691,724 for the same period in 2023.

	Three Months Ended			
	March 31, 2024		March 31, 2023	
	Average Balance	Interest	Average Balance	Interest
Loans	**$ 1,346,851,708**	**$ 19,649,851**	$ 1,305,831,637	$ 16,802,414
Interest-bearing liabilities	**1,130,501,990**	**10,384,342**	1,094,898,965	8,110,690
Impact of capital	**$ 216,349,718**		$ 210,932,672	
Net interest income		**$ 9,265,509**		$ 8,691,724

	2024 Average Yield	2023 Average Yield
Yield on loans	**5.9%**	5.2%
Cost of interest-bearing liabilities	**3.7%**	3.0%
Interest rate spread	**2.2%**	2.2%
Net interest income as a percentage of average earning assets	**2.8%**	2.7%

	Three months ended: March 31, 2024 vs. March 31, 2023		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	**$ 532,224**	**$ 2,315,213**	**$ 2,847,437**
Interest expense	**265,935**	**2,007,717**	**2,273,652**
Net interest income	**$ 266,289**	**$ 307,496**	**$ 573,785**

Interest income for the three months ended March 31, 2024, increased by $2,847,437, or 16.9%, from the same period of 2023, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three months ended March 31, 2024, increased by $2,273,652, or 28%, from the same period of 2023 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the first quarter of 2024 was $1,346,851,708, compared to $1,305,831,637 in the first quarter of 2023. The average net interest rate spread on the loan portfolio for the first quarter of 2024 was 2.2%, compared to 2.2% in the first quarter of 2023.

Noninterest income for the three months ended March 31, 2024, decreased by $470,063, or 28.8 percent, over the same period of 2023. The decreases are due primarily to a significant reduction in the accrual for patronage income from the Bank in 2024 compared to 2023. The decrease in patronage income accrual is the result of the Bank's decision to remove the patronage on the Bank stock investment and to reduce the accrual percentage on the direct note patronage by 30 percent due to capital constraints at the Bank.

Noninterest expenses for the three months ended March 31, 2024, decreased by $104,870, or 2.1 percent, as compared to the same periods in 2023. The decrease is primarily due to a reduction in the premium for Farm Credit Insurance (FCSIC) and decreased director's expenses, offset by increases in occupancy and equipment. The decrease in FCSIC premium, announced in the first quarter, was a 44 percent reduction from 2023. Director's expenses were lower due to attendance at fewer events and fewer board meetings in 2024. Occupancy and equipment expenses increased due to the addition of new systems and software licensing related to information technology.

The Association's return on average assets for the three months ended March 31, 2024, was 1.6% compared to 1.5% for the same period in 2023. The Association's return on average equity for the three months ended March 31, 2024, was 9.2%, compared to 9.1% for the same period in 2023.

Liquidity and Funding Sources

The Association secures the majority of its lendable funds from 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.

	March 31, 2024	December 31, 2023
Note payable to the Bank	$ 1,145,361,248	$ 1,127,940,073
Accrued interest on note payable	3,560,707	3,380,799
Total	**$ 1,148,921,955**	$ 1,131,320,872

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2026. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $1,145,361,248 as of March 31, 2024, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.94 percent at March 31, 2024. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2023, is due to the Association's increase in loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $214,369,553 at March 31, 2024. The maximum amount the Association may borrow from the Bank as of March 31, 2024, was $1,390,000,000 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2026, 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 $5,348,537 at March 31, 2024, compared to December 31, 2023. The Association's debt as a percentage of members' equity was 4.88:1 as of March 31, 2024, compared to 5.02:1 as of December 31, 2023.

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 March 31, 2024, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

Refer to Note 1 – "Organization and Significant Accounting Policies" in this quarterly report for disclosures of recent accounting pronouncements which may impact the Association's consolidated financial position and results of operations and for critical accounting policies.

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 2023 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 for the bank are also available on its website at *www.farmcreditbank.com*.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Alabama Ag Credit, ACA, 7480 Halcyon Pointe Drive, Ste 201, Montgomery, AL 36117 or calling (334)270-8687. The quarterly stockholder reports will be available on the Association's website at www.AlabamaAgCredit.com approximately 40 days after quarter end. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing info@AlabamaAgCredit.com. The Association's annual stockholder report is available on its website 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

Alabama Ag Credit, ACA

CONSOLIDATED BALANCE SHEETS

		March 31, 2024 (unaudited)		December 31, 2023
ASSETS				
Cash	$	20,215	$	10,995
Loans		1,359,452,324		1,344,188,480
Less: allowance for credit losses on loans		9,003,707		8,796,563
Net loans		1,350,448,617		1,335,391,917
Accrued interest receivable		12,943,361		13,050,872
Investment in and receivable from the Farm Credit Bank of Texas:				
Capital stock		22,137,880		22,137,880
Other		2,402,726		1,509,505
Premises and equipment, net		6,584,322		6,664,139
Other assets		1,792,560		2,669,149
Total assets	**$**	**1,396,329,681**	$	1,381,434,457
LIABILITIES				
Note payable to the Farm Credit Bank of Texas	$	1,145,361,248	$	1,127,940,073
Accrued interest payable		3,560,707		3,380,799
Drafts outstanding		92,801		170,052
Patronage distributions payable		314,737		12,125,139
Other liabilities		12,359,645		8,526,388
Total liabilities	**$**	**1,161,689,138**	$	1,152,142,451
MEMBERS' EQUITY				
Capital stock and participation certificates	$	4,494,305	$	4,467,215
Unallocated retained earnings		229,794,797		224,465,834
Accumulated other comprehensive income		351,441		358,957
Total members' equity		**234,640,543**		229,292,006
Total liabilities and members' equity	**$**	**1,396,329,681**	$	1,381,434,457

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

Alabama Ag Credit, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
INTEREST INCOME		
Loans	$ 19,649,851	$ 16,802,414
INTEREST EXPENSE		
Note payable to the Farm Credit Bank of Texas	10,384,342	8,110,690
Net interest income	**9,265,509**	8,691,724
PROVISION FOR CREDIT LOSSES	182,547	251,244
Net interest income after provision for credit losses	**9,082,962**	8,440,480
NONINTEREST INCOME		
Income from the Farm Credit Bank of Texas:		
Patronage income	981,296	1,509,972
Loan fees	83,909	70,338
Gain (loss) on sale of premises and equipment, net	15,123	49,959
Other noninterest income	80,717	839
Total noninterest income	**1,161,045**	1,631,108
NONINTEREST EXPENSES		
Salaries and employee benefits	2,857,025	2,865,068
Directors' expense	72,362	146,352
Purchased services	132,215	114,526
Travel	176,623	214,963
Occupancy and equipment	547,292	329,532
Communications	72,881	80,105
Advertising	88,943	169,223
Public and member relations	156,791	148,082
Supervisory and exam expense	118,607	106,722
Insurance fund premiums	539,440	729,190
Other components of net periodic postretirement benefit cost	28,579	22,508
Other noninterest expense	124,286	93,643
Total noninterest expenses	**4,915,044**	5,019,914
NET INCOME	**5,328,963**	5,051,674
Other comprehensive income:		
Change in postretirement benefit plans	(7,516)	(9,903)
COMPREHENSIVE INCOME	**$ 5,321,447**	$ 5,041,771

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

Alabama Ag Credit, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2022	$ 4,484,775	$ 216,118,555	$ 438,440	$ 221,041,770
Net income	-	5,051,674	-	5,051,674
Other comprehensive income	-	-	(9,903)	(9,903)
Capital Adjustment for 1/1/23 CECL implementation	-	(2,169)	-	(2,169)
Capital stock/participation certificates issued	113,640	-	-	113,640
Capital stock/participation certificates retired	(121,190)	-	-	(121,190)
Balance at March 31, 2023	$ 4,477,225	$ 221,168,060	$ 428,537	$ 226,073,822
Balance at December 31, 2023	$ 4,467,215	$ 224,465,834	$ 358,957	$ 229,292,006
Net income	-	5,328,963	-	5,328,963
Other comprehensive income	-	-	(7,516)	(7,516)
Capital stock/participation certificates issued	141,560	-	-	141,560
Capital stock/participation certificates retired	(114,470)	-	-	(114,470)
Balance at March 31, 2024	**$ 4,494,305**	**$ 229,794,797**	**$ 351,441**	**$ 234,640,543**

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

ALABAMA AG CREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Alabama Ag 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 Autauga, Baldwin, Barbour, Bibb, Bullock, Butler, Chambers, Chilton, Choctaw, Clarke, Coffee, Conecuh, Coosa, Covington, Crenshaw, Dale, Dallas, Elmore, Escambia, Geneva, Greene, Hale, Henry, Houston, Lee, Lowndes, Macon, Marengo, Mobile, Monroe, Montgomery, Perry, Pickens, Pike, Russell, Sumter, Tallapoosa, Tuscaloosa, Washington, and Wilcox 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, 2023, as contained in the 2023 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, 2024. Descriptions of the significant accounting policies are included in the 2023 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.

Recently Adopted Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 - Income Taxes: Improvements to Income Tax Disclosures. The amendments in this standard require more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The amendments in this standard require qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. The amendments are effective for annual periods beginning after December 15, 2025.The adoption of this guidance is not expected to have a material impact on the Association's financial condition, results of operations or cash flows.

In November 2023, the FASB issued ASU 2023-07 - Segment Reporting: Improvements to Reportable Segment Disclosures. The standard requires a public entity to disclose, on an annual and interim basis, the following:

- significant segment expenses that are readily provided to the chief operating decision maker ("CODM") and included in segment profit or loss,
- composition and aggregate amount of other segment items, which represent the difference between profit or loss and segment revenues less significant segment expenses,
- the title and position of the CODM, and
- an explanation of how the CODM uses the reported segment measures in assessing segment performance and deciding how to allocate resources.

Even if a public entity has a single reportable segment, it is required to provide all disclosures set forth in the standard and all existing segment disclosures. The amendments in the standard are to be applied retrospectively to all prior periods presented and are effective for fiscal years beginning after December 31, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Association is currently assessing the potential impact of this standard on its disclosures.

NOTE 2 — LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS:

A summary of loans follows:

Loan Type		March 31, 2024		December 31, 2023
Production agriculture:				
Real estate mortgage	$	**997,592,499**	$	992,052,287
Production and intermediate-term		**160,521,530**		160,374,838
Agribusiness:				
Loans to cooperatives		**9,563,821**		9,234,189
Processing and marketing		**66,095,545**		57,485,304
Farm-related business		**34,517,088**		34,079,473
Communication		**4,152,675**		4,162,940
Energy		**5,703,653**		5,788,110
Water and waste-water		**13,271,903**		13,331,425
Rural residential real estate		**60,203,882**		60,352,910
Agricultural export finance		**7,829,728**		7,327,004
Total	**$**	**1,359,452,324**	$	1,344,188,480

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 March 31, 2024:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 13,294,989	$ 25,641,190	$ -	$ -	$ 13,294,989	$ 25,641,190
Production and intermediate-term	34,023,097	12,569,438	-	-	34,023,097	12,569,438
Agribusiness	76,388,596	56,621,962	-	-	76,388,596	56,621,962
Communication	4,152,675	-	-	-	4,152,675	-
Energy	5,703,653	-	-	-	5,703,653	-
Water and waste-water	13,271,903	-	-	-	13,271,903	-
Agricultural export finance	7,829,728	-	-	-	7,829,728	-
Total	$154,664,641	$ 94,832,590	$ -	$ -	$154,664,641	$ 94,832,590

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 not paid by the Association on such balances. Balances of ACPs were $5,346,626 and $9,815,769 at March 31, 2024, and December 31, 2023, 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 shows loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type as of March 31, 2024, and December 31, 2023:

	March 31, 2024	December 31, 2023	
Real estate mortgage			
Acceptable	**98.5**	98.4	%
OAEM	**0.8**	1.0	
Substandard/doubtful	**0.7**	0.6	
	100.0	100.0	
Production and intermediate-term			
Acceptable	**99.8**	99.1	
OAEM	**0.1**	0.1	
Substandard/doubtful	**0.1**	0.8	
	100.0	100.0	
Agribusiness			
Acceptable	**87.9**	91.1	
OAEM	**8.1**	8.9	
Substandard/doubtful	**4.0**		
	100.0	100.0	
Energy and water/waste-water			
Acceptable	**100.0**	100.0	
OAEM	-	-	
Substandard/doubtful	-	-	
	100.0	100.0	
Communication			
Acceptable	**100.0**	100.0	
OAEM	**-**	-	
Substandard/doubtful	-	-	
	100.0	100.0	
Rural residential real estate			
Acceptable	**99.9**	99.8	
OAEM	**0.1**	0.1	
Substandard/doubtful	-	0.1	
	100.0	100.0	
Agricultural export finance			
Acceptable	**100.0**	100.0	
OAEM	**-**	-	
Substandard/doubtful	**-**	-	
	100.0	100.0	
Total loans			
Acceptable	**98.0**	98.4	
OAEM	**1.0**	1.5	
Substandard/doubtful	**1.0**	0.1	
	100.0 %	100.0	%

Accrued interest receivable on loans of $12,943,361 and $13,050,872 at March 31, 2024 and December 31, 2023 have been excluded from the amortized cost of loans and reported separately in the Balance Sheet. The Association did not write off accrued interest receivable during the three months ended March 31, 2024 and 2023.

The following table reflects nonperforming assets, which consist of nonaccrual loans, accruing loans 90 days or more past due and other property owned and related credit quality statistics:

	March 31, 2024	December 31, 2023
Nonaccrual loans:		
Real estate mortgage	**$ 862,546**	$ 872,457
Total accruing loans 90 days or more past due	**-**	-
Other property owned	**-**	-
Total nonperforming assets	**$ 862,546**	$ 872,457
Nonaccrual loans as a percentage of total loans	**0.1%**	0.1%
Nonperforming assets as a percentage of total loans and other property owned	**0.1%**	0.1%
Nonperforming assets as a percentage of capital	**0.4%**	0.4%

The following tables provide 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:

	March 31, 2024			Interest Income Recognized For the Three Months Ended March 31, 2024
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	
Nonaccrual loans:				
Real estate mortgage	$ 540,523	$ 322,023	$ 862,546	$ 224,125

	December 31, 2023			Interest Income Recognized For the Three Months Ended March 31, 2023
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	
Nonaccrual loans:				
Real estate mortgage	$ 570,767	$ 301,690	$ 872,457	$ 14,463

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

March 31, 2024	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	**$ 4,191,723**	**$ -**	**$ 4,191,723**	**$ 993,400,775**	**$ 997,592,498**	**$ -**
Production and intermediate term	**684,380**	**-**	**684,380**	**159,837,150**	**160,521,530**	**-**
Loans to cooperatives	**-**	**-**	**-**	**9,563,821**	**9,563,821**	**-**
Processing and marketing	**-**	**-**	**-**	**66,095,545**	**66,095,545**	**-**
Farm-related business	**-**	**-**	**-**	**34,517,088**	**34,517,088**	**-**
Communication	**-**	**-**	**-**	**4,152,675**	**4,152,675**	**-**
Energy	**-**	**-**	**-**	**5,703,653**	**5,703,653**	**-**
Water and waste-water	**-**	**-**	**-**	**13,271,903**	**13,271,903**	**-**
Rural residential real estate	**430,182**	**-**	**430,182**	**59,773,701**	**60,203,883**	**-**
Agricultural export finance	**-**	**-**	**-**	**7,829,728**	**7,829,728**	**-**
Total	**$ 5,306,285**	**$ -**	**$ 5,306,285**	**$ 1,354,146,039**	**$ 1,359,452,324**	**$ -**

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	$ 3,374,124	$ -	$ 3,374,124	$ 988,678,163	$ 992,052,287	$ -
Production and intermediate term	3,805,109	-	3,805,109	156,569,729	160,374,838	-
Loans to cooperatives	-	-	-	9,234,189	9,234,189	-
Processing and marketing	-	-	-	57,485,304	57,485,304	-
Farm-related business	-	-	-	34,079,473	34,079,473	-
Communication	-	-	-	4,162,940	4,162,940	-
Energy	-	-	-	5,788,110	5,788,110	-
Water and waste-water	-	-	-	13,331,425	13,331,425	-
Rural residential real estate	16,155	-	16,155	60,336,755	60,352,910	-
Agricultural export finance	-	-	-	7,327,004	7,327,004	-
Total	$ 7,195,388	$ -	$ 7,195,388	$ 1,336,993,092	$ 1,344,188,480	$ -

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.

Loan Modifications to Borrowers Experiencing Financial Difficulties

The amortized cost basis at the end of the respective reporting period for loan modifications granted to borrowers experiencing financial difficulty, disaggregated by loan type and type of modification granted is a required disclosure. In the three months ended March 31, 2024 and 2023, the Association did not have any loan modifications related to interest rate reduction, term extension, principal forgiveness, or payment deferral. Accordingly, there were no amounts for accrued interest receivable related to loan modifications for the three months ended March 31, 2024 and 2023.

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified during the twelve months prior to March 31, 2024:

	Payment Status of Loans Modified in the Past 12 Months		
	Current	30-89 Days Past Due	90 Days or More Past Due
Production and intermediate-term	$ 115,376	-	-

There were no instances of borrowers experiencing financial difficulty that were modified on or after January 1, 2023, the date of adoption of CECL, through March 31, 2023.

There were no additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified during the three months ended March 31, 2024 and during the year ended December 2023.

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.

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 December 31, 2023	$ 8,125,651	$ 218,033	$ 176,781	$ 4,764	$ 17,694	$ 248,319	$ 5,321	$ 8,796,563
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	24,665		-	-	-	-	-	24,665
Provision for credit losses (Credit loss reversal)	(795,619)	16,357	979,639	(236)	(1,258)	(15,915)	(490)	182,479
Balance at March 31, 2024	**$ 7,354,697**	**$ 234,390**	**$ 1,156,420**	**$ 4,528**	**$ 16,436**	**$ 232,404**	**$ 4,831**	**$ 9,003,707**
Allowance for credit losses on unfunded commitments:								
Balance at December 31, 2023	5,911	27,869	13,750	-	1,021	886	3,467	52,904
Provision for unfunded commitments	(2,008)	(1,095)	3,482	-	(99)	(12)	(198)	70
Balance at March 31, 2024	**$ 3,903**	**$ 26,774**	**$ 17,232**	**$ -**	**$ 922**	**$ 874**	**$ 3,269**	**$ 52,974**
Total allowance for credit losses	**$ 7,358,600**	**$ 261,164**	**$ 1,173,652**	**$ 4,528**	**$ 17,358**	**$ 233,278**	**$ 8,100**	**$ 9,056,681**

	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 December 31, 2022	$ 7,744,133	$ 443,269	$ 130,793	$ -	$ 7,173	$ 84,321	$ 2,664	$ 8,412,353
Cumulative effect of a change in accounting principle	(570,293)	337,591	108,787	-	5,909	174,622	4,520	61,136
Balance at January 1, 2023	7,173,840	780,860	239,580	-	13,082	258,943	7,184	8,473,489
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	8,338							8,338
Provision for loan losses (Credit loss reversal)	275,599	12,412	(23,058)	-	1,301	(10,226)	(2,843)	253,185
Balance at March 31, 2023	$ 7,457,777	$ 793,272	$ 216,522	$ -	$ 14,383	$ 248,717	$ 4,341	$ 8,735,012
Allowance for credit losses on unfunded commitments:								
Balance at December 31, 2022	$ 8,643	$ 67,822	$ 23,380	$ -	$ -	$ 117	$ 2,452	102,414
Cumulative effect of a change in accounting principle	(2,330)	(50,674)	(6,493)	-	-	8	522	(58,967)
Balance at January 1, 2023	6,313	17,148	16,887	-	-	125	2,974	43,447
Provision for unfunded commitments	(880)	1,478	(1,434)	-	335	482	(1,045)	(1,064)
Balance at March 31, 2023	$ 5,433	$ 18,626	$ 15,453	$ -	$ 335	$ 607	$ 1,929	$ 42,383
Total allowance for credit losses	**$ 7,463,210**	**$ 811,898**	**$ 231,975**	**$ -**	**$ 14,718**	**$ 249,324**	**$ 6,270**	**$ 8,777,395**

Discussion of Changes in Allowance for Credit Losses

The ACL increased $207,214 to $9,056,681 at March 31, 2024, as compared to $8,849,467 at December 31, 2023. This is largely due to increased loan volume, macroeconomic changes in the model that represented a more pessimistic forecast, and an increase in the qualitative adjustment due to downgrades in risk rating.

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:	**Minimums with Buffer**	**March 31, 2024**
Common equity tier 1 ratio	7.0%	14.9%
Tier 1 capital ratio	8.5%	14.9%
Total capital ratio	10.5%	15.6%
Permanent capital ratio	7.0%	15.0%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.0%	15.3%
UREE leverage ratio	1.5%	15.0%

The details for the amounts used in the calculation of the regulatory capital ratios as of March 31, 2024:

Risk-adjusted Capital Ratios:

	Common equity tier 1 ratio	**Tier 1 capital ratio**	**Total capital ratio**	**Permanent capital ratio**
Numerator:				
Unallocated retained earnings	$ 226,928,415	$ 226,928,415	$ 226,928,415	$ 226,928,415
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,474,797	4,474,797	4,474,797	4,474,797
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	8,858,505	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(23,026,691)	(23,026,691)	(23,026,691)	(23,026,691)
	$ 208,376,521	$ 208,376,521	$ 217,235,026	$ 208,376,521
Denominator:				
Risk-adjusted assets excluding allowance	$ 1,420,061,682	$ 1,420,061,682	$ 1,420,061,682	$ 1,420,061,682
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(23,026,691)	(23,026,691)	(23,026,691)	(23,026,691)
Allowance for loan losses	-	-	-	(8,805,597)
	$ 1,397,034,991	$ 1,397,034,991	$ 1,397,034,991	$ 1,388,229,394

Non-risk-adjusted Capital Ratios:

		Tier 1 leverage ratio		UREE leverage ratio
Numerator:				
Unallocated retained earnings	$	226,928,415	$	226,928,415
Common Cooperative Equities:				
Statutory minimum purchased borrower stock		4,474,797		-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions		(23,026,691)		(23,026,691)
	$	208,376,521	$	203,901,724
Denominator:				
Total Assets	$	1,382,846,569	$	1,382,846,569
Regulatory Adjustments and Deductions:				
Regulatory deductions included in tier 1 capital		(23,330,670)		(23,330,670)
	$	1,359,515,899	$	1,359,515,899

The following table presents the components of capital as of:

		March 31, 2024		December 31, 2023
Capital stock and participation certificates	**$**	**4,494,305**	$	4,467,215
Accumulated other comprehensive loss		**351,441**		358,957
Retained earnings		**229,794,797**		224,465,834
Total Capital	$	234,640,543	$	229,292,006

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

		Accumulated other comprehensive loss
Balance at December 31, 2023	$	358,957
Net current period other comprehensive income		(7,516)
Balance at March 31, 2024	$	351,441

		Accumulated other comprehensive loss
Balance at December 31, 2022	$	438,440
Net current period other comprehensive income		(9,903)
Balance at March 31, 2023	$	428,537

The Association's accumulated other comprehensive income (loss) relates entirely to its non-pension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the three months ended March 31:

	2024	2023
Accumulated other comprehensive income (loss) at January 1	**$ 358,957**	$ 438,440
Amortization of actuarial (gain) loss included in salaries and employee benefits	**(7,516)**	(29,710)
Accumulated other comprehensive income (loss) at March 31	**$ 351,441**	$ 408,730

NOTE 4 — INCOME TAXES:

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

NOTE 5 — FAIR VALUE MEASUREMENTS:

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 13 in the 2023 Annual Report to Stockholders for a more complete description.

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

March 31, 2024	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in non-qualified benefits trusts	$ 215,299	$ -	$ -	$ 215,299

December 31, 2023	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in non-qualified benefits trusts	$ 201,325	$ -	$ -	$ 201,325

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

March 31, 2024	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 328,269	$ 328,269

December 31, 2023	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 356,405	$ 356,405

*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.

Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

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

Valuation Techniques

As more fully discussed in Note 13 to the 2023 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 2023 Annual Report to Stockholders.

Assets Held in Nonqualified Benefits Trusts

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

Loans Evaluated for Impairment

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

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.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: As discussed in Note 2 and Note 11 to the 2023 Annual Report to Stockholders, employees of the Association participate in either the Texas Farm Credit District's (District) defined benefit pension plan (DB Plan) or the District's defined contribution plan (DC Plan).

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and Associations). The Association recognizes its amortized annual contributions to the plan as an expense. The annual contribution is paid in January of each year and amortized into expense on a monthly basis; unamortized contributions are included in "Other Assets" in the consolidated balance sheet. The following table represents DB contributions made, amounts amortized into expense, and the remaining unamortized contributions amounts as of March 31:

	2024	2023
DB Contribution	$ 217,392	$ 348,799
YTD Amortization	54,348	87,200
Unamortized Contributions	$ 163,044	$ 261,599

Association contributions to the DC Plan are expensed as incurred. For the three months ended March 31, 2024 and 2023, the Association recognized pension costs for the DC Plan of $165,714 and $184,997, respectively.

Employees are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Contributions to the 401(k) plan are expensed as incurred. The Association's contributions to the 401(k) plan were $101,121 and $114,511 for the three months ended March 31, 2024 and 2023, 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 the consolidated balance sheet. The following table summarizes the components of net periodic benefit costs for the three months ended March 31:

Three months ended March 31:	Other Benefits	
	2024	**2023**
Service cost	**$ 8,702**	$ 10,502
Interest cost	**36,096**	32,412
Amortization of prior service (credits) costs	**(5,056)**	(5,056)
Amortization of net actuarial (gain) loss	**(2,461)**	(4,848)
Net periodic benefit cost	**$ 37,281**	$ 33,010

The Association’s liability for the unfunded accumulated obligation for these benefits at March 31, 2024, was $2,703,445 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.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 6, 2024, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 6, 2024.