

ALABAMA AG CREDIT, ACA

**2022
Quarterly Report
Second Quarter**



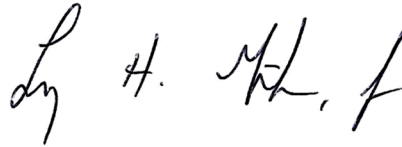
For the Quarter Ended June 30, 2022

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
August 2, 2022



Larry H. Gibson, Jr., Chairman, Board of Directors
August 2, 2022



Heather Smith, Sr. VP/Chief Financial Officer
August 2, 2022



Richard M. Stabler, CPA, Chairman, Audit Committee
August 2, 2022

Second Quarter 2022 Financial Report

Table of Contents

Management’s Discussion and Analysis.....	4
Consolidated Balance Sheets.....	7
Consolidated Statements of Comprehensive Income.....	8
Consolidated Statement of Changes in Members’ Equity.....	9
Notes to the Consolidated Financial Statements.....	10

**ASSOCIATION NEW MODEL
MANAGEMENT'S DISCUSSION AND ANALYSIS**
(dollars in thousands, except as noted)

The following commentary reviews the financial performance of the Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended June 30, 2022. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2021 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

After the Federal Reserve dropped the target rate dramatically at the beginning of COVID pandemic early in 2020, rates have now started to increase. With inflation continuing to rise, the Fed increased rates by 75bps on June 15, 2022, with more rate increases expected throughout 2022. Long term rates are expected to rise as well, but not at the pace of short-term rates, thus the flattening treasury yield curve. History shows that the flattening of the yield curve could signify that a recession is forthcoming. The Association will continue to monitor rates over the next two quarters. Financial markets have remained accessible, with the Funding Corp able to secure buyers for farm credit debt.

Inflation increased 8.6% in the twelve months ending May 2022, as food and energy costs continue to soar. While there is increased demand for commodity production, farming input costs, especially record-high diesel prices, are rising faster than commodity prices. Additionally, farmers are also facing supply chain challenges and equipment shortages that are likely to continue into 2023. Russia's recent invasion of Ukraine has significantly increased the uncertainty of agricultural supply and demand conditions and is likely to continue throughout 2022. The Association will continue to monitor this over the next two quarters.

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 June 30, 2022, including nonaccrual loans, were \$1,265,318,077 compared to \$1,229,614,367 at December 31, 2021, reflecting an increase of 2.9%. Nonaccrual loans as a percentage of total loans outstanding were 0.2% at June 30, 2022, compared to 0.3% at December 31, 2021. The major commodities within the Association's portfolio are timber, cattle, poultry, and field crops.

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 2021. The Bank established a LIBOR Workgroup, with cross-functional representation from the finance, operations, credit, and legal departments. The LIBOR Workgroup is progressing in implementing its transition plan to an alternative benchmark rate. In late 2020, the Funding Corporation launched an alternative benchmark rate based on SOFR as an alternative to LIBOR. The rate is a monthly-reset variable rate index and is published on the Funding Corporation's website. As of June 30, 2022, the Association had \$40,322,219 in loan volume tied to the new index. The Association is actively working to reduce exposure to LIBOR, primarily by converting existing LIBOR loans to other rate products and ensuring all note agreements contain appropriate legal language allowing the change to a different index. At June 30, 2022, the Association's portfolio included LIBOR-indexed volume of \$53,436,897, representing approximately 4.2 % of the loan portfolio. Of this amount, approximately \$5.5 million is scheduled to mature prior to December 31, 2022.

The Association recorded \$7,905 in recoveries and \$0 in charge-offs for the quarter ended June 30, 2022, and \$9,670 in recoveries and \$15,985 in charge-offs for the same period in 2021. The Association's allowance for loan losses was 0.7% and 0.7% of total loans outstanding as of June 30, 2022, and December 31, 2021, respectively.

Risk Exposure

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

	June 30, 2022		December 31, 2021	
	Amount	%	Amount	%
nonaccrual	\$ 2,830,075	33.4%	\$ 4,056,983	46.6%
formally restructured	5,649,309	66.6%	4,642,443	53.4%
Total	<u>\$ 8,479,384</u>	<u>100.0%</u>	<u>\$ 8,699,426</u>	<u>100.0%</u>

Results of Operations

The Association had net income of \$5,142,257 and \$10,555,753 for the three and six months ended June 30, 2022, as compared to net income of \$4,733,389 and \$9,831,806 for the same period in 2021, reflecting an increase of 8.6% and 7.4%. Net interest income was \$7,955,639 and \$15,855,963 for the three and six months ended June 30, 2022, compared to \$7,678,308 and \$15,230,161 for the same period in 2021.

	Six Months Ended			
	June 30, 2022		June 30, 2021	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 1,250,979,282	\$ 27,020,089	\$ 1,185,841,905	\$ 25,656,635
Interest-bearing liabilities	1,051,659,126	11,164,126	996,301,089	10,426,473
Impact of capital	<u>\$ 199,320,156</u>		<u>\$ 189,540,816</u>	
Net interest income		<u>\$ 15,855,963</u>		<u>\$ 15,230,162</u>
	2022		2021	
	Average Yield		Average Yield	
Yield on loans	4.4%		4.4%	
Cost of interest-bearing liabilities	2.1%		2.1%	
Interest rate spread	2.2%		2.3%	
Net interest income as a percentage of average earning assets	2.6%		2.6%	

	Six months ended: June 30, 2022 vs. June 30, 2021		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 1,409,293	\$ (45,830)	\$ 1,363,463
Interest expense	579,337	158,325	737,662
Net interest income	<u>\$ 829,956</u>	<u>\$ (204,155)</u>	<u>\$ 625,801</u>

Interest income for the three and six months ended June 30, 2022, increased by \$277,331 and \$1,363,463, or 3.7% and 8.9% respectively, from the same periods of 2021, primarily due to an increase in average loan volume. Interest expense for the three and six months ended June 30, 2022, increased by \$590,311 and \$737,662, or 6.7% and 5.3%, from the same periods of 2021 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the second quarter of 2022 was \$1,260,974,314, compared to \$1,200,034,199 in the second quarter of 2021. The average net interest rate spread on the loan portfolio for the second quarter of 2022 was 2.3%, compared to 2.3% in the second quarter of 2021.

Noninterest income for the three and six months ended June 30, 2022, increased by \$633,014 and \$998,473, or 62.2% and 44.3%, respectively, over the same periods of 2021. The increase is due primarily to an increase in patronage income accrual rate from the Bank in 2022 compared to 2021. The increase in patronage income was offset by a decrease in net loan fees in 2022 compared to 2021.

2021. The decrease in loans fees is due to a decrease in interest rate conversions due to the higher rate environment as compared to prior year.

Noninterest expenses for the three months and six months ended June 30, 2022, increased by \$583,864 and \$1,118,261, or 13.7% and 14.7%, respectively, as compared to the same periods in 2021. The increases are primarily due to increases in salaries and benefits. decreases in purchased services as a result of lower accounting and legal expenses in 2022 compared to the prior year. Several other expense categories increased as a result of the resumption of and an increase in travel, marketing, and training activities previously restricted due to COVID-19. Insurance expenses also higher due to an increase in Insurance Fund premiums and growth in the Associations insurable debt.

The Association’s return on average assets for the six months ended June 30, 2022, was 1.7% compared to 1.6% for the same period in 2021. The Association’s return on average equity for the six months ended June 30, 2022, was 9.9%, compared to 9.7% for the same period in 2021.

Liquidity and Funding Sources

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

	June 30, 2022	December 31, 2021
Note payable to the bank	\$ 1,068,505,288	\$ 1,025,517,581
Accrued interest on note payable	1,979,885	1,798,078
Total	<u>\$ 1,070,485,173</u>	<u>\$ 1,027,315,659</u>

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of \$1,068,505,288 as of June 30, 2022, is recorded as a liability on the association’s balance sheet. The note carried a weighted average interest rate of 2.3% at June 30, 2022. 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, 2021, is due to the association’s increase in loan portfolio growth. The association’s own funds, which represent the amount of the association’s loan portfolio funded by the association’s equity, were \$197,698,169 at June 30, 2022. The maximum amount the association may borrow from the bank as of June 30, 2022, was \$1,285,000,000 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days’ prior written notice, or in all other circumstances, upon giving the bank 120 days’ prior written notice.

Capital Resources

The Association’s capital position increased by \$10,596,120 at June 30, 2022, compared to December 31, 2021. The Association’s debt as a percentage of members’ equity was 4.9:1 as of June 30, 2022, compared to 5.0:1 as of December 31, 2021.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of June 30, 2022, 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 2021 Annual Report of Association New Model more fully describe the association’s relationship with the Bank.

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

The Association's annual and 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, Suite 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

BALANCE SHEET

	June 30, 2022 (unaudited)	December 31, 2021
<u>ASSETS</u>		
Cash	\$ 28,822	\$ 8,686
Loans	1,265,318,077	1,229,614,367
Less: allowance for loan losses	<u>8,652,301</u>	<u>8,804,126</u>
Net loans	1,256,665,776	1,220,810,241
Accrued interest receivable	9,913,175	8,457,988
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	20,155,010	20,155,010
Other	4,296,341	2,132,556
Premises and equipment, net	6,400,537	6,308,781
Other assets	<u>2,188,707</u>	<u>1,072,358</u>
Total assets	<u><u>\$ 1,299,648,368</u></u>	<u><u>\$ 1,258,945,620</u></u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 1,068,505,288	\$ 1,025,517,581
Accrued interest payable	1,979,885	1,798,078
Drafts outstanding	62,349	146,759
Patronage distributions payable	55,275	12,139,695
Other liabilities	<u>8,170,115</u>	<u>9,064,171</u>
Total liabilities	<u><u>1,078,772,912</u></u>	<u><u>1,048,666,284</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	4,498,130	4,437,945
Unallocated retained earnings	216,806,645	206,271,466
Accumulated other comprehensive loss	<u>(429,319)</u>	<u>(430,075)</u>
Total members' equity	<u>220,875,456</u>	<u>210,279,336</u>
Total liabilities and members' equity	<u><u>\$ 1,299,648,368</u></u>	<u><u>\$ 1,258,945,620</u></u>

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
<u>INTEREST INCOME</u>				
Loans	\$ 13,799,185	\$ 12,931,551	\$ 27,020,089	\$ 25,656,631
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	5,843,546	5,253,243	11,164,126	10,426,470
Net interest income	7,955,639	7,678,308	15,855,963	15,230,161
<u>PROVISION FOR LOAN LOSSES</u>				
	41,164	74,089	(175,316)	78,609
Net interest income after provision for loan losses	7,914,475	7,604,219	16,031,279	15,151,552
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	1,436,336	784,323	2,816,452	1,569,290
Loan fees	127,498	204,162	218,907	540,668
Gain on other property owned, net	-	-	-	50,500
Gain on sale of premises and equipment, net	86,540	28,589	101,741	54,425
Other noninterest income	116	402	112,162	71,898
Total noninterest income	1,650,490	1,017,476	3,249,262	2,286,781
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	2,471,431	2,440,981	5,010,782	4,617,511
Directors' expense	100,934	92,110	219,718	168,539
Purchased services	104,360	154,115	178,383	236,311
Travel	234,931	178,678	395,737	316,633
Occupancy and equipment	301,185	193,544	576,764	429,605
Communications	85,493	84,088	168,223	180,793
Advertising	117,179	98,002	183,364	163,916
Public and member relations	156,929	68,879	280,185	161,750
Supervisory and exam expense	104,536	82,379	209,070	183,383
Insurance Fund premiums	596,281	373,732	1,228,048	939,024
Other components of net periodic postretirement benefit cost	26,092	30,689	52,184	61,378
Other noninterest expense	123,357	91,109	222,330	147,684
Total noninterest expenses	4,422,708	3,888,306	8,724,788	7,606,527
NET INCOME	5,142,257	4,733,389	10,555,753	9,831,806
Other comprehensive income:				
Change in postretirement benefit plans	378	7,245	756	14,490
COMPREHENSIVE INCOME	\$ 5,142,635	\$ 4,740,634	\$ 10,556,509	\$ 9,846,296

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

ALABAMA AG CREDIT, ACA

STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2020	\$ 4,289,225	\$ 196,386,088	\$ (659,156)	\$ 200,016,157
Net income	-	9,831,806	-	9,831,806
Other comprehensive income	-	-	14,490	14,490
Capital stock/participation certificates issued	571,580	-	-	647,640
Capital stock/participation certificates retired	(459,205)	-	-	(535,265)
Patronage refunds:				
Change in patronage declared and paid	-	(4,990)	-	(4,990)
Balance at June 30, 2021	<u>\$ 4,401,600</u>	<u>\$ 206,212,904</u>	<u>\$ (644,666)</u>	<u>\$ 209,969,838</u>
Balance at December 31, 2021	\$ 4,437,945	\$ 206,271,466	\$ (430,075)	\$ 210,279,336
Net income	-	10,555,753	-	10,555,753
Other comprehensive income	-	-	756	756
Capital stock/participation certificates issued	434,320	-	-	434,320
Capital stock/participation certificates retired	(374,135)	-	-	(374,135)
Patronage refunds:				
Change in patronage declared and paid	-	(20,574)	-	(20,574)
Balance at June 30, 2022	<u>\$ 4,498,130</u>	<u>\$ 216,806,645</u>	<u>\$ (429,319)</u>	<u>\$ 220,875,456</u>

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 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, 2021, as contained in the 2021 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2021. Descriptions of the significant accounting policies are included in the 2021 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 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 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 methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain entities. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those entities qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the association’s financial condition and its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended June 30, 2022, are not necessarily indicative of the results to be expected for the year ended December 31, 2021. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	June 30, 2022 Amount	December 31, 2021 Amount
Production agriculture:		
Real estate mortgage	\$ 1,005,098,520	\$ 998,985,301
Production and intermediate term	111,048,897	113,307,883
Agribusiness:		
Loans to cooperatives	9,655,741	5,625,925
Processing and marketing	42,770,232	35,054,092
Farm-related business	29,839,438	22,633,008
Energy	1,138,382	1,214,708
Water and waste water	7,947,392	1,336,337
Rural residential real estate	56,242,267	49,880,090
Agricultural export finance	1,577,208	1,577,023
Total	\$ 1,265,318,077	\$ 1,229,614,367

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2022:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 2,924,160	\$ 15,034,578	\$ -	\$ -	\$ 2,924,160
Production and intermediate term	11,541,303	-	-	-	11,541,303	-
Agribusiness	60,433,843	41,792,677	-	-	60,433,843	41,792,677
Energy	1,138,382	-	-	-	1,138,382	-
Water and waste water	7,947,392	-	-	-	7,947,392	-
Agricultural export finance	1,577,208	-	-	-	1,577,208	-
Total	\$ 85,562,288	\$ 56,827,255	\$ -	\$ -	\$ 85,562,288	\$ 56,827,255

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 \$31,477,729 and \$18,605,779 at June 30, 2022, and December 31, 2021, respectively.

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

	June 30, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	\$ 2,508,536	\$ 3,347,224
Production and intermediate term	266,510	649,187
Rural residential real estate	55,029	60,572
Total nonaccrual loans	<u>2,830,075</u>	<u>4,056,983</u>
Accruing restructured loans:		
Real estate mortgage	4,524,806	3,565,659
Production and intermediate term	1,124,503	1,076,784
Total accruing restructured loans	<u>5,649,309</u>	<u>4,642,443</u>
Total nonperforming assets	<u><u>\$ 8,479,384</u></u>	<u><u>\$ 8,699,426</u></u>

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

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

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

	June 30, 2022	December 31, 2021
Real estate mortgage		
Acceptable	98.4 %	98.6 %
OAEM	0.9	0.6
Substandard/doubtful	0.7	0.8
	100.0	100.0
Production and intermediate term		
Acceptable	98.8	97.3
OAEM	-	1.2
Substandard/doubtful	1.2	1.5
	100.0	100.0
Agribusiness		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Energy and water/waste water		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Communication		
Acceptable	-	100.0
OAEM	-	-
Substandard/doubtful	-	-
	-	100.0
Rural residential real estate		
Acceptable	99.9	99.8
OAEM	-	0.1
Substandard/doubtful	0.1	0.1
	100.0	100.0
Agricultural export finance		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Total loans		
Acceptable	98.6	98.6
OAEM	0.7	0.6
Substandard/doubtful	0.7	0.8
	100.0 %	100.0 %

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

June 30, 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	\$ 6,637,640	\$ 368,078	\$ 7,005,718	\$ 1,006,414,561	\$ 1,013,420,279	\$ -
Production and intermediate term	603,649	166,569	770,218	111,463,504	112,233,722	-
Loans to cooperatives	-	-	-	9,690,101	9,690,101	-
Processing and marketing	-	-	-	42,899,705	42,899,705	-
Farm-related business	-	-	-	29,890,082	29,890,082	-
Energy	-	-	-	1,141,647	1,141,647	-
Water and waste water	-	-	-	7,954,247	7,954,247	-
Rural residential real estate	279,424	-	279,424	56,142,080	56,421,504	-
Agricultural export finance	-	-	-	1,579,965	1,579,965	-
Total	\$ 7,520,713	\$ 534,647	\$ 8,055,360	\$ 1,267,175,892	\$ 1,275,231,252	\$ -

December 31, 2021	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 3,830,400	\$ 1,231,486	\$ 5,061,886	\$ 1,000,844,097	\$ 1,005,905,983	\$ -
Production and intermediate term	-	432,736	432,736	114,108,886	114,541,622	-
Loans to cooperatives	-	-	-	5,635,136	5,635,136	-
Processing and marketing	-	-	-	35,167,242	35,167,242	-
Farm-related business	-	-	-	22,673,453	22,673,453	-
Energy	-	-	-	1,216,646	1,216,646	-
Water and waste water	-	-	-	1,336,396	1,336,396	-
Rural residential real estate	48,896	27,126	76,022	49,941,263	50,017,285	-
Agricultural export finance	-	-	-	1,578,592	1,578,592	-
Total	\$ 3,879,296	\$ 1,691,348	\$ 5,570,644	\$ 1,232,501,711	\$ 1,238,072,355	\$ -

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

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

As of June 30, 2022, the total recorded investment of troubled debt restructured loans was \$7,285,321, including \$1,718,776 classified as nonaccrual and \$5,566,545 classified as accrual, with specific allowance for loan losses of \$1,534,330. All loans classified as TDRs were individually evaluated to determine the need for allowance for loan losses. As of June 30, 2022, the Association had no commitments to lend funds to borrowers whose loan terms have been modified in a TDR.

The following tables present additional information regarding TDRs, which includes both accrual and nonaccrual loans with TDR designation, that occurred during the three and six months ended June 30, 2022. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

For the Three and Six Months Ended June 30, 2022	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 1,559,017	\$ 1,563,937
Production and intermediate term	-	-
Total	\$ 1,559,017	\$ 1,563,937

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

The predominant form of concession granted for troubled debt restructuring includes extension of the term and/or delayed payments. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in

which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring. No loans modified in the last 12 months have subsequently defaulted as of June 30, 2022.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021
Real estate mortgage	\$ 6,075,782	\$ 4,804,946	\$ 1,618,835	\$ 1,239,288
Production and intermediate term	1,209,539	1,293,236	99,941	216,451
Total	<u>\$ 7,285,321</u>	<u>\$ 6,098,182</u>	<u>\$ 1,718,776</u>	<u>\$ 1,455,739</u>

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

Additional impaired loan information is as follows:

	June 30, 2022			December 31, 2021		
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ 6,484,580	\$ 6,540,560	\$ 1,545,594	\$ 5,462,259	\$ 5,450,570	\$ 1,519,795
Production and intermediate term	1,376,108	1,402,284	373,461	1,708,238	1,735,687	422,288
Rural residential real estate	55,029	55,029	16,701	-	-	-
Total	<u>\$ 7,915,717</u>	<u>\$ 7,997,873</u>	<u>\$ 1,935,756</u>	<u>\$ 7,170,497</u>	<u>\$ 7,186,257</u>	<u>\$ 1,942,083</u>
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 480,902	\$ 555,162	\$ -	\$ 1,450,624	\$ 1,561,770	\$ -
Rural residential real estate	-	-	-	60,572	60,572	-
Total	<u>\$ 480,902</u>	<u>\$ 641,561</u>	<u>\$ -</u>	<u>\$ 1,528,929</u>	<u>\$ 1,726,406</u>	<u>\$ -</u>
Total impaired loans:						
Real estate mortgage	\$ 6,965,482	\$ 7,095,722	\$ 1,545,594	\$ 6,912,883	\$ 7,012,340	\$ 1,519,795
Production and intermediate term	1,376,108	1,488,683	373,461	1,725,971	1,839,751	422,288
Rural residential real estate	55,029	55,029	16,701	60,572	60,572	-
Total	<u>\$ 8,396,619</u>	<u>\$ 8,639,434</u>	<u>\$ 1,935,756</u>	<u>\$ 8,699,426</u>	<u>\$ 8,912,663</u>	<u>\$ 1,942,083</u>

	For the Three Months Ended			
	June 30, 2022		June 30, 2021	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	\$ 6,509,729	\$ 54,963	\$ 4,221,039	\$ 18,991
Production and intermediate term	1,472,257	14,063	684,629	76
Rural residential real estate	55,610	-	-	-
Total	<u>\$ 8,037,596</u>	<u>\$ 69,026</u>	<u>\$ 4,905,668</u>	<u>\$ 19,067</u>
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 489,081	\$ 4,573	\$ 3,884,719	\$ 2,624
Production and intermediate term	14,779	1,031	1,776,928	9,910
Total	<u>\$ 503,860</u>	<u>\$ 5,604</u>	<u>\$ 5,661,647</u>	<u>\$ 12,534</u>
Total impaired loans:				
Real estate mortgage	\$ 6,998,810	\$ 59,536	\$ 8,105,758	\$ 21,615
Production and intermediate term	1,487,036	15,094	2,461,557	9,986
Rural residential real estate	55,610	-	-	-
Total	<u>\$ 8,541,456</u>	<u>\$ 74,630</u>	<u>\$ 10,567,315</u>	<u>\$ 31,601</u>

	For the Six Months Ended			
	June 30, 2022		June 30, 2021	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	\$ 6,597,246	\$ 109,421	\$ 4,262,558	\$ 46,293
Production and intermediate term	1,552,724	25,129	658,523	76
Rural residential real estate	56,879	-	-	-
Total	<u>\$ 8,206,849</u>	<u>\$ 134,550</u>	<u>\$ 4,921,081</u>	<u>\$ 46,369</u>
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 489,894	\$ 11,801	\$ 3,895,028	\$ 10,318
Production and intermediate term	27,695	1,031	1,317,142	10,987
Total	<u>\$ 517,589</u>	<u>\$ 12,832</u>	<u>\$ 5,212,170</u>	<u>\$ 21,305</u>
Total impaired loans:				
Real estate mortgage	\$ 7,087,140	\$ 121,222	\$ 8,157,586	\$ 56,611
Production and intermediate term	1,580,419	26,160	1,975,665	11,063
Rural residential real estate	56,879	-	-	-
Total	<u>\$ 8,724,438</u>	<u>\$ 147,382</u>	<u>\$ 10,133,251</u>	<u>\$ 67,674</u>

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Allowance for Credit Losses:								
Balance at March 31, 2022	\$ 7,784,390	\$ 629,027	\$ 110,519	\$ -	\$ 1,956	\$ 73,862	\$ 1,283	\$ 8,601,037
Recoveries	7,905	-	-	-	-	-	-	7,905
Provision for loan losses	59,747	(59,355)	33,392	-	1,383	5,996	1	41,164
Other	(6,919)	4,104	729	-	3,983	38	260	2,195
Balance at June 30, 2022	<u>\$ 7,845,123</u>	<u>\$ 573,776</u>	<u>\$ 144,640</u>	<u>\$ -</u>	<u>\$ 7,322</u>	<u>\$ 79,896</u>	<u>\$ 1,544</u>	<u>\$ 8,652,301</u>
Balance at December 31, 2021	\$ 8,000,301	\$ 617,395	\$ 104,326	\$ -	\$ 7,692	\$ 73,156	\$ 1,256	\$ 8,804,126
Recoveries	17,193	-	-	-	-	-	-	17,193
Provision for loan losses	(165,638)	(48,680)	33,616	-	(817)	6,376	(174)	(175,317)
Other	(6,733)	5,061	6,698	-	447	364	462	6,299
Balance at June 30, 2022	<u>\$ 7,845,123</u>	<u>\$ 573,776</u>	<u>\$ 144,640</u>	<u>\$ -</u>	<u>\$ 7,322</u>	<u>\$ 79,896</u>	<u>\$ 1,544</u>	<u>\$ 8,652,301</u>
Ending Balance:								
Individually evaluated for impairment	\$ 1,700,681	\$ 373,461	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,074,142
Collectively evaluated for impairment	6,144,442	200,315	144,639	-	7,323	79,896	1,544	6,578,159
Balance at June 30, 2022	<u>\$ 7,845,123</u>	<u>\$ 573,776</u>	<u>\$ 144,639</u>	<u>\$ -</u>	<u>\$ 7,323</u>	<u>\$ 79,896</u>	<u>\$ 1,544</u>	<u>\$ 8,652,301</u>
Balance at March 31, 2021	\$ 7,556,616	\$ 434,892	\$ 105,509	\$ 5,618	\$ 8,618	\$ 71,941	\$ -	\$ 8,183,194
Charge-offs	(15,448)	(537)	-	-	-	-	-	(15,985)
Recoveries	8,224	1,446	-	-	-	-	-	9,670
Provision for loan losses	(55,470)	132,367	(222)	(4,514)	(377)	1,049	1,256	74,089
Other	-	3,052	(524)	-	884	1,473	-	4,885
Balance at June 30, 2021	<u>\$ 7,493,922</u>	<u>\$ 571,220</u>	<u>\$ 104,763</u>	<u>\$ 1,104</u>	<u>\$ 9,125</u>	<u>\$ 74,463</u>	<u>\$ 1,256</u>	<u>\$ 8,255,853</u>
Balance at December 30, 2020	\$ 7,116,942	\$ 755,490	\$ 188,161	\$ 2,090	\$ 6,668	\$ 71,515	\$ -	\$ 8,140,866
Charge-offs	(15,448)	(537)	-	-	-	-	-	(15,985)
Recoveries	18,196	1,446	-	-	-	-	-	19,642
Provision for loan losses	374,232	(191,595)	(111,396)	(986)	4,744	2,354	1,256	78,609
Other	-	6,416	27,998	-	(2,287)	594	-	32,721
Balance at June 30, 2021	<u>\$ 7,493,922</u>	<u>\$ 571,220</u>	<u>\$ 104,763</u>	<u>\$ 1,104</u>	<u>\$ 9,125</u>	<u>\$ 74,463</u>	<u>\$ 1,256</u>	<u>\$ 8,255,853</u>
Ending Balance:								
Individually evaluated for impairment	\$ 1,428,752	\$ 314,044	\$ -	\$ -	\$ -	\$ 7,131	\$ -	\$ 1,749,927
Collectively evaluated for impairment	6,065,170	257,176	104,763	1,104	9,125	67,332	1,256	6,505,926
Balance at June 30, 2021	<u>\$ 7,493,922</u>	<u>\$ 571,220</u>	<u>\$ 104,763</u>	<u>\$ 1,104</u>	<u>\$ 9,125</u>	<u>\$ 74,463</u>	<u>\$ 1,256</u>	<u>\$ 8,255,853</u>
Recorded Investments in Loans Outstanding:								
Ending Balance at								
June 30, 2022	<u>\$1,013,420,280</u>	<u>\$ 112,233,722</u>	<u>\$ 82,479,888</u>	<u>\$ -</u>	<u>\$ 9,095,894</u>	<u>\$56,421,504</u>	<u>\$ 1,579,965</u>	<u>\$1,275,231,252</u>
Individually evaluated for impairment	\$ 7,549,008	\$ 1,391,013	\$ -	\$ -	\$ -	\$ 55,029	\$ -	\$ 8,995,050
Collectively evaluated for impairment	<u>\$1,005,871,583</u>	<u>\$ 110,842,709</u>	<u>\$ 82,479,888</u>	<u>\$ -</u>	<u>\$ 9,095,894</u>	<u>\$56,366,475</u>	<u>\$ 1,579,965</u>	<u>\$1,266,236,514</u>
Ending Balance at								
December 31, 2021	<u>\$1,005,905,983</u>	<u>\$ 114,541,622</u>	<u>\$ 63,475,831</u>	<u>\$ -</u>	<u>\$ 2,553,042</u>	<u>\$50,017,285</u>	<u>\$ 1,578,592</u>	<u>\$1,238,072,355</u>
Individually evaluated for impairment	\$ 8,204,825	\$ 1,708,238	\$ -	\$ -	\$ -	\$ 60,572	\$ -	\$ 9,973,635
Collectively evaluated for impairment	<u>\$ 997,701,152</u>	<u>\$ 112,833,383</u>	<u>\$ 63,475,831</u>	<u>\$ -</u>	<u>\$ 2,553,042</u>	<u>\$49,956,714</u>	<u>\$ 1,578,592</u>	<u>\$1,228,098,714</u>

NOTE 3 — CAPITAL:

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

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers	As of June 30, 2022
Common equity tier 1 ratio	7.0%	15.3%
Tier 1 capital ratio	8.5%	15.3%
Total capital ratio	10.5%	16.0%
Permanent capital ratio	7.0%	15.4%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.0%	15.5%
UREE leverage ratio	1.5%	15.2%

The details for the amounts used in the calculation of the regulatory capital ratios as of June 30, 2022:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	212,546,090	212,546,090	212,546,090	212,546,090
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,480,949	4,480,949	4,480,949	4,480,949
Allowance for loan losses and reserve for credit losses subject to certain limitations			8,702,152	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(20,155,010)	(20,155,010)	(20,155,010)	(20,155,010)
	196,872,029	196,872,029	205,574,181	196,872,029
Denominator:				
Risk-adjusted assets excluding allowance	1,303,152,554	1,303,152,554	1,303,152,554	1,303,152,554
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(20,155,010)	(20,155,010)	(20,155,010)	(20,155,010)
Allowance for loan losses				(8,605,183)
	1,282,997,544	1,282,997,544	1,282,997,544	1,274,392,361

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	212,546,090	212,546,090
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	4,480,949	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(20,155,010)	(20,155,010)
Other regulatory required deductions	-	-
	<u>196,872,029</u>	<u>192,391,080</u>
Denominator:		
Total Assets	1,288,792,450	1,288,792,450
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(33,896,331)	(33,896,331)
	<u>1,254,896,119</u>	<u>1,254,896,119</u>

An additional component of equity is accumulated other comprehensive income. 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 "Other components of net periodic postretirement benefit cost" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the three months ended June 30:

	<u>2022</u>	<u>2021</u>
Accumulated other comprehensive loss at January 1	\$(430,075)	\$(659,156)
Amortization of actuarial loss included		
other comprehensive loss, net of tax	756	14,490
Accumulated other comprehensive loss at June 30	<u>\$ (429,319)</u>	<u>\$ (644,666)</u>

NOTE 4 — INCOME TAXES:

Alabama Ag Credit, ACA and its PCA subsidiary, Alabama Ag Credit, PCA (Associations) are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. 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. The Association has recorded a full valuation allowance against its deferred tax asset as of June 30, 2022, based on management's estimate that it is more likely than not that the deferred tax asset will not be realized. For the six months ended June 30, 2022 and 2021, the Association had no taxable income. The subsidiary, Alabama Ag Credit, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 to the 2021 Annual Report to Stockholders for a more complete description.

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

<u>June 30, 2022</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	<u>169,304</u>	<u>-</u>	<u>-</u>	<u>169,304</u>
<u>December 31, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	<u>166,221</u>	<u>-</u>	<u>-</u>	<u>166,221</u>
<u>June 30, 2022</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,361,000</u>	<u>\$6,361,000</u>
<u>December 31, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,247,772</u>	<u>\$ 6,247,772</u>

* 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.

Uncertainty of Fair Value Measurements

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

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

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

Information About 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. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 13 to the 2021 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.

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.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: As discussed in Note 2 and Note 11 to the 2021 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 DB Plan is characterized as multi-employer 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 June 30:

	<u>2022</u>	<u>2021</u>
DB contribution	\$ 629,364	\$ 705,350
YTD amortization	\$ 314,682	\$ 352,676
Net periodic benefit	<u>\$ 314,682</u>	<u>\$ 352,674</u>

Association contributions to the DC Plan are expensed as incurred. For the three months ended June 30, 2022 and 2021, the Association recognized pension costs for the DC Plan of \$221,909 and \$257,328, 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 \$112,399 and \$114,426 for the six months ended June 30, 2022 and 2021, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer, and consequently, the liability for these benefits is included in the consolidated balance sheet. The following table summarizes the components of net periodic benefit costs of non-pension other postretirement employee benefits for the three months and six months ended June 30:

Three months ended June 30:

	<u>Other Benefits</u>	
	<u>2022</u>	<u>2021</u>
Service cost	\$ 17,451	\$ 17,756
Interest cost	25,714	23,444
Amortization of prior service credits	(5,056)	(5,056)
Amortization of net actuarial loss	5,434	12,301
Net periodic benefit cost	<u>\$ 43,544</u>	<u>\$ 48,445</u>

Six months ended June 30:

	<u>Other Benefits</u>	
	<u>2022</u>	<u>2021</u>
Service cost	\$ 34,903	\$ 35,512
Interest cost	51,429	46,888
Amortization of prior service credits	\$ (10,112)	(10,112)
Amortization of net actuarial loss	\$ 10,869	24,602
Net periodic benefit cost	<u>\$ 87,088</u>	<u>\$ 96,890</u>

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2022, was \$3,348,759 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 August 2, 2022, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 2, 2022.